From Mission to Action

Management Series for Microfinance Institutions

Strategic Management Toolkit Handbook

MICROFINANCE CENTRE
for Central and Eastern Europe and the New Independent States

COPEME
Imp-Act Consortium
Microfinance Opportunities "Putting Clients First"
MicroSave

From Mission to Action Management Series for Microfinance Institutions
Strategic Management Toolkit. Handbook

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Microfinance Centre (MFC) for Central and Eastern Europe and the New Independent States was established as a non-profit organisation in 1997. MFC operates as a microfinance resource centre and network of 106 microfinance institutions in 27 countries of the CEE and the NIS, which together reach over one million low-income clients.

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for Central and Eastern Europe and the New Independent States

Table of Contents

Figures

Tables

Acknowledgments

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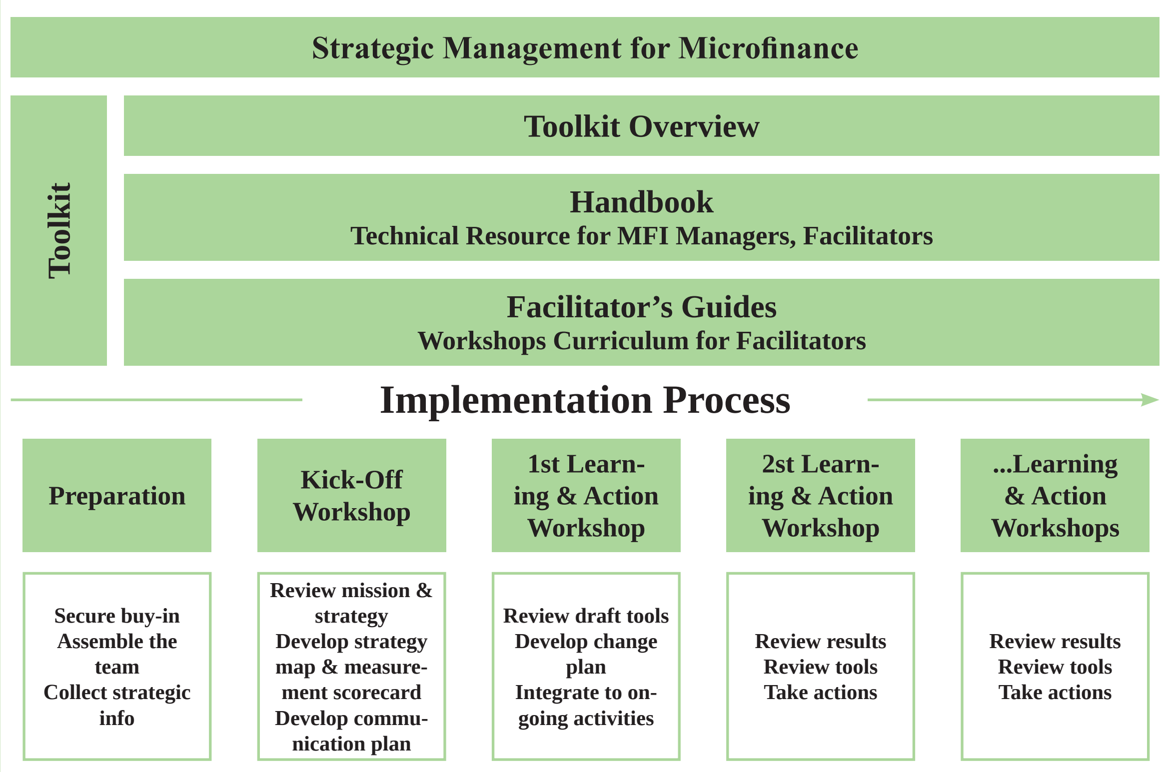
Foreword

In 2005-2006, we at the Microfinance Center (MFC) undertook a project to support upgrading strategic management in microfinance with a view to financial and social performance – the industry's "double bottom line". With funding from the Ford Foundation, we adapted the Balanced Scorecard, a performance measurement tool developed originally at the Harvard Business School for commercial companies, for use by MFI managers.[1] As part of the process, four MFIs tested the adapted tool: MDF-Kamurj (Armenia), Prizma (Bosnia and Herzegovina), NGO Manuela Ramos (Peru) and Genesis Empresarial (Guatemala). We introduced the Balanced Scorecard (BSC) to these institutions and trained them how to use it in a series of workshops. In turn, they applied the tool to upgrade their on-going strategic planning and management processes. The results are captured in the Strategic Management Toolkit for Microfinance Institutions which includes an Overview, a technical Handbook and Facilitator's Guides for the workshops that MFC used to guide MFIs through the process.

Figure 1 Strategic Management Toolkit



MFIs implement the Toolkit with a mix of technical inputs from an external facilitator and internal team work. The process starts with a Kick-Off Workshop, which is followed by internal team work, distance mentoring and a series of Learning and Action Workshops (see Figure F1). Workshops are spaced several months apart to give MFIs the opportunity to take incremental steps outlined in the workshop with support from a mentor/facilitator. Although each MFI will approach the process in its own way, we strongly recommend an initial Kick-Off Workshop; the other steps should be adapted to organizational needs, capacities and culture.

1 The Balanced Scorecard is a strategic management and performance measurement tool devised by David Norton and Robert Kaplan of Harvard Business School.

Kick-Off Workshop Objectives:	Learning & Action Workshop Objectives:
By the end of the Kick-Off Workshop, the participants will have: • Confirmed the validity of an existing strategy for their MFI OR • Begun a preliminary high-level strategic management process; • Developed an initial strategy map for their MFI; • Developed a rough Balanced Scorecard for their MFI; • Identified action steps to improve the initial strategy map and Balanced Scorecard.	By the end of the Learning & Action workshop, participants will have: • Review the BSC development process to date and identified lessons learned; • Reviewed the revised Kick-Off Workshop outputs and finalized them (SWOT, strategy map, BSC); • Identified ways to provide information for the BSC measurement; • Practiced selecting actions necessary to implement change; • Developed a draft training needs list; • Reviewed the communication plan; • Discussed the BSC integration into MFI operating processes; • Planned the immediate next steps.

MFIs should anticipate implementing the process over a 6 - 12 month period. During the first six months they develop and refine the Balanced Scorecard tools, and implement them during the second half of the year.

A detailed curriculum for these workshops can be found in the Facilitator's Guides component of the Toolkit. Facilitators will only need to adapt these designs to their specific situations.

This technical handbook serves as a reference guide to anyone engaged in strategic management in microfinance. It is the result of several years of adaptation, design and testing. The authors are indebted to the participation of both its technical partners (the *Imp-Act* Consortium, Microfinance Opportunities, *MicroSave* and COPEME) and the MFIs that tested, and implemented the Balanced Scorecard approach. Their experience not only informs this handbook, but will inspire others to undertake similar efforts in order to better position their institutions for this very dynamic period in microfinance history.

Chapter 1. Introduction

Practitioners of microfinance must choose a direction to follow. They face many decisions about who to serve, what products to offer, where to work, and how to grow. For any organization, the mission serves to inform these strategic decisions; however, for microfinance institutions (MFIs), the mission also complicates the whole issue of strategy, from initial planning to on-going management. Unlike most commercial companies, MFIs are motivated by a social vision; their raison d'etre is defined by social goals related to poverty alleviation that are supported by strong financial performance. Hence, MFIs are challenged to meet a double bottom line, maximizing their social and financial performance. Strategic plans, therefore, have to incorporate both, and managers need to follow those plans, ever balancing short-term decisions addressing immediate and urgent needs against those of the long-term overarching mission. To facilitate this daunting task, we introduce the Balanced Scorecard (BSC) as a tool that can systematize strategic management.

Microfinance has always represented a convergence of financial and social objectives. However, the industry grew with financial sustainability as its driving force, focusing on the elements that were necessary for its achievement – growth, market pricing, quality portfolios, efficient systems, and professional management. Progress towards the social vision that inspired the first microcredit programs was largely assumed as the MFIs marched impressively towards the ability to stand alone as viable commercial entities. At the dawn of the new century, however, MFIs began to realize that their social vision, embodied in their clients, required more explicit attention. A maturing industry with growing competition has led practitioners to understand that in order to maintain market share and grow, their institutions must meet clients' financial needs, cultivate customer loyalty and achieve positive impact. They need to invest in their relationship with clients through appropriate products, better delivery systems, and customer service. For MFIs, doing good is good business.

Renewed attention to social performance adds additional layers to the process of strategic planning and management. In addition to strategies for operational efficiency and growth that enhance financial performance, the overall plan must articulate a strategy for creating value for customers. While these strands are mutually reinforcing in the long-term, they may compete for resources (staff time, money, new initiatives) in the short-term.

Bringing the social mission of microfinance back to the forefront will help the industry to confront the "mission drift" ghost that has haunted growth oriented MFIs and those envisioning commercial transformation. However, revitalizing client assessment is not enough. Managing both financial and social performance now occurs in a context of competition that forces managers to differentiate their institution from its competitors, to identify its niche and to sustain active market vigilance. Current management systems may not be up to this multidimensional challenge. The From Mission to Action Management Series, and this handbook in particular, help MFIs to professionalize their strategic management processes in order to improve their double bottom line. To this end, it deconstructs strategy into its component parts and walks readers through the BSC, a tool to track each one.

Strategic Management and the Balanced Scorecard

Strategic planning is the process of defining objectives linked to your mission, and articulating strategies to reach them. A good strategic plan is comprehensive and long range; it articulates a target group, a target market, the products and services for that market, your organization's competitive advantage and the resources it will need to accomplish its objectives.

Strategic management **translates your strategic plan into practice**. It is the set of decisions and actions that you make in order to accomplish your objectives and maximize your performance.

The BSC provides a practical tool for systematizing and strengthening the strategic management process. The BSC tools consist of three components:

- **A strategy map** – helps to coherently develop, describe and communicate the strategy to different audiences. The strategy map depicts the organizational strategy from different perspectives that are important for both short- and long-term success of an organization.
- **A measurement tool** – translates broader strategic goals/statements into specific, measurable and time-bound objectives and links them with a performance measurement system to monitor progress towards their achievement.
- **Change management tools** – helps to develop an action plan of strategic initiatives and highlights key actions necessary to strategy implementation. The plan is rooted in the Balanced Scorecard objectives and ensures that everyday activities are motivated by the strategy.

Who should use this handbook?
As a reference guide on the process of strategic management using a Balanced Scorecard (BSC), this handbook is tailored to those who seek to engage in an intensive review and upgrade of their MFI's strategic management. It is intended to be used by:

- **Microfinance Practitioners** who would like to champion improved strategic management within their institutions and expect to guide the process. The handbook serves as preparatory reading before the process is launched and as reference material along the way.
- **Managers** involved in the Implementation Process Team can use the handbook to reference definitions and the conceptual background of the approaches and tools.
- **Microfinance Consultants** who will support implementation of the From Mission to Action Management Series process as workshop facilitators and external mentors.

If you belong to one of these target audiences, you should assess your institution's readiness for this process. It is not for start-ups. The criteria that institutions should meet include:

- The institution's key functional areas are working: finance, operations, marketing, human resources, management information systems (MIS).
- Key elements of strategy and strategic planning are in place such as the business plan and strategic plan.
- The strategic goals are established.
- Top management, preferably the Board of Directors, is committed to the process.
- The current level of internal expertise in strategic management has been assessed (in order to make decisions about needs for external technical assistance).

What is the handbook's structure?
For those seeking to improve their capacity in strategic management, this handbook presents a step-by-step process that is the core of the entire Toolkit. Figure 1.1 depicts the individual steps.

Figure 1.1 Strategic management process

1. **Prepare:** Assemble the implementation team and collect strategic information.
2. **Deconstruct the mission:** The mission articulates the overall direction for the institution: what changes should be influenced, what groups and scope of needs should be served and what financial goal is to be achieved.
3. **Diagnose current position:** The institution analyzes external trends and recognizes its strengths and weaknesses to further decide which of them to build on.
4. **Make strategic choices and identify key strategic issues:** Make strategic choices in relation to mission objectives and current market position. Key strategic issues determining the success of the strategy are identified.
5. **Develop strategy map:** Translate key strategic issues into strategic statements for each organizational perspective. Weave these into a strategy map.
6. **Develop Balanced Scorecard measurement:** For each statement, set objectives, develop indicators and determine targets.
7. **Develop change management plan:** Link current initiatives to the Balanced Scorecard and develop new ones.
8. **Implement strategy as an on-going process:** During the implementation phase, the MFI revisits steps of the process on a periodic basis.

The handbook provides a general overview and short description of each of the above steps with references to additional training and reading resources. It also includes case studies highlighting how microfinance institutions have used the toolkit.

Chapter 2. Strategic planning and management: a brief overview

This chapter:
- *Defines strategic planning and management*
- *Outlines components and principles of effective strategic management*

Strategic planning is the process of defining objectives and articulating strategies to reach them. A good strategy should address the following issues:

- **Overall long-term direction:** Where does your MFI want to go in the long-term?
- **Expectations and values of key stakeholders:** What are the values and expectations of those who have power in and around the business? What should motivate and shape your actions?
- **Choice of markets and scope:** Which markets should you target? What products and services should you deliver to those markets?
- **Competitive advantage:** How can you deliver your product and services to the target markets better than the competition?
- **Resources:** What resources (skills, assets, finances, relationships, technical competence, facilities, etc.) do you need to successfully complete and realize your mission?
- **Environment:** What external environmental factors affect your ability to complete and realize your mission?

A good strategic plan takes a long-term view. The long-term strategy should be clear in order to determine the activities that will bring the highest value in the long run and balance those against the choices that are more likely to bring only short-term returns.

Strategic management translates strategic planning into practice
Strategic management is all about translating your mission and strategic plan into practice. It is the set of decisions and actions guided by objectives, the accomplishment of which determines your MFI's long-term performance. Strategic management is about making decisions that have long-term implications. Two processes make up strategic management:

Operationalizing the strategy
As much as 70% of business failures are due to bad execution rather than bad strategy. Using the Balanced Scorecard tools presented in this handbook will help you to implement your strategic plan successfully. In this step you will need to figure out the best business model or how to improve your current one to efficiently execute the strategy.

Implementing and monitoring the strategy
Successful operationalization of the strategy is just the beginning. Once this is done, the strategic management tasks shift to evaluating the plan in progress and adjusting it to remain focused on the mission. Through strategic management your plan becomes a "living document" that staff can incorporate into every day work. Since both external and internal environments change, you will need to institutionalize a process of monitoring and evaluating the strategy that will enable you to continually align its execution. This part of strategic management requires regular answers to the following questions:

- Has your strategy been working?
- Where has it been working and where has it not been working?
- If it has not been working, why not?

As you engage in both aspects of strategic management, the following tips will help you avoid common mistakes:

- Translate your strategy into a set of measurable objectives to quantify it and thus measure and manage your progress. Quantification makes it easier to communicate the strategy to staff so they can incorporate it into their everyday work.
- Monitor your quantifiable strategy continually to ensure on-going learning and adjustments that allow you to keep up with changing conditions.
- Link key activities to budgets to help you allocate your resources where they bring the highest return.

Strategic management is about facilitating change – anticipating and responding to internal and external change in consonance with your mission and goals. The decisions you face involve considerable uncertainty and risk; as a member of the strategic management team, you rely on a limited amount of data about future conditions to make decisions regarding your position vis-à-vis the market, the competition, your clients and your available resources. These are long-term decisions affected by a myriad of ever-changing institutional and environmental factors. Your challenge is to digest this data, assess these factors in light of your overarching social mission and make hard choices. No wonder that strategic management is the highest level of managerial activity, usually performed by the Board, CEO and executive team. However, the Balanced Scorecard translates this critical, high risk decision-making into measurable objectives that the rest of the organization can embrace.

Chapter 3. The Balanced Scorecard

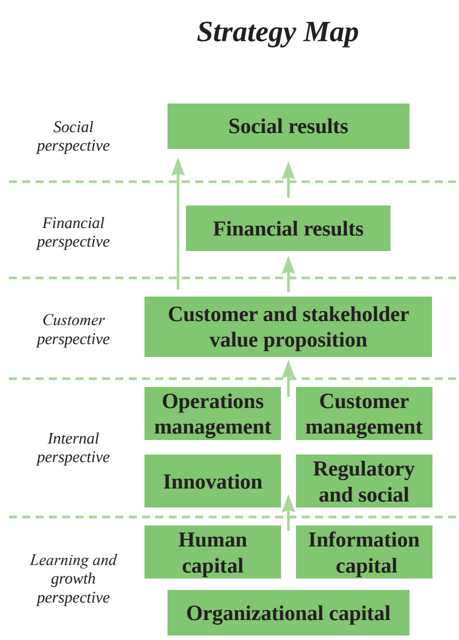
This chapter:
- *Defines the Balanced Scorecard*
- *Presents the BSC components*
- *Discusses the role of BSC in strategic management*
- *Lists the benefits of BSC*

3.1. What is the Balanced Scorecard?

The Balanced Scorecard (BSC) provides a practical management tool for systematizing and strengthening the strategic management process. The BSC tools consist of three components:

A **strategy map** depicts the organizational strategy through different perspectives, or functional areas of an organization that are important to its present and future success. A **measurement tool** translates these broader strategic goals into specific, measurable and time-bound objectives. **Change management tools** help to develop an action plan of strategic initiatives that are necessary to implement the strategy. The plan is rooted in the Balanced Scorecard objectives and makes sure that everyday activities are motivated by the strategy. Figure 3.1 presents a blank example.

Figure 3.1 The Balanced Scorecard



BSC Measurement System

Objective	Measure	Target
xxxxx	xxxxx xxxxx	xx%
xxxxx	xxxxx xxxxx	xx%
xxxxx	xxxxx xxxxx	xx%
xxxxx	xxxxx xxxxx	xx%
xxxxx	xxxxx xxxxx	xx%

Change Management Plan

Initiative	Who?	When?	Budget
xxxxx xxxxx	xxx	xxx	xxx$ xxx$
xxxxx	xxx	xxx	xxx$
xxxxx xxxxx	xxx	xxx	xxx$ xxx$
xxxxx xxxxx xxxxx xxxxx	xxx	xxx	xxx$ xxx$ xxx$ xxx$
xxxxx xxxxx xxxxx	xxx	xxx	xxx$ xxx$ xxx$

3.2 The strategy map and its component parts

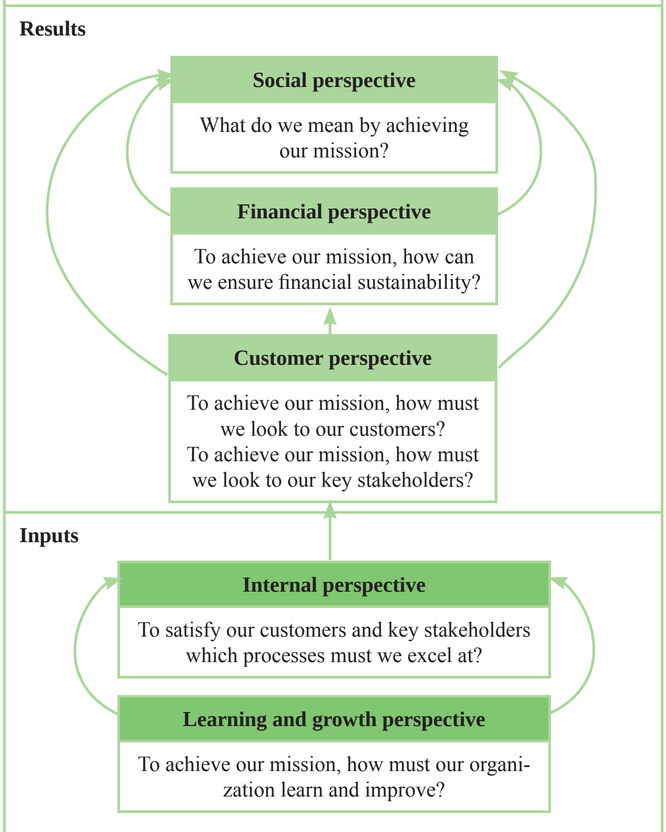
The **strategy map** is divided horizontally into five **perspectives** – functional areas that constitute the drivers of performance. Some of them should be considered on the side of **results** (they describe what kind of value the institution wants to offer) and the rest are **inputs** (they describe what the institution has to provide to offer a specific value). Table 3.1 describes each perspective, while Figure 3.2 indicates which perspectives are about results and which are about inputs.

Table 3.1 Strategy map perspectives for microfinance institutions	
Perspective	**Description**
Social	Your MFI creates its ultimate value by realizing its mission. That is why the social perspective is placed at the top of the map, indicating the ultimate social value creation that is essential to success. Good financial performance is a means to an end.
Financial	Financial performance is the enabling factor, the means to realize the social mission. What financial results will be required to reach the social goal? The answer is a balance between investing for long-term growth and cutting costs for superior short-term results.
Customer	Organizations serve a target group, and whether the individuals in that group are called customers, clients, citizens, stakeholders, or something else, their perceptions of the value created by the organization matter. Each of the preceding names carries the nuance of a particular kind of relationship. In all cases, understanding and responding to the particular needs and expectations of those involved are essential in securing a viable and beneficial relationship.
Internal processes	The processes that create value for clients and stakeholders drive organizational performance. The ability to perform the right activities, successfully transforming various inputs into valuable outputs (an organization's value chain) is vital to meeting stakeholders' needs and expectations.
Learning and Growth	Organizational success, over the long-term, requires innovation, learning and growth that are expressed in the development of people and infrastructure. These elements create the foundation for future organizational success and add robustness to an organization's strategy. In this perspective, the MFI specifies how intangible assets (people, technology, culture) should be developed and used so that they create the basis for its strategic success.

Strategic statements are high level objectives with a five - ten year horizon. From each organizational perspective, they describe what your MFI must do well in order to implement its strategy and fulfill its mission. Within each perspective you specify what you want to achieve by answering questions pertaining to each of the important performance areas (Figure 3.2 offers sample questions). Usually the map contains one or two strategic statements per perspective.

Arrows – the arrows link the strategic statement in a cause-and-effect relationship, reflecting how different elements of your strategy support one another.

Figure 3.2 A strategy map



The strategy map presents how value is created. It visually depicts the interrelationships between institutional perspectives and strategic goals. The very top perspective relates to the ultimate results that an MFI pursues, while the lower perspectives spell out intermediate results that need to be achieved to reach the ultimate goals. The map should be read as a strategic story, either bottom-up "if … then …" or top-down "to achieve x, we need to …".

The strategy map also reflects the most important strategic choices you make within your MFI:

- Your choice of mission is deconstructed from both social and financial perspectives;
- Your choices of target market and needs to be addressed are outlined in the customer perspective;
- Your MFI's competitive advantage is reflected in internal processes and learning and growth perspectives. How you decide to develop intangible assets in support of key internal processes will contribute most to building your institution's sustainable competitive advantage. As assets unique to your institution, they are more difficult to copy than products and services already on the market.

The strategy map contributes to your strategic management in multiple ways. It:

- **Integrates** different institutional perspectives and functions into one coherent strategy showing their interrelationships.
- **Aligns** all of your intangible capital (information, people and culture) and key organizational processes with the results you want to achieve. In this way change in one area reinforces changes in another – all contributing to the final results.
- **Balances** short-term and longer-term results as well as financial and social goals, ensuring that the short-term success is not achieved at the expense of longer-term results or vice versa.
- **Communicates** and translates a multi-page strategic document into a one page visual story. Such a short and comprehensive instrument is very helpful for communicating your strategy to staff and other stakeholders.

3.3 The BSC measurement tool

The BSC measurement tool: purpose and components
The Balanced Scorecard measurement tool translates the strategy map and in particular, strategic statements, into measurable objectives that consist of specific descriptions, associated measures for monitoring progress and time-bound targets. These elements are described below:

- **Objectives** for each strategic statement in the strategy map show what the organization wants to achieve over a shorter period of time (1-2 years).
- **Measures** are metrics defining how the objectives can be tracked. They allow for monitoring progress towards achieving objectives. These include **lag** and **lead** indicators. Lead indicators tell you if you are on the right track to reach an objective. Lag indicators tell you whether the objectives have or have not been reached. The benefit comes from mixing lead indicators (indicators that have a predictive quality) with lag indicators (indicators that provide historical information) in a measurement system that ensures that the organization not only looks at the past to evaluate its efforts, but also monitors present activities that will influence the organization's future.
- **Targets** assign specific numbers to measures to be achieved within a specified time.
- **An information system** for collecting, processing and reporting progress towards the objectives integrated into on-going activities of your MFI.

Measuring strategic progress to ensure long-term value creation in everyday activities
The BSC tells you how you are progressing towards long-term social and financial goals. The BSC helps to identify objectives and measures across all perspectives. Financial results are combined with non-financial measures to indicate progress on creating value through investment in customers, suppliers, employees, processes, technology, and innovation. As a result, your management team can function from day to day and make decisions that are not only beneficial in the short-term, but contribute to long-term value creation.

3.4 Change management tools

The change management tools help you implement your plan through key strategic initiatives which you will select from among many; together they constitute a change management plan comprised of four components:

- **A high level action plan** identifies key initiatives/projects that the MFI should pursue to reach its strategic objectives.
- **Initiatives documentation** (project descriptions, plans and budgets) helps to manage the initiatives.
- A **communication plan** outlines key audiences (e.g. staff, management, Board, external stakeholders) and the key messages they need to understand in order to foster their commitment to enhancing strategic management with the BSC.
- A **capacity building plan** identifies key gaps in skills and competencies that need to be overcome in order to effectively implement the strategy.

3.5 How the Balanced Scorecard benefits strategic management

Using the Balanced Scorecard to map and measure strategic management processes offers a number of benefits for MFIs.

Strengthening double bottom line performance: The Balanced Scorecard provides a comprehensive framework that allows you to clarify long-term social and financial goals, and balance your strategic decisions between the two. By clarifying the MFI goals and what it will take to achieve them, the scorecard supports you, the MFI manager, in making everyday choices while keeping a longer-term perspective in mind. The clarity of the final goal and the implications of different potential choices minimize the challenge of making short-term social and financial trade-offs.

Engaging the staff to support your mission fulfillment: The Scorecard helps to communicate your MFI's mission, strategy and performance to the staff. It provides practical tools to put your strategy in a one-page document that can be easily understood by staff at all levels. With a solid understanding of their contribution to overall performance, the staff more readily buys into the strategy, and their support stimulates internal leadership for change.

Informing external stakeholders for long-term support of your activities: The Scorecard will help you communicate your long-term organizational vision and strategy, as well as progress towards your double bottom line, to other stakeholders, including investors, donors, and strategic allies.

Staying competitive in different markets: The Scorecard helps you to clarify your strategy and align all resources so that implementation is focused on strengthening your **competitive advantage**. This is possible by supporting the development of key competencies.

Leveraging your scarce resources through better alignment: The Scorecard helps you to identify your key competencies necessary to succeed, and align all your activities and resources with your chosen course of action so that they bring the highest leverage.

In other words, the BSC allows you to be effective in managing your double bottom line through making informed decisions now that have long-term implications for success in achieving your mission.

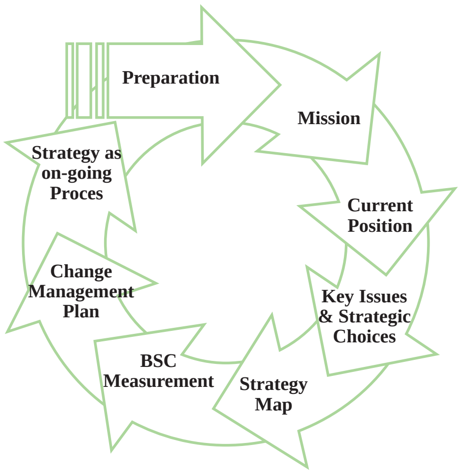
Chapter 4. Systematizing strategic management by integrating the Balanced Scorecard

This chapter describes:
- *Steps of the systematization process*
- *How to effectively conduct the process*

4.1. What are the steps of the systematization process?

Here are the steps in the process of systematizing strategic management by using the Balanced Scorecard tools:

Figure 4.1 Strategic management process



Preparation
First, strategic analysis is conducted and the strategic team assembled.

Deconstructing the mission: The mission is discussed in order to recognize key overall directions for the institution: what changes need to be made, what groups should be served, what needs should be addressed and what financial goal should be achieved.

Diagnosing the current position: The institution recognizes its strengths and weaknesses and discerns external trends to respond to.

Making strategic choices and identifying key strategic issues: Make strategic choices in relation to mission objectives and current market position. Key strategic issues determining the success of the strategy are identified.

Developing a strategy map: Key strategic issues, viewed from different perspectives within your institution, are translated into strategic statements. These are then woven into a strategy map.

Developing BSC measurement: Once the strategy map is designed, objectives are set for each statement, indicators developed and targets determined.

Developing a change management plan: At this stage the institution links current initiatives to the BSC and develops new ones. Each initiative should be thoughtfully planned.

Implementing strategy as an ongoing process: Strategy implementation is an ongoing process; it can start from any point but its end can never be determined. The implementation phase involves learning through practice and revisiting previous stages of the process.

4.2 What are the keys to success?

Take a project-based approach to integrating the Balanced Scorecard into strategic management processes

When your MFI decides to systematize its strategic management through the use of the BSC, you need to approach the task as a project focused on re-engineering existing processes of strategic management or introducing new ones. This will require an appropriate reallocation of staff, time and finances to this initiative.

Incorporate BSC into existing planning and control mechanisms

Strategic management and BSC will remain effective as long as they reinforce all areas of institutional existence. Thus, it is particularly important to use BSC tools to support your institution's existing processes of strategic and operational planning and control. It is better to integrate the BSC tools into existing mechanisms, however scattered or incomplete they may be, rather than treat the initiative as create a project separate from the organization's on-going operations.

Change management is key to success

The process of systematizing strategic management, as well as strategic management itself, changes the way an organization functions. When such changes provoke staff resistance, you must pay attention to upgrading their attitudes, knowledge, skills and practices. Change management requires increased participation, communication and training.

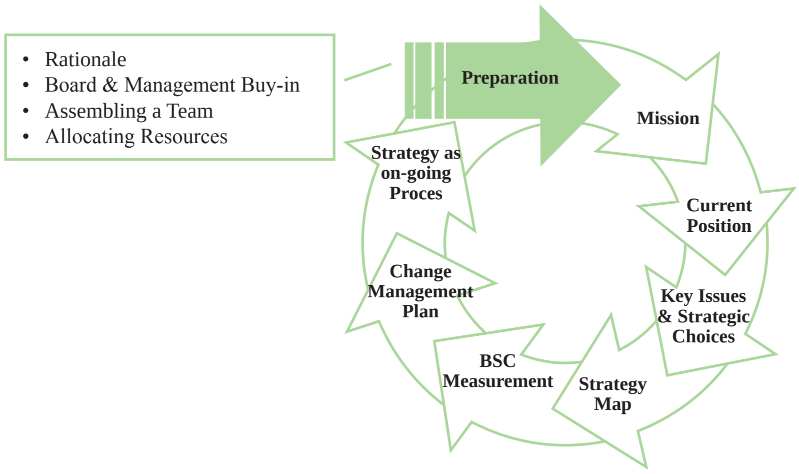
Making strategy part of everybody's job

Strategies often fail to the extent they are attributable to only one person. To be successful, strategy needs to involve everyone in the institution because desired results can be affected by all.

Chapter 5. Preparation

This chapter discusses:
- *Articulating a Rationale for the Balanced Scorecard*
- *Assembling a team*

Figure 5.1 Strategic management process



5.1 What activities are involved in the preparation stage?

To start the strategic management process, you need to do the following:

- Identify your institution's problems and explain why and how improved, systematic, strategic management will address them. Explain the usefulness of the Balanced Scorecard tool.
- Get your Board and Top Management to commit to the strategic management process.
- Assemble a committed, enthusiastic team.
- Assign appropriate resources to the effort.

5.2 Articulate a rationale for using the Balanced Scorecard

Before you begin using the Balanced Scorecard tools, you should know what issues you want to address and the results you desire. The following situational diagnoses may reflect similar issues at your institution (see Table 5.1):

Table 5.1 Illustrative examples of institutional situations that BSC tools can address	
Current situation diagnosis	**How using the BSC tools can help**
Strategy at your MFI is determined by one person or by a restricted group, such as the Executive Director or the Board of Directors. Usually it stays on paper as a virtual document or doesn't get communicated in a form that is understood by all the employees. As a consequence, it is difficult to implement. Often, it is delegated downward by those who have developed it, and creative staff input is noticeably missing.	The implementation of the Balanced Scorecard by a team consisting of functional managers would help to describe the strategy, taking into account each functional area's perspective. As a one-page document, it would be easy to communicate as well as operationalize, while using other BSC tools to build commitment and leadership across your organization.
Your senior management team spends much more time discussing operational issues and variances from the plan than it does strategizing.	Implementation of the Balanced Scorecard would provide your managers with information about and understanding of long-term strategic success, thus shifting their discussion from operational issues to more strategic long-term problems.
Your staff does not have a solid understanding of your MFI's mission and strategy and, therefore, do not understand how their daily actions contribute to the organization's social and financial performance.	The BSC strategy map would be a useful tool for communicating the strategy to your staff. By breaking down strategic objectives according to function and/or level, each staff member would be able to link the strategy to their own work.
You have numerous initiatives and actions taking place in your MFI but not all are of equal strategic importance. Priorities at your organization are often dictated by current necessity or firefighting, not by long-term strategic objectives.	The BSC tools help to identify key areas for particular attention and weed out non-strategic initiatives. Paying attention to short-term and long-term success drivers helps to respond to shorter-term issues while not loosing sight of longer-term strategic objectives.
People tend to stay within their own areas and as a result you have little collaboration among departments.	The BSC strategy map helps you understand how different organizational functions should support each other and work together to achieve organizational realization of the MFI mission. The Scorecard and change management plan help make this happen.
Your organization lacks clearly defined performance objectives' targets, and ways to measure both financial and social indicators. Consequently, you don't know how you are progressing towards your long-term social and financial goals. As a result, you sometimes make decisions that are beneficial in the short-term, but may undermine long-term value creation.	The BSC helps to identify strategically relevant ways to measure your organization's financial and social indicators, short-term and longer-term results, and organizational inputs and outputs.

The cases in Boxes 5.1 and 5.2 illustrate real challenges that have motivated MFIs to turn to the Balanced Scorecard as a way to upgrade their strategic management. Like the organizations profiled here, you should clarify the issues within your organization that you hope to address.

Box 5.1 Professionalizing strategic management

In Peru, the NGO Manuela Ramos, like many other MFIs, had already mastered operational management. It was very efficient in executing its annual plan; however, it lacked a system for effectively developing, implementing and managing a balanced and measurable organizational strategy. The lack of systematized strategic management processes made it difficult to distinguish strategic from operational activities and, in consequence, focus on what was really important to its long-term success. Very often, longer-term activities, although seemingly key to the MFI, were put aside as resources were allocated to more urgent on-going activities.

Planning processes were limited to setting annual financial targets for the organization as a whole and for each regional office. There were no social performance targets set. Every year, management met with regional heads to program annual targets. The mechanism for progress monitoring and control was in place only for financial measures, and the system for monitoring the realization of action plans was inadequate.

In such a context, the team expected implementation of the Strategic Management tools to professionalize and systematize strategic management processes, closely linking strategy to operations. They hoped to focus the daily work of the whole organization on its key priorities, including measurable social performance objectives, and allocate enough resources to realize both shorter and longer-term plans.

Box 5.2 Staying focused on the mission as regulated institution

Having begun the transformation to become a regulated institution, MDF-Kamurj took a decision to reinforce its strategic management processes. Management was concerned about potential mission drift caused by new regulations, new performance requirements and an expected change in organizational culture.

In addition, MDF-Kamurj strongly felt that strategic planning using the strategic management toolkit would strengthen its market position, especially in rural markets which MDF-Kamurj had only recently entered and where they faced stiff competition from a rural commercial bank. This stimulated MDF-Kamurj to make better use of its social mission so as to differentiate itself from commercial players.

Like any professional organization MDF-Kamurj already had strategic planning processes in place. Most of these activities were carried out by the Executive Director in consultation with the Board of Directors. Senior managers were involved in some activities, though it was rather ad-hoc. Strategy was communicated to the staff in the form of a 3-year business plan.

Although staff was knowledgeable about core strategies and planned business activities, most were a little bit lost with regard to how their own work contributed to organizational success. Thus, managers rarely took strategic initiative or felt responsible for end results. Everything ended up in the hands of the Executive Director. Its participatory approach was one of the most appealing aspects of the strategic management toolkit, as it promised to make staff internalize the organization's strategy.

Finally, staff creativity was boundless; it was time for MDF-Kamurj to prioritize a long list of possible interventions and select strategic themes from its strengths in order to accomplish its mission and stay ahead of the competition.

5.3 Build your team

The single most important condition for success is the **commitment and active involvement of your senior management team and Board**. The Board of Directors is key to setting strategic directions and overseeing strategy implementation. It is of utmost importance to have your Board sign off on BSC implementation initiatives before you move forward. While their direct participation is also valuable, it is not always feasible. Therefore, select a senior executive to stay in contact with the Board throughout the process, updating them continually and getting their approval for new systems and tools.

Equally important is the **commitment of your Executive Director and Top Management**. They must understand the issues involved and provide other managers with enough authority and support to implement the process. Their active participation in the process is highly recommended. An effective strategy requires change from every part of the organization. Without energetic and involved leaders change will not occur.

Finally, select a good team that embraces strategic management as process about people – their knowledge, skills and commitment. The following people are critical members of the team.

- **Executive sponsor:** provides leadership and supervision of the process, and is usually identified from the Top Management team. The sponsor maintains communication with internal and external stakeholders and provides resources to the team.

- **Project Champion:** leads the initiative, coordinates meetings and activities, assembles background material, reports to the Board and/or top management, develops an effective team through coaching and support. Your Champion can come from any level of staff, so long as he/she shows a definite interest in and flair for strategy. The Champion's role is to manage the project with technical support coming from the implementation team and sponsorship provided by the executive. The Champion does all the running to make the strategy work, but his role should not be confused with the sponsorship role of Top Management.

- **Team members:** provide expert knowledge of business units or functional areas, act as project ambassadors within their units and teams, inform and influence the staff. The implementation team should be made up of 10-12 people, representing the key organizational functions (finance, marketing, operations, internal audit, human resources, MIS, etc.) together with the Executive Director. It is also beneficial to include representatives from other organizational levels (Board, branch management, and field staff) to secure their support and involve them in the process.

Box 5.3 Buy-in from the new Director at Genesis Empresarial (Guatemala)

A week before launching the process, Genesis Empresarial got a new Executive Director. This was a potential threat because a lot of the participants did not know him or his views on the importance of strategic management and the FMA tools. Happily, the new ED supported the project even though he was not able to participate in the first Kick-Off Workshop. This was very important for the team as they felt they could go ahead with support and consultation from the ED.

A Charismatic Champion

In addition to support from top management and the new ED, the key to successful Balanced Scorecard process at Genesis was a competent and charismatic champion, Adela de Rizzo. She knew the organization well, was committed to the process and put in a lot of extra effort. She often made comments during the workshop about the value of the Balanced Scorecard, especially given the upcoming transformation of their institution. During the process she would remind her colleagues of how difficult it had been for them in the past – using their old system – to follow-up, measure, and report on the degree to which their efforts were contributing to the strategy of the institution.

- **Facilitator/consultant:** provides technical assistance in strategic planning to the team, leads the workshops, and offers support during the implementation phase. This person should be both a microfinance expert and a strong facilitator. He or she should have solid knowledge of operations, organizational development and strategic issues in microfinance. Ideally, the facilitator will also be dynamic, flexible, and a creative thinker. With these requirements, the position can be challenging to fill. The decision to use in-house staff or hire an outside consultant will depend on a variety of factors. Table 5.2 highlights the advantages and disadvantages of hiring an external consultant as the facilitator.

Table 5.2 Hiring an External Facilitator

Pros	Cons/risks
• objective • outside perspective • out of the box ideas and suggestions	• will not have detailed knowledge of the MFI's operations, context and priorities • may make the team dependent on his input and advice • may incur higher costs

While support from an external facilitator can be helpful, the internal team needs to take responsibility for the process and do most of the work.

5.4 Assign Resources

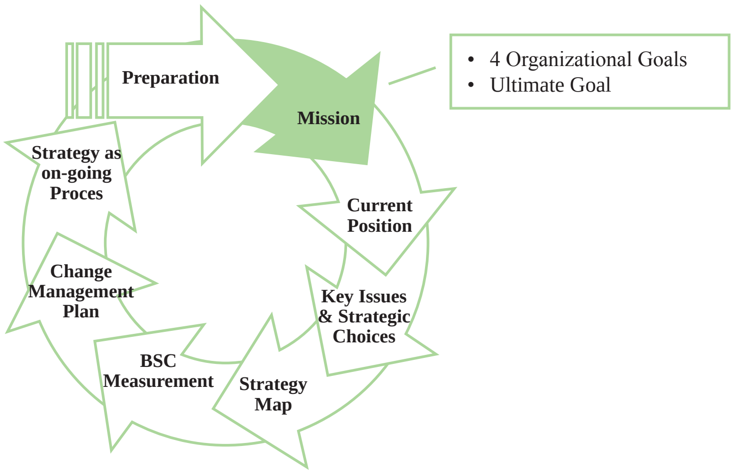
The process of integrating the Balanced Scorecard requires availability of key human resources and may lead to additional financial costs as well, such as hiring the facilitator. Before starting the process, you need to identify the required resources and allocate them purposefully.

Time is a very important resource and must be allocated well. The whole process can require extra time and effort from all team members. In Guatemala, team members at Genesis put in extra effort, from 07:30 to 09:30 daily over a three-week period, in order to make the process work.

Chapter 6. Deconstructing the mission

This chapter:
- *Discusses distinct goals embedded in your mission statement*
- *Offers tips on how to clarify your MFI's ultimate goal*

Figure 6.1 Strategic management process



The mission is the ultimate purpose of an MFI and only rarely does it change. In order to fulfill its mission, your MFI should be flexible enough to adapt to changes in both the internal and external environment, and to modify strategy, plans and modes of implementation accordingly. Strategic management will enable your MFI to find the most effective way to reach its goals and achieve its mission.

MFIs are in the business of delivering social value to clients
MFIs are social enterprises created to bring about social change, such as poverty eradication and/or gender empowerment, through the application of business principles. These social goals are the ultimate reasons for the institution's existence.

Double bottom line of MFIs
Social goals distinguish MFIs from traditional enterprises whose success is ultimately measured by financial results – the company's ability to generate profits (the bottom line). In contrast, MFIs are motivated by a double bottom line, a blend of financial and social returns. Without profitability, no MFI will last for long, but profits are re-invested in activities supporting the mission rather than distributed to shareholders. Thus, strong financial performance contributes to strong social performance and vice versa. If they are to grow, MFIs must be able to deliver what clients need and want, attract new clients and retain existing ones. Social and financial goals reinforce each other.

Categories of goals:
In general, MFI goals fall into four categories that can be identified by deconstructing the mission statement. The best way to do this is to answer the following questions:

- **Why** are you in this business? **What** improvements do you intend to make in the lives of people and their communities? The answer to this question is the most basic statement of your institution's **final goal**.
- **Who** are the socially vulnerable **target groups** you want to serve? Who are not?
- **What** range and quality of products do you offer that will satisfy certain needs and preferences of the target clients? (**scope of intervention**)
- **How** can you achieve and/or maintain sustainability? (**the financial goal**)

Mission statements do not always articulate specific goals; if a statement is general or even vague, it may need to be pulled apart to identify the true nature of the social vision it holds (see Figure 6.2). A first step in upgrading strategic management in your organization is to clarify the goals you want your mission statement to embrace so that they are clear and commonly understood among all staff.

Box 6.1 Social value of microfinance

The social value of microfinance derives from:

- Improving the lives of poor and excluded clients and their families;
- Widening the range of opportunities for communities.

To create this value, the social objectives of an MFI may include:

- expanding and deepening outreach to poor and excluded people in a sustainable manner;
- improving the quality and appropriateness of financial services available to target clients through systematic assessment of their specific needs;
- creating benefits for clients, their families and communities, including social capital and social links, assets, reduction in vulnerability, income, access to services, and fulfillment of basic needs;
- enhancing an MFI's social responsibility towards its employees, clients and the community it serves.

(Source: International Task Force for Social Performance)

Figure 6.2 The deconstructed mission statement of MDF-Kamurj, an Armenian MFI

Sustainability of institution
Building loyalty among clients

Provide **long-term,**

accessible financial and non - financial services

Fast service, affordable price, proximity, low requirements, wide range of services (loans, savings, leasing, BDS, etc.)

to micro and small entrepreneurs and vulnerable families

Business clients: hiring 1-50 employees
Vulnerable families: up to US$ 4 per day per capita

to improve their well - being.

Well being = met wide variety of needs: basic needs (covered food, clothing, education, health education, health expences); improved housing/living conditions, leisure, social life needs satisfied; stable future through sustainable business that provides income to cover this expenses and dedicated services that satisfy those needs.

Box 6.2 Comparing mission statements

AMK's (Cambodia) mission is "to help large numbers of poor people in rural Cambodia to increase their livelihood options through the sustainable delivery of appropriate and viable microfinance services to the economically active poor".

Pro Mujer Bolivia's mission is to support women that live in conditions of socioeconomic exclusion through integrated, participatory services which bring about sustainability in her life, her family and her community.

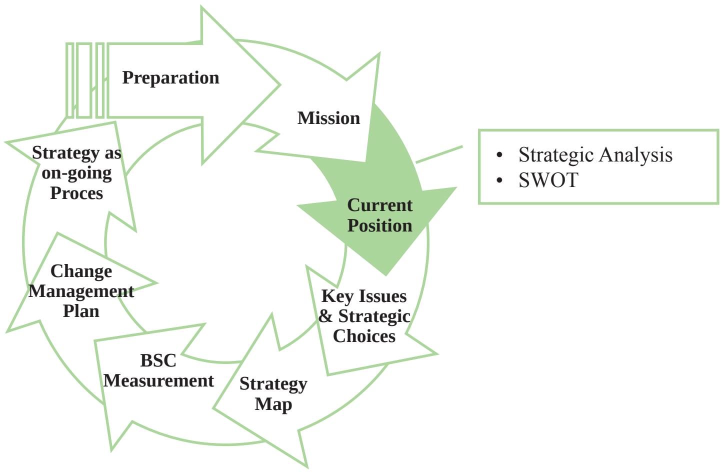
Nations Trust (South Africa) strives to promote youth economic development by assisting un- or underemployed youth to start or expand businesses through the provision of enterprise finance (specialized financial instituion targeting segment of un- or underemployed youth with economic development ultimate goal).

Box 6.2 offers mission statements of three MFIs that can be analyzed for the who, what and why. Focusing on the "who", these mission statements all indicate that these MFIs are working with the poor. However, each targets a slightly different subset: ProMujer targets women specifically, AMK delivers financial services to the rural poor (women and men), and Nations Trust targets youth. For its selected target group, each MFI has a social goal rooted in solving a social problem or creating access to opportunities that can improve quality of life. Microfinance can help to solve a wide range of problems and each MFI will approach these issues differently depending on the socio-economic context in which it operates. For example, AMK aims to create more options to earn income through access to financial services. ProMujer offers integrated services (i.e. financial services plus others like health and education) to improve family and community welfare. Nations Trust is promoting self-employment.

Chapter 7. What is my current strategic position?

This chapter:
- *Describes strategic analysis and suggests how to use it*
- *Suggests how you can determine your MFI's strategic position*

Figure 7.1 Strategic management process



7.1 Strategic analysis

What is strategic analysis?
Strategic analysis is about determining the strength of your business position and understanding important external factors that may influence it.

The strategic analysis focuses on the following:

- Current and previous activities of your MFI (institutional analysis);
- Trends in the environment (environmental analysis).

The process of strategic analysis may require use of a number of different tools, including:

- **PESTI** (Political, Economic, Social, Technological, Industry) Analysis - a technique for understanding the environment in which your business operates;
- **Scenario Planning** - a technique that builds various plausible views of possible futures for your business;
- **Five Forces Analysis** - a technique for identifying forces which affect the level of competition in your industry;
- **Market Segmentation** - a technique which seeks to identify similarities and differences among groups of customers or users;
- **Competitor Analysis** - a wide range of techniques and analysis that seek to summarize the overall competitive position of your business;
- **Critical Success Factor Analysis** - a technique to identify those areas in which your business must outperform the competition in order to succeed[1].

[1] See References for additional information on these tools.

Table 7.1 Questions raised in strategic analysis and tools to address them

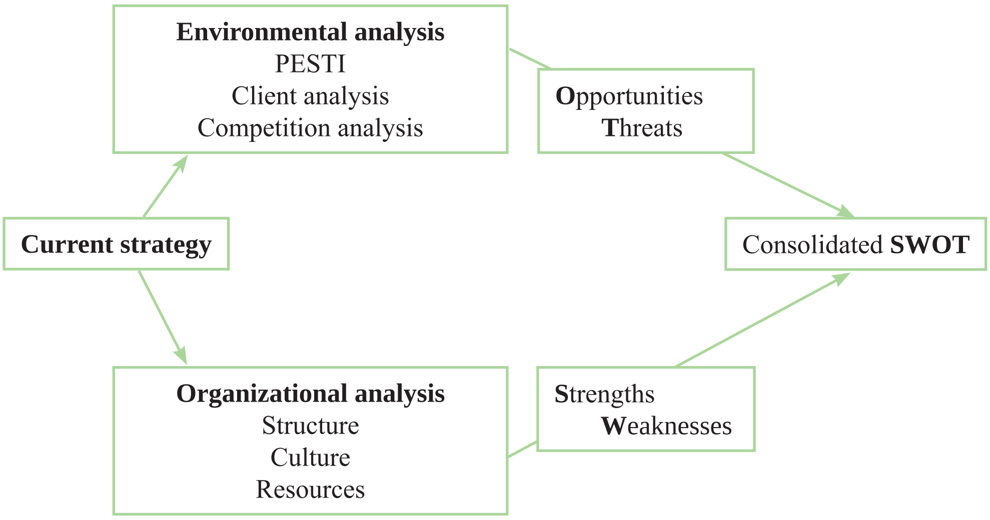
Type of analysis	Areas analyzed	Questions	Tools
Environmental analysis	Clients Competition Political, Social, Economic, Technological, Industry related issues	What factors characterize your macro-environment?	PESTI
		What factors characterize your industry?	PESTI, Five Forces Analysis
		What is your target market? What are its different segments?	Market Segmentation, PESTI
		What are the developmental needs and expectations of your target clients?	Market Segmentation, PESTI
		What products will best satisfy their needs?	Market Segmentation, PESTI
		How attractive are those markets for penetration/expansion?	Market Segmentation, PESTI, Competitor Analysis, Scenario Planning
		Who are your competitors? What are their strengths and weaknesses? What are their strategies? Which of them present opportunities/threats?	Competitor Analysis, Five Forces Analysis
Organizational analysis	Structure Culture Resources	What are the strengths of your organization? Which ones will remain important in the future?	Institutional assessments, MIX benchmarks[2], rating
		Which of your strengths are unique and hard to copy?	Critical Success Factor Analysis, Institutional assessments, MIX benchmarks

Why strategic analysis is needed

The information generated by various analytical tools will help you to analyze your MFI from different perspectives and identify its strengths, weaknesses, opportunities and threats, that consolidated constitute a SWOT analysis reflecting your strategic position. A SWOT analysis will help you consider different strategic options and identify the most effective ways for accomplishing the mission. The figure below presents the model of strategic analysis.

[2] Microfinance Information Exchange is global organization that has set benchmarks for MFI's financial performance and tracks the performance of MFIs across the globe. (see also www.mixmarket.org)

Figure 7.2 Model for strategic analysis



7.2 How can you diagnose your strategic position?

Your institution's internal environment - identifying strengths and weaknesses

Strengths and weaknesses are internal factors that influence your ability to achieve goals. To identify these, you will need to evaluate your institution. Keep in mind that you are looking for strengths and weaknesses that are relevant to the mission, both financial and social. The goal is to maximize your strengths and mitigate your weaknesses. Doing this will enhance the probability of reaching your goals while staying competitive. Remember, the strengths should be **rare** and **difficult** for competitors to copy.

Figure 7.3 Internal and external environment

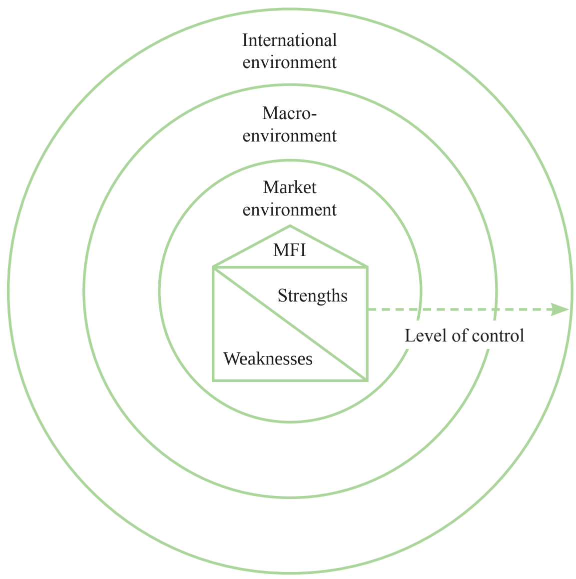


Table 7.2 Examples of MFI strengths and weaknesses

Strengths	Weaknesses
• Majority of staff have been with the organization from the very beginning and are committed to its mission • Majority of staff come from among the client communities so they understand their situation and know how to communicate effectively with them • Organization provides loan products only and cooperates with partners for non-financial services; can work through partnerships to develop and deliver new products • Non-financial services delivered by partners help to educate clients financially, making them more loyal, less delinquent and better at using financial services • Strong informal organizational culture • Loan product enables clientele to diversify income, stabilize earnings over the course of the year and cope with seasonality • Consumer product helps to smooth income in low income months • Well designed repayment policies favor maintenance/growth of social capital • Non-performing loans extended to poor clients for the purpose of consumption smoothing are cross-subsidized by proceeds from loans to non-target clients (SMEs). This is a good lock-in strategy for grateful target clients • Consumption smoothing, financial education and income generation are effectively addressed • Good results in outreach to remote rural areas • All information available in the MIS	• Incentive system is structured to favor better off who need larger loans. This is a potential source of client exclusion • Limited skills and experience with new financial products (e.g. insurance and savings) • No products or services that help clients to deal with health problems • Group methodology working well only up to 4th cycle. Then businesses change enough to require different loan products • Instances of overindebtedness not tackled systematically • No information on clients' poverty status • Information on client household income not used systematically • No on-going monitoring of organizational image or up-to-date market research focused on the target group • No systems for creating or sustaining organizational culture in a rapidly growing and formalizing organization

The external environment - identifying opportunities and threats
Opportunities and threats are the external factors that enable or hinder your strategy implementation. Unlike strengths and weaknesses, they are **beyond your control.** You must plan how to effectively exploit opportunities and defend yourself against threats. These plans must be reflected in your strategy. When you identify threats and opportunities, you need to take into consideration whether they are important **to the mission**. Remember that external factors not only affect institutions, but clients as well. Since microfinance usually deals with clients who are particularly vulnerable to various external changes, it is imperative to maintain your knowledge of how opportunities and threats influence both your clients and your institution.

Your strategic position
You should **define your current strategic position by a consolidated SWOT**, combining **s**trengths, **w**eaknesses, **o**pportunities and **t**hreats. Identifying key trends in the external and internal environment now will help you focus on the really important issues and select the most effective strategic options in the next stage.

Table 7.3 Strategic analisys and SWOT

Type of analysis	Description	Contribution
PESTI	Market and macro-environment analysis to provide a picture of political, legal, economic, social, technological and MFI industry trends	The most important trends can be translated into macro and market-related threats and opportunities.
Client	This type of analysis provides an in-depth understanding of target clients (their characteristics, needs and expectations).	The results can create a base for identification of market-related threats and opportunities.
Competition	Provides information about the competition, their market penetration, strengths and weaknesses.	The results can complete the information about market-related threats and opportunities.
Institutional	Internal environment analyses would ideally serve as a background to the competition environment.	This analysis will enable your institution to recognize its important strengths and weaknesses.

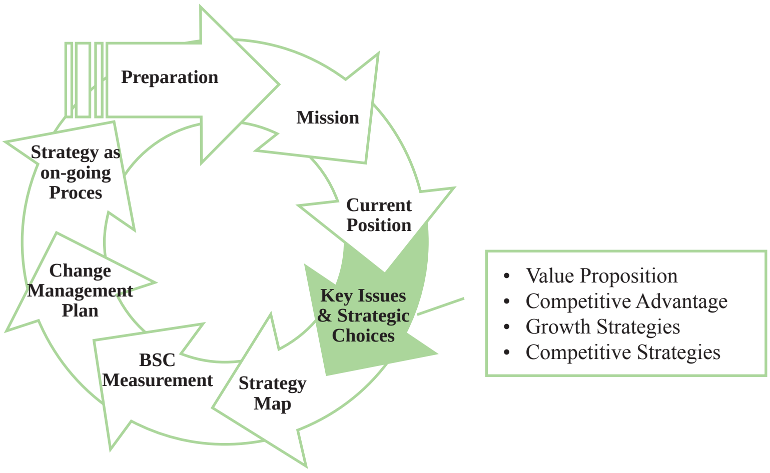
Check your strategic position on a regular basis
As the environment in which your MFI operates in is constantly changing, so is the position of your MFI. That is why your success so much depends on continuously monitoring key information areas and diagnosing your strategic position on a regular basis. A practical way to do this is to discuss your MFI's current strategic position at on-going, periodic management meetings.

Chapter 8. Identifying key issues and making strategic choices

This chapter:

- *Introduces strategic choices*
- *Considers how best to make key strategic choices (market, scope of intervention, value proposition, competitive advantage)*
- *Provides some principles for making effective strategic choices*

Figure 8.1 Strategic management process



8.1 Types of strategic choices

Your strategy has to reflect the following basic choices your institution has made.

Market: Who is your target group? What market do you not serve? Why, from the social point of view, does it matter?

Value proposition: What value (products, services) should be delivered to clients to meet their needs and expectations? What scope of needs do you intend to satisfy? Which ones can you afford not to address? How will your value proposition contribute to the desired change?

Growth strategy: How can your MFI grow in its chosen market and satisfy identified needs? Should you expand or consolidate (i.e. focus on systematizing processes and strengthening capacity)? If so, how? What resources will this require?

Competitive advantage: How can you differentiate your institution from its competitors to ensure its long-term survival? Which competitive advantage(s) should you develop? Which should you not? What resources will be required? Which trends can support or hinder your choices?

Competitive strategy: How can you defeat the competition or protect yourself from it? How will you act against the competition and how will you react to their moves? What resources will this require? Is it in line with your competitive advantage?

Table 8.1 Prizma's strategic choices (Bosnia and Herzegovina)	
Target market and scope	• Poor and vulnerable women and their families (50% of the population) • Choice of financial needs to be addressed: micro-enterprise development, basic needs (such as shelter, food and education, and major risks) faced by low income families • Integration of financial education to increase the effectiveness of its financial services
Market growth strategy	• Further penetration of the rural market and poor municipalities, mostly out of existing offices, though one new office was opened in a very poor municipality where Prizma had recently attracted a significant number of new, mainly poor and rural clients • Increased loyalty of current clients through enhanced service quality, financial education and new product development, including micro-insurance and remittances, so as to address a wider array of needs, while taking advantage of economies of scale • Outreach to clients' families with a mix of old and new products
Value proposition	• A complete solution rather than individual products • Quick, simple, identifiable services, including disbursement in cash • Transparent, trustworthy, pro-poor partner
Competitive advantage	• Large network of service points easily accessible to poor, rural communities • Unique products (business, basic needs, shelter, insurance and remittances) • Quick and efficient loan disbursement system in cash • Strong and consistent brand enhancement activities among poor women • Client loyalty • Financial advice for all and financial education for the whole family of loyal clients • Dedicated staff with a commitment to the Mission • Long-term favorable relationships with investors and other service providers
Strategy towards competition	• Avoiding competition through down-market focus and deeper penetration of the poor market niche, particularly in rural areas • Fortifying the niche against competition by increasing clients' loyalty to a brand recognized for its quick, simple and identifiable service

8.2 How to choose a market?

To assess market attractiveness you should consider two general issues: market potential and institutional capacity to serve it.

Market potential
To know a market's potential you must analyze each market segment, estimate its potential for both growth and social impact, and then determine if it is or can be financially attractive. Answering these questions will help your overall market assessment:

- Is your market segment big enough? Will it grow in the future?
- Is a desired change appropriate for a given market segment? Why? Why not?
- Does the segment have potential to generate revenues? Why? Why not?

Institutional potential
In order to know your institution's potential, you must determine its capacity to serve the targeted segment, and its ability to attract and retain clients.

A very attractive market is only one side of a two-sided coin. Does your institution have enough resources to effectively meet demand in this market? Can it compete with others? Answering the following questions will help you assess your institution's potential:

- Will you be able to attract clients? Which institutional characteristics can help you?
- Can you retain them? Which characteristics can help you?
- Will you be able to deliver the desired value proposition? How? Why?

The table below summarizes detailed assessment criteria for markets and institutions.

Table 8.2 Market and institutional assessment criteria

Area	Criteria	Description
Market potential	Growth potential	What is the potential for growth in your chosen segment (e.g. due to demographic trends, migration or economic growth)? The size of the segment, now and in the future, has implications for financial and social returns.
	Potential to reach social objectives	Is the segment highly vulnerable to risk? The higher its vulnerability, the greater the potential for social impact. Yet, you have to think about the costs of achieving this social return and mitigate potential for negative impacts on the segment in the shorter-term.
	Potential to bring in revenue	What is price sensitivity and potential for building loyalty (in terms of cross-selling and up-selling – i.e. even if clients in this segment start with a saving product, is there an opportunity to offer them wider range of products like loans, microinsurance, remittances, etc.)?
Institutional/servicing potential	Potential to attract and retain clients	What do clients in the segment want in a financial institution? Will they opt for the sophistication of a commercial bank or prefer the more informal, client-friendly services of an MFI? What will it take to attract clients in the short-term and keep them over the long-term?
	Capacity to serve	The institution determines if it has capacities to serve the market segment (resources, unique capabilities, key strengths, exclusion factors and their severity, resources, and potential partners to meet needs in collaboration).

Hierarchy of criteria
When you select a market segment it must pass the test for viability. The criteria combine the potential to achieve your social and financial goals with your institution's ability to meet the demands of the market. While social return is necessarily a long-term consideration, financial attractiveness and institutional capacity to respond to the market are more immediate.

8.3 How to determine the scope of needs to address?

The heart of this choice lies in answering the following questions:

- Does your MFI intend to serve a wide or a narrow scope of needs?
- How does your MFI intend to address the vulnerability or risk-management needs of the target group?
- How does your MFI intend to address long-term growth-related development needs while improving its current status?

Box 8.1 Scope of needs served

In Armenia, MDF-Kamurj has chosen to work with small family farms, a group that is vulnerable and large, consisting mainly of low-income Armenians. It provides enterprise credit to help small-scale farmers run their businesses. However, agricultural businesses are subject to serious market access barriers that limit their growth potential. MDF-Kamurj is considering offering business development services to this group through a partnership with another BDS provider.

Prizma (Bosnia and Herzegovina) is considering introducing a micro-insurance product, in cooperation with an insurance provider, because health-related problems, particularly among working adults, have been identified as key risks and multipliers of vulnerability. While consumer loans help to deal with smaller emergencies, such as heating in the winter, school fees/expenses, minor illness, they are not effective in the case of major health problems and accidents among low-income families.

8.4 How to increase impact?

There are various ways to increase the impact of microfinance including:

- **Offer products and solutions that increase access.** Features may include innovative delivery mechanisms, increased product availability, or improved access to information.
- **Offer services and/or product features that maximize client use.** These may include financial education to help clients to make better financial choices and advice to clients about better ways to use your products or product features to promote certain kinds of behavior, such as more purposeful use of productive loans.
- **Offer comprehensive solutions**, such as market linkages and **advocacy that address the systematic barriers clients face**.

The more you change, the more likely you are to get desired results and the more comprehensive your strategy becomes.

8.5 Value proposition

Your customer value proposition is a clear and specific statement about the tangible benefits a client receives by using your product or service. It should respond to both customer needs and expectations. Understanding needs is a prerequisite for achieving the social mission; knowing expectations makes selling the product to a large number of target clients easier.

Types of value propositions:

- **Lowest total cost of services** – increasing productivity, streamlining processes, integrating activities, offering special deals for repeat clients or multi-product users so that the total cost of your MFI's services is lower than that of the competition (e.g. supermarkets, IKEA, budget airlines).
- **Superior products or services** – focusing on product quality, availability, selection and functionality (e.g. firms providing technology solutions).
- **Complete customer solutions** – building long-term relationships with clients, providing a package that satisfies several needs (e.g. asset management, financial services bundled with advisory services) while giving outstanding, often personalized customer service.

Strategies usually emphasize one of the above value propositions, while incorporating aspects of all of them.

8.6 You need a sustainable competitive advantage to beat the competition

Your competitive advantage is your value proposition translated into institutional terms
Value propositions are expressions of tangible and intangible benefits to clients, representing the results an MFI would like to deliver. The important question is what does it take to deliver those results? Unique competencies built on intangible assets contribute to your competitive advantage. Intangible assets – such as Prizma's expertise in mobile lending technology in Bosnia; Partner's ability to quickly adapt and replicate developments of others, or Prizma's strong brand among poor women – are unique characteristics, distinct competencies that are difficult to replicate. Overall, your competitive advantage is a combination of the managerial, strategic, resource-based and output-based skills that constitute your MFI's core competencies.

To compete successfully, you must be able to sustain your competitive advantages over time. Sustainable competitive advantages exploit the key competencies that are relevant to your organization's mission, and are both rare and difficult to replicate.

Box 8.2 Value proposition and competitive advantage

MDF-Kamurj decided to focus on building relationships with clients through convenient service (in-house delivery), trust and responsiveness (satisfying business and development needs through product development, market advice, partnerships and innovative business-related solutions). To offer this value proposition and build its competitive advantage around client relationships, MDF-Kamurj is developing or strengthening the following competencies:

- **Reliable and responsible staff** resulting from: systematic recruitment and training focused on improving communication skills; building relationships and avoiding bias toward rural/vulnerable clients; stronger motivation policies; client protection codes;

- **Personalized customer service** achieved through: systematic customer service; on-going staff training and feedback on good servicing practices and how to build partner relationships with clients; an incentive system; a strong institutional brand (not losing clients when loan officers change jobs); client recovery program;

- **In-door service** through: good asset infrastructure, system for quickly recruiting and training new staff, MIS;

- **Focus on field people** through: incentives, support from non-field staff, training, recruitment, etc.;

- **Responsiveness to needs** attained through: comprehensive business review process, increased decisiveness of loan officer, increased product offering (through partnerships), loan officer training to identify needs, expertise on rural areas/agriculture, MIS, knowledge management/sharing and market knowledge (to be able to advise and understand their clients even better), well-developed and systematized market research function and feedback mechanism;

- **Strong institutional brand** based on: transparency, reliability, responsibility, being the closest partner;

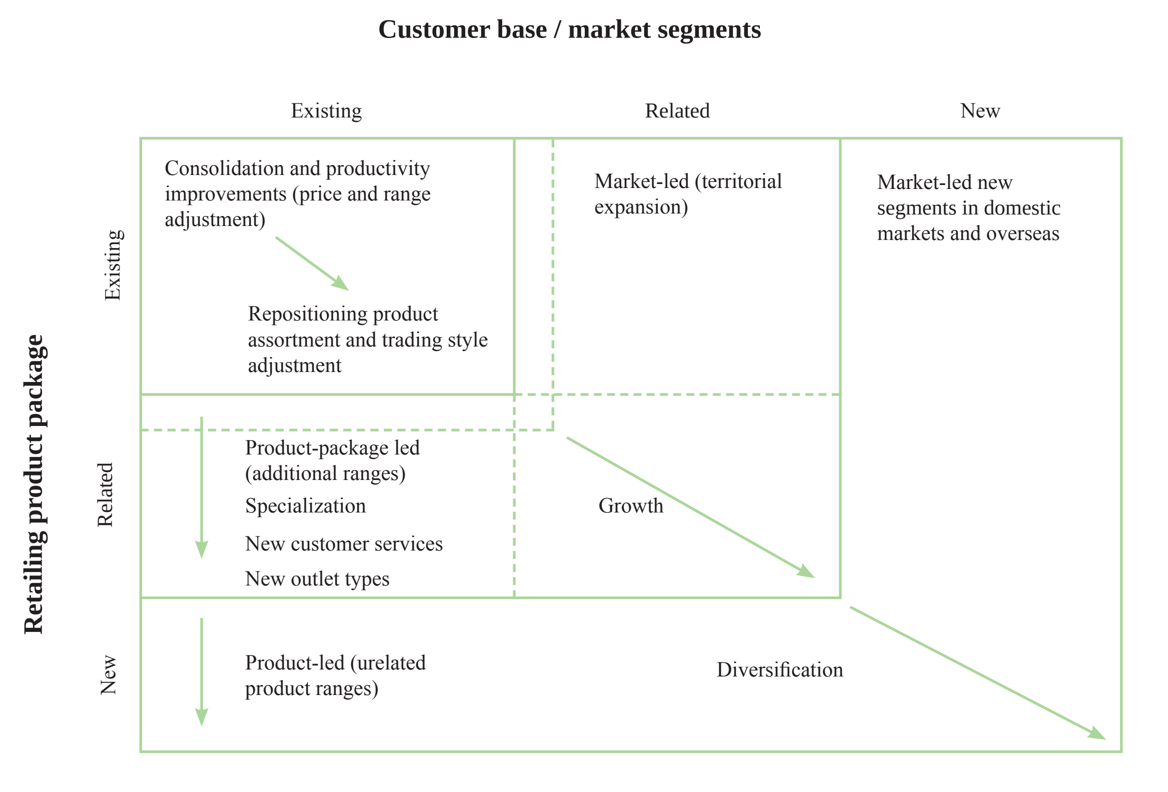
- **Teamwork**, good atmosphere through: building leadership at different levels, clearly defining division of responsibilities, setting targets;

- **Openness to opportunities** through: identification and development of a good relationship with partner to provide BDS and other products.

8.7 Growth strategy

The growth strategy defines how thve organization intends to grow. It is reflected in decisions about products and/or markets.

Figure 8.2 Nine strategies – different risks



Nine strategies – different risks

The Figure 8.2 presents different growth strategies an institution can undertake. The more a strategy requires changes in the type of product offered and/or market served, the more risky it becomes (as shown by arrows in the figure). The following strategies can be distinguished:

1. **Market penetration:** this strategy doesn't require significant changes in the existing product offered or market served. It focuses on institutional consolidation and productivity improvements as well as product repositioning (e.g. increasing the number of clients in current markets by changing incentive systems for loan officers, promoting outreach to more poor clients and an intensive pro-poor marketing campaign (Prizma)).
2. **Market modification:** offering existing products to a related market segment. Usually this indicates the territorial expansion (e.g. an MFI that opens a new office in a new town or village, offering the same product to the same market).
3. **Product modification:** targets existing markets with a slightly modified product (may include new related product ranges), specialization, new customer services or new outlet types (e.g. an MFI modifies features of the existing product based on the clients' feedback).
4. **Product development:** serves the same market with new products. The new product is unrelated to current products offered (e.g. an MFI offering credit products introduces insurance, savings or any other new type of product).
5. **Market development:** when an organization offers the same products to a new market segment or group of customers (e.g. an MFI taking deposits from micro-entrepreneurs starts to take deposits from low-salaried workers).
6. **Mix of product and market modification strategy:** when we offer a modified product to a related market segment.
7. **Mix of product development and market modification strategy:** when we offer a new product to a related market segment.
8. **Mix of product modification and market development strategy:** when we offer a modified product to a new market segment.
9. **Product diversification** is about offering completely new products to new markets (e.g. a microcredit organization grows in new segment of SMEs by serving them with new SME financing products (leasing, enterprise finance, etc.)).

Box 8.3 Distinct growth strategies

Prizma (Bosnia and Herzegovina) is growing through deeper penetration of its market niche. It will achieve this with incentives for loan officers, a strong brand and client loyalty. In the longer-term it is thinking about developing microinsurance and delivering it through a microinsurance partner, counting on cross-selling servicing to get better financial and social results.

Genesis Empresarial (Guatemala) is growing by adding new market segments and a wider range of services. It now serves rural women, micro-business owners and salaried employees.

Be careful about your capacity

You need to consider the whole organization while identifying gaps and strategic issues so as to make choices that you can afford as an MFI. New options (i.e. developing new products) are very tempting but are risky and often expensive. Thus, it is better to look for growth options within your current activities.

8.8 Partnership strategy

Do it alone or look for partners?
You don't have to do everything alone; instead of risking a lot on product development, look for partnerships with other players both within and outside the industry so as to leverage your scarce resources. A successful partnership is based on key competencies that complement each other. Well-established partnerships enjoy mutual benefits and achieve shared goals that could not be reached alone.

Partnerships can help you to overcome external and internal barriers to achieving your social goals. For example, MFIs often face legal and regulatory barriers against offering certain types of products, such as savings plans that can be instrumental in helping low-income clients to smooth consumption and build assets. MFIs partner with another formal financial institution to provide its clients access to savings services. Insurance offers an example of a product line that requires technical capacity that many MFIs do not possess. A partnership with an insurance company better able to deliver this service to the MFI's clients offers a solution. The same may be true for business development services, financial education, and hire purchase credit.

8.9 Strategy towards competition

At the same time you are developing and implementing your strategy, so are your competitors. Therefore, you must think about your options within a competitive environment. The following questions can be of help in this process:

- How will your strategy influence the position of your competitors?
- What reactions is your strategy likely to prompt from your competitors?
- How will the position of your competitors influence the realization of your strategy?

Based on the answers to these questions, it is possible to identify two types of competitive strategies:

- An **offensive strategy:** reaching your objectives at the expense of the competitors, i.e. realizing your institutional growth by taking over the competitors' clients.
- A **defensive strategy:** protecting your position against competitors by creating entry barriers.

When you consider an **offensive strategy**, remember to assess your competitor's strengths and weaknesses and consider how much time you will need to reinforce the weak point you are attacking. Then:

- Find a weakness in the target's position and attack it.
- Launch the attack on as narrow a front as possible. Whereas defenders must defend all their borders, attackers have the advantage of being able to concentrate their forces at one place.
- Launch the attack quickly. The element of surprise is worth more than a thousand tanks.

Offensive strategy is advisable for strong, capable MFIs that have not yet built a market position operating in concentrated markets against one peer competitor.

Defensive strategies are usually the exclusive domain of market leaders or niche organizations. If your institution already enjoys a good position in an important market, you must:

- Be vigilant. Assess the strength of your competitors and watch out for their moves.
- The best defense is to attack yourself. Attack your weak spots and rebuild yourself anew.

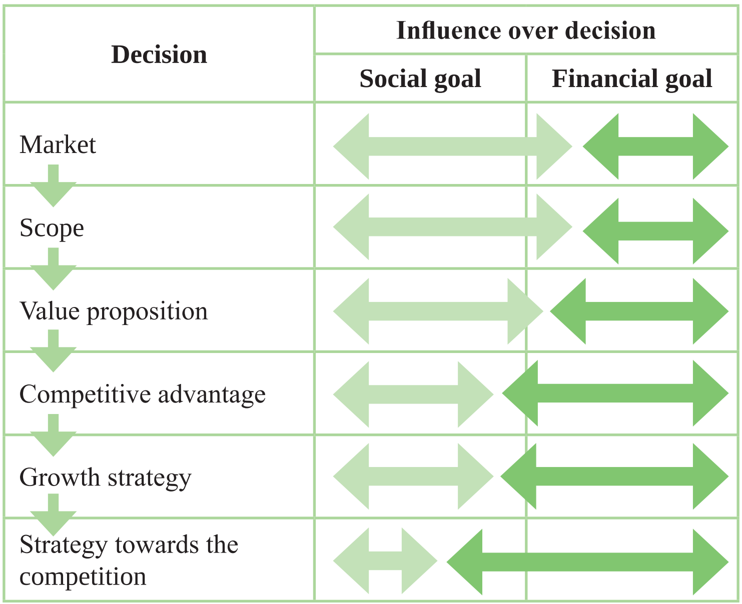
- Fortify your market by building market entry barriers such as increased customer loyalty and a strong brand.

When you undertake a defensive strategy always be ready for potential attacks from competitors.

8.10 Making effective strategic choices

Ensure that strategic choices reflect both your social and financial mandate.

Figure 8.3 Decision making drivers

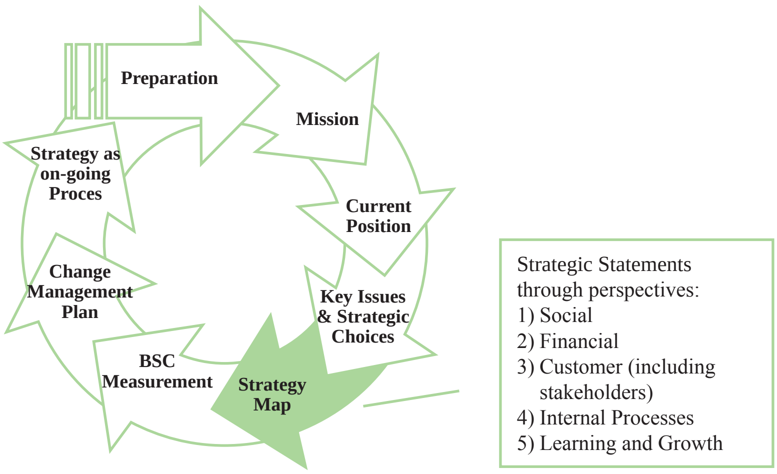


In order for your institution to accomplish its mission, it will need to balance its social and financial objectives. Although social goals can be achieved only over the long-term, they need to be reflected in every facet of your MFI's strategy and you will need to understand how your decisions will impact one other. Figure 8.3 presents the decisions you face with long-term strategic implications. The market you target depends both on your overarching social goal and the current viability of different market segments. The scope of the needs you choose to serve depends primarily on the key development needs of your target clients, but also on financial considerations. Consequently, the value proposition that your MFI offers should balance social and economic benefits to your clients with the financial viability of creating them. All these choices need to take into account the competitive environment because you will need to direct your resources to those areas where you can build a competitive advantage and grow (growth strategy), leaving the competition behind (strategy towards the competition). All of these considerations need to be taken into account simultaneously so that you make the balanced social and financial choices that will inexorably lead to the realization of your mission.

Chapter 9. Developing the strategy map: How to ensure a balanced and integrated strategy

This chapter:
- *Presents an overview of the strategy map*
- *Introduces outcome perspectives (Social, Financial and Customer)*
- *Discusses input perspectives (Internal, Learning and Growth)*

Figure 9.1 Strategic management process



9.1 Using a strategy map to balance and integrate your strategy

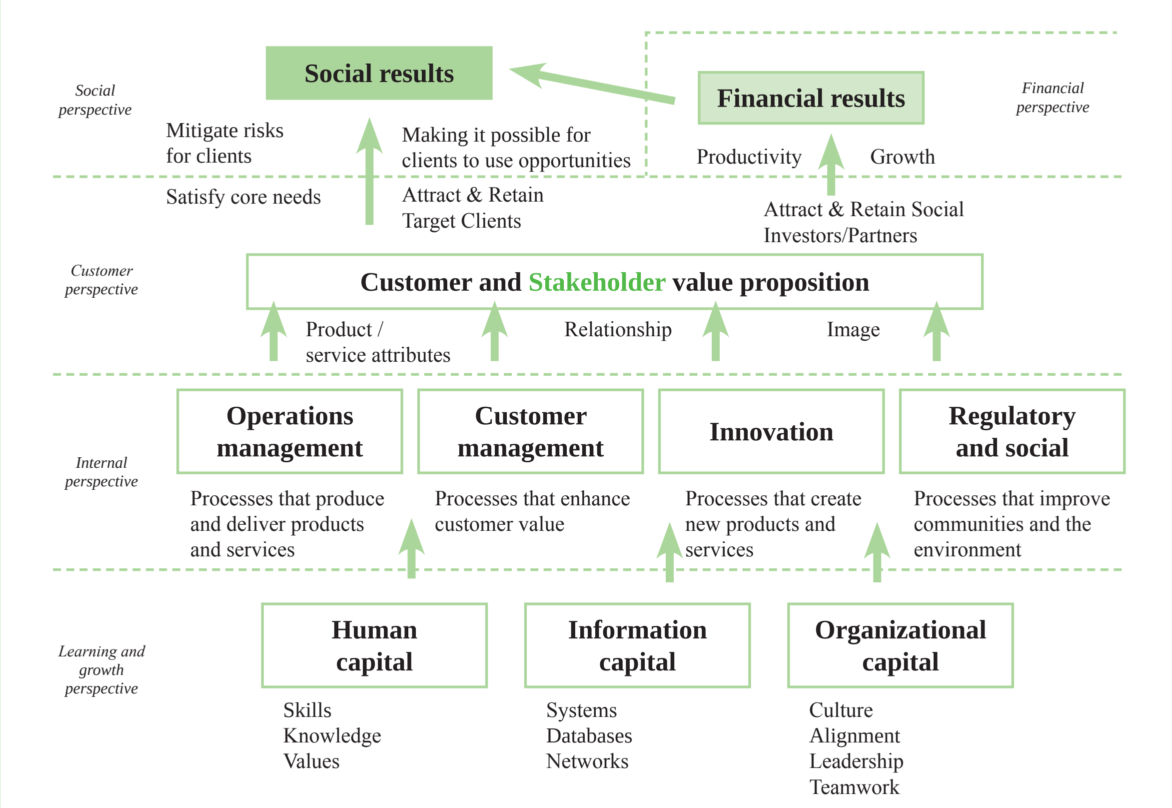
Achieve balance, integration, alignment and coherence through the strategy map
So far, your MFI has designed a basic strategy by identifying your social and financial goals, recognizing your current strategic position and making strategic choices concerning market, scope, value, competitive advantage, growth and competitive strategy. Now you need a comprehensive picture that will show how to adjust and align all resources in order to support the strategy in a coherent and balanced way. The Balanced Scorecard tool that balances and reviews your strategy's coherence, from various institutional perspectives, is the **strategy map**.

By using the strategy map you can:

- specify what social, financial and client/stakeholder outcomes you want to achieve;
- specify improvements to internal processes, learning and growth (inputs);
- align different components to contribute to your final goals. The map arrows help you determine how different elements are linked with each other to create value.

The strategy map provides a comprehensive picture of your entire institution. It also illuminates key processes involved in building social and economic value.

Figure 9.2 Strategy map typical for an MFI



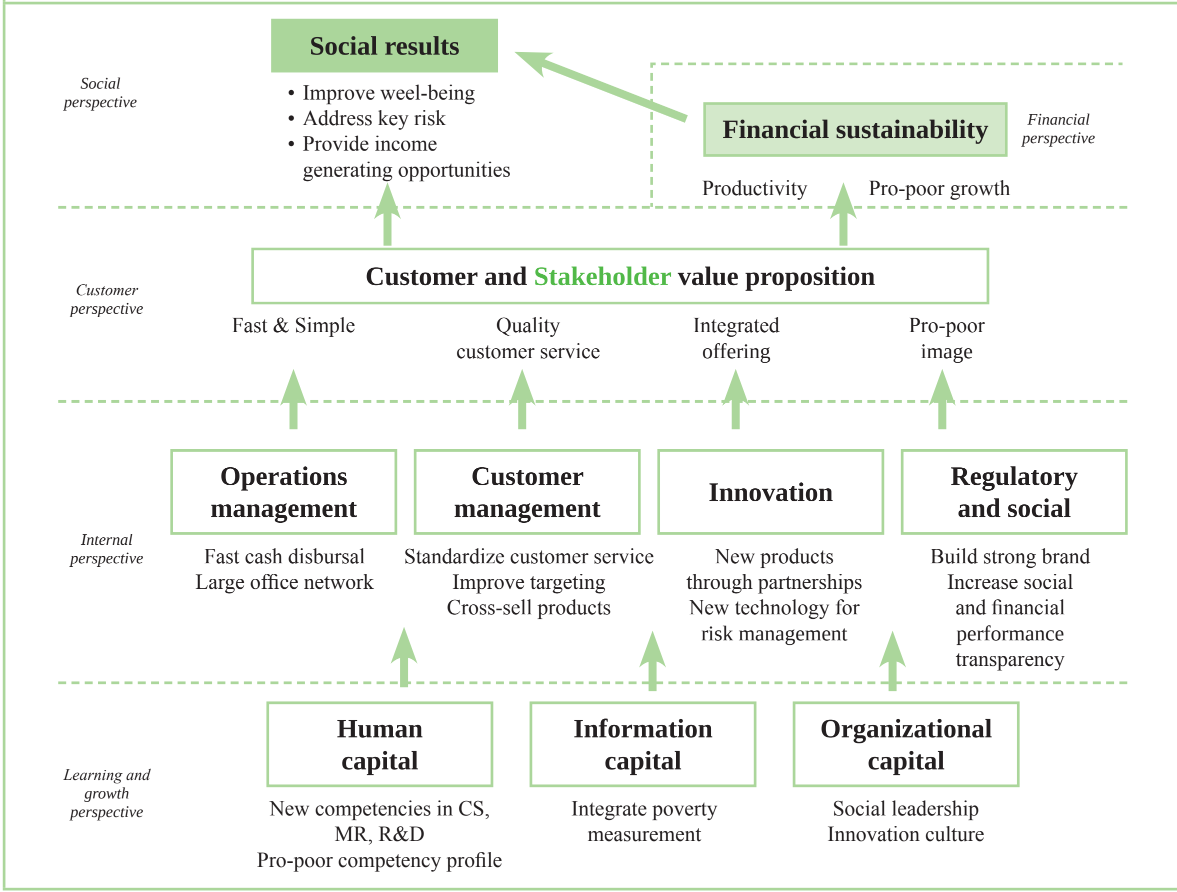
Specify what you want to achieve within each perspective

On the strategy map, "perspectives" refers to the functional areas that are critical to an institution's success. Strategic statements articulate what you want to achieve within each perspective and show your institution's intent over the long-term. In the case of social, financial, customer and stakeholder perspectives, strategic statements come directly from the strategic choices you make (as discussed in the previous chapter on deconstructing the mission and strategic decisions). Strategic statements in the internal and learning and growth perspectives are developed based on the competitive advantage you want to develop.

How can you ensure consistency and good strategic alignment?

The strategy map tells your strategic story and identifies success factors. Start at the top of the map and read down to make sure the "input" perspectives are logically consistent with their desired results. Then check bottom-up to see if the strategy still seems logical. The strategy map should be a framework for linked cause-effect hypotheses. This feature of the strategy map is particularly useful when you need to identify the source of any problem you might encounter when implementing and monitoring the strategy. This chapter presents these perspectives starting from the top of the strategy map.

Figure 9.3 Examples of strategic statements



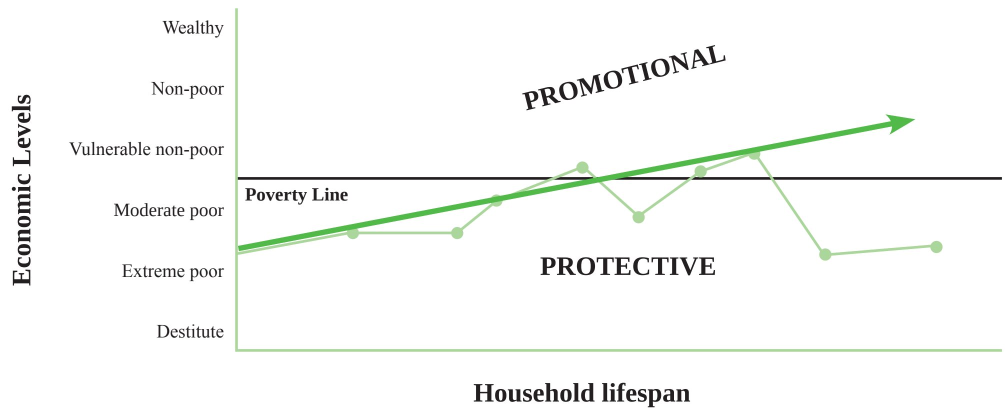
9.2 The social perspective

Your social results, the ultimate goal of your MFI as stated in your mission statement, are at the top of the strategy map.

Protective and promotional social strategies

MFIs may offer services and undertake actions that **protect** the poor against risks and/or **promote** financial inputs and investments in physical and human capital. For example, you might offer consumption credit, tailored to support client households during times of scarcity or help them deal with small emergencies such as minor health problems or emergency household repairs. Protective strategies help your clients **mitigate risks** and usually involve insurance products or beneficial savings alternatives, such as an emergency fund. However, without investment, assets will not grow. Providing clients with savings and credit to **increase assets** is a promotional strategy.

Figure 9.4 Promotional and protective social strategies



Reaching your target group – directly or indirectly?
Your MFI can deliver social value to its target group either directly or indirectly. For example, you can decide to work with women in order to support whole households or to reach children. MFIs focused on job creation among low-income populations can indirectly support employment in this social stratum by extending their services to SMEs in low-income sectors.

9.3 The financial perspective

In the quest to reach and maintain financial sustainability, you need a balance between investing for long-term growth and cutting costs for better short-term results. For example, your financial goals may be to:

- become the industry cost leader
- maximize use of existing financial assets
- increase revenue from cross-selling products
- increase revenue from new clients

There are three general ways to deliver better financial value:

1. **Increase productivity (short-term effects).** This can be achieved through:

- Improving cost structures (e.g. cut costs, negotiate better terms, diversify funding);
- Increasing assets utilization (e.g. reduce working and fixed capital necessary for current level of activity).

2. **Stimulate growth (longer-term effects).** This can be achieved through:

- Enhancing customer value (e.g. build relationships by taking advantage of economies of scale, other value enhancement);
- Expanding revenue opportunities (e.g. in new markets, with new products).

3. **Improve structure of financial assets**

Use financial information to make right decisions
Microfinance institutions already have powerful tools that help them to analyze their financial performance through peer benchmarking or ranking and evaluation tools. These tools help to identify the most appropriate strategy.

9.4 The customer perspective

Your value proposition is the key
Your customer value proposition is central to your strategy; based on your strategic analysis, it is the value you want to deliver to your customers. It articulates the products and services you provide at a standard and an advanced level in order to satisfy your target clients' key expectations and needs.

Consider all your stakeholders
Financial investors, donors and international networks (e.g. FINCA, ACCION, WWB) all have interest in your MFI's plans and the prospect of you reaching all your goals (the double bottom line). Thus, for your strategy to be balanced, they all need to be included in your strategy map. It is also important to build specific relationships with all your stakeholders around the values they care about (e.g. being pro-poor or supporting women).

9.5 The internal perspective

Which internal processes are key to delivering value?
There are four key internal processes by which organizations provide value. These are:

- **Operations management** – producing and delivering goods and services;
- **Customer management** – building relationships;
- **Innovation** – providing next-generation products or services;
- **Regulatory and social** – supporting communities, taking care of the environment, complying with the law.

A well integrated strategy map is focused on the internal processes that benefit target clients and key stakeholders. Your main challenge is to select the processes that will provide the best return for your clients. The value proposition helps to set priorities. If an organization wants to deliver low total cost, it puts higher priority on operations management; if it wants to achieve product leadership, it stresses innovation processes; finally, if it wants to deliver complete customer solutions, it focuses on customer management. To identify the internal processes which are key to achieving your goals, review the following questions:

- What factors will make you more efficient at realizing your social goals (reaching your target clientele, meeting their needs and stimulating change)?
- How can you do things differently to contribute more to your social goals and sustain your competitiveness?

Keeping your MFI focused on its social goals while analyzing your management processes from a business perspective is a consistent challenge.

Box 9.1 Key internal processes at Prizma, B&H

In line with its strategy (see Box 8.3 in previous chapter) Prizma identified the following key internal processes:

Operational management: Maintain fast cash disbursement and expand the network of satellite offices to reach the target group in remote areas with fast and simple service (to be supported by developing and introducing new scoring technology for risk-management).

Customer management:
- Build pro-poor brand, improve targeting, attract more new clients and retain old ones.
- Standardize customer service to increase efficiency, build brand and ensure the same quality of service for all clients in all branches.

Innovation: Develop new delivery models (based on partnerships with formal financial institutions) that enable cross-selling different products to increase client satisfaction and loyalty. Systematize market research to support all the above initiatives and understand emerging market opportunities for both clients and MFI .

Social and regulatory policies: Sustain social and financial transparency to deliver the right value to key stakeholders.

Because Prizma intends to deliver value through complete customer solutions, most of the key strategic processes refer to customer management and innovations to provide the right products and services.

Which operations management policies can develop and sustain your strategic advantage?
The table below summarizes an MFI's various operations management policies:

By focusing on operations management, you should be able to inject these key features into your

Table 9.1 Operations management policies

Area	Description
Developing supplier relationships	Developing deeper relationships with suppliers of capital (donors, investors) and other services (e.g. technical assistance, IT, financial management, accounting, etc.) with the goal of lowering the total cost of offering financial services leads to competitive pricing and may result in the following sample objectives: • Lowering the total cost of ownership (financial projections, price of capital/use of assets, liquidity, access, in-time delivery); • Lowering the cost of handling relationships (invoices, reporting, documentation); • Outsourcing certain non-core functions (information technology, product innovation).
Producing products and services to sell	Looking for new ways to actually produce products and services as efficiently as possible through partnerships, and continuous improvement of processes leads to increased quality and a wider range of high quality products: • Enhancing the quality of current products; • Copying competitors' products; • Integrating partners' products to increase the value proposition.
Distributing and delivering customer offerings	Attempting to lower the costs of distribution and delivery in any way possible leads to better and faster delivery: • Continually improving delivery processes; • Improving responsiveness (shorten time); • Improving fixed assets utilization; • Improving working capital efficiency; • Lowering service costs (e.g. switching clients to lower cost channels such as from traditional to internet-based service channels); • Delivering what clients expect.
Managing risks	Trying to understand the risks involved in doing business and finding effective ways to offset and minimize them, including: • Managing financial risk and maintaining high credit quality; • Managing operating risk; • Managing technological risk.

MFI's value proposition:

- Competitive prices;
- High quality;
- Fast delivery of services;
- A comprehensive solution to customer service problems.

Which customer management policies develop and sustain your strategic advantage?

Table 9.2 Customer management policies

Area	Description
Selecting and targeting customers	Dividing the broader market into niches or target segments to which you can then offer a specific, customized value proposition. This might include the following strategies: • Understanding market segments; • Screening out untargeted and/or unprofitable clients; • Targeting high-value clients from social and/or financial point of view; • Managing the brand.
Acquiring customers	Attempting to acquire new customers by communicating an attractive value proposition. This might include the following strategies: • Offering an inexpensive, loss-bearing entry-level product, such as checking accounts or credit cards; • Heavily discounting product for new clients (via different promotions); • Mounting a marketing campaign; • Entering partnerships with agents/distributors (hire purchase, working through interest groups such as farmers' associations); • Using loyal clients to market among their colleagues.
Retaining quality customers	Retaining quality customers usually involves implementing customer loyalty incentives and other programs. This might include the following strategies: • Providing premium client service; • Creating value-added partnerships; • Providing service excellence.
Building customer relationships	Trying to get existing customers to buy more products and services in the future through cross-selling or other partnering relationships. This might include the following strategies: • Cross-selling to clients; • Solution selling; • Partnering with clients.

By focusing on customer management, your organization can expand its value proposition with:

- A stronger, more vibrant brand image;
- A win-win customer relationship;
- Increased customer loyalty.

Which innovation management policies can develop and sustain your strategic advantage?
To sustain or build a competitive advantage, MFIs must keep introducing new products, services and processes to the market. The Table 9.3 presents different innovation-related policies:

Table 9.3 Innovation policies	
Area	**Description**
Identifying opportunities for new products	Anticipating the customer's future needs and developing entirely new or next-generation products that will meet those needs.
Managing product development portfolios	Having a portfolio of research and development projects underway. Ideally, these will run the full spectrum, from projects that create new science and technology to breakthrough, next-generation, derivative and joint-development products.
Designing and developing new offerings	In addition to researching new products, companies also need to design them, do prototyping and testing, run pilot production tests and plan how best to launch them. All of these activities need to be completed within a reasonable time-frame and budget.
Successfully bringing new offerings to market	At the end of the development cycle, new products and services need to be made available in commercial quantities. Simultaneously, the marketing and sales units will also launch their efforts to sell the new products and services to customers. Customers will demand that suitable levels of quality be achieved.

In addition to instituting innovation policies, your organization should try to improve its customer value proposition as follows:

- Enhance functionality of products;
- Be the first to market new features and benefits;
- Extend products into new, expanded markets.

What social and regulatory processes can help develop and sustain your strategic advantage?
Companies and organizations must continually win the right to operate in the communities and countries where they produce and sell their products. They do this by complying with all the applicable laws and regulations, and by contributing to the communities in which they operate. Specifically, they should:

- be environmentally conscious;
- provide a safe and healthy workplace;
- use non-exploitive employment practices;
- invest in the broader community;
- be sensitive to gender and poverty issues.

There are a several reasons why managing legal and regulatory processes is very important for MFIs:

- It paves the way for companies to enter new markets in the future. Organizations with a strong track record in this area are welcomed into new regions.
- MFIs seek microfinance-friendly regulations at the national level.
- The extent to which employees take pride in their organization's contribution to improving the communities they live in improves staff morale. This, in turn, makes it easier to attract and retain talent.

9.6 The learning and growth perspective

Align and manage the creation of value from intangible assets
Learning and growth can be divided into three categories:

- **Human capital** – your people;
- **Information capital** – what you know;
- **Organizational capital** – how you operate.

In order to get added value from these three intangible assets, two things need to happen:

- The assets must be adequately aligned with your organization's strategy.
- You need to enhance your organization's intangible assets in a coordinated way; if you try to enhance these assets one by one, they may end up working at cross purposes.

The key to managing intangible assets is to measure their degree of "readiness", or the extent to which intangible assets serve your organization's overall strategy. The rest of this chapter is dedicated to discussing specific intangible assets.

Box 9.2 Strategic intangible assets at Prizma, B&H

Prizma decided to develop its intangible assets in the following ways to deliver the highest value to customers and stakeholders:

People
- Build stronger competencies in customer service, marketing, and research and development. These functional areas were neglected in the first phases of institutional development but are now seen as essential for good management of customers and innovations.
- Incorporate pro-poor motivation in human resource procedures (recruiting, training, career development) to strengthen pro-poor institutional culture.

Information
- Further integrate the client's poverty measurement tool in management information system.

Organizational capital
- Maintain social leadership and inculcate employees with a pro-poor institutional culture.
- Follow a client-centered approach in daily as well as strategic work.
- Stimulate a culture of innovation by providing incentives to employees to learn more and work as a team.

Enhance human capital
You can enhance your organization's human capital by closing the gap between what employees can do and what they need to do. To accomplish this, you need to take the following steps:

- **Identify your organizations "strategic job families"** – the key competencies required for the organization's internal processes to function effectively.
- **Use "competency profiles"** – summaries of the knowledge, skills and values an employee needs in order to do a given job well.
- **Assess your organization's current state of readiness** – by comparing employees' current capabilities and competencies to the strategic job families you have identified. This assessment should give an overall idea of your organization's strengths and weaknesses.
- **Develop more human capital** – by organizing appropriate recruiting, training and career development programs, focusing on those in strategic positions as opposed to the rank-and-file employees.

Maximize your information capital
Historically, most information capital investments have been judged according to their cost and reliability. Now, strategy maps make it possible to measure their strategic alignment, showing how

information capital contributes to the achievement of strategic objectives. This is a more useful and interesting approach. To fully exploit your MFI's information capital, you need to:

- **Accurately describe your current information capital portfolio** – which will basically have two key components: your technology infrastructure (hardware, software, communications networks and management expertise in their use) and the applications of your information technology, such as transaction processing, management analytic tools, etc.
- **Align your information capital with your business strategy** – information capital only has value in the context of the strategy being pursued. For example, a company executing a product leadership strategy will benefit from tools that enhance product design and development. Another company pursuing a customer solutions strategy will benefit most from information systems that provide knowledge about customer preferences and behavior. To capture the full benefit of investments in information technology, you must be clear about what you want the technology to achieve.
- **Measure your information capital readiness -** your organization's information capital must be prepared well enough to support your enterprise's preferred strategy. In this case, readiness may be measured qualitatively (where managers evaluate the readiness on a predetermined scale) or quantitatively (using formal surveys or technical audits). Both approaches can work well, but you will need to determine which type of measure makes the most sense for your organization.

Strengthen organizational capital
As in the case of human and information capital, organizational capital is only as good as the results it helps you to produce. Accomplishing the following tasks will enhance organizational capital:

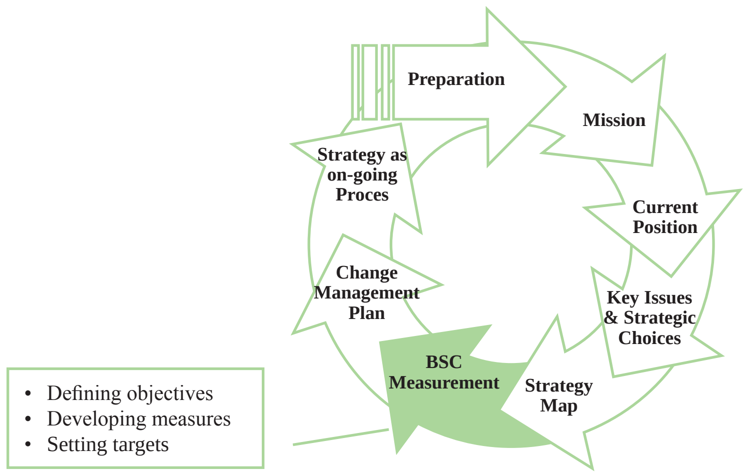
- **Build organizational leadership** – especially the type of leadership which comes to the fore during times of transition and change. To build leadership depth, some organizations undertake a formal development process in which prospective leaders are given progressively more demanding assignments in a well structured succession program. Another approach is to establish a leadership competency model which describes the specific traits leaders should exhibit, and then encourages would-be leaders to seek assignments that will help them to develop such traits.
- **Strengthen your organizational culture** – organizational culture defines the behaviors and attitudes that staff consider to be appropriate. Different strategies and value propositions, to be effective, require a supporting culture. MFIs need to build a strong mission-focused culture in order to successfully realize mission objectives.
- **Find better ways to align your organization with your preferred strategy** – because alignment will encourage risk taking, innovation and empowerment among employees. To increase alignment, leaders establish incentives linking objectives to compensation.
- **Encourage greater teamwork and knowledge sharing** – to allow what is already known in one part of your organization to be applied elsewhere, leading to benefits and synergies.
- **Increase adherence to development values** – in order to keep your organization focused on its social goals, monitor and increase your staff's adherence to organizational values, which – by definition – include development issues. It may be useful to list your institution's values and analyze the degree of staff adherence to them.[3]

[3] See *MicroSave* Value Audit at www.microsave.org.

Chapter 10. Creating the BSC measurement system: How to further operationalize the strategy

This chapter discusses:
- *Setting SMART objectives*
- *Developing measures*
- *Setting targets*

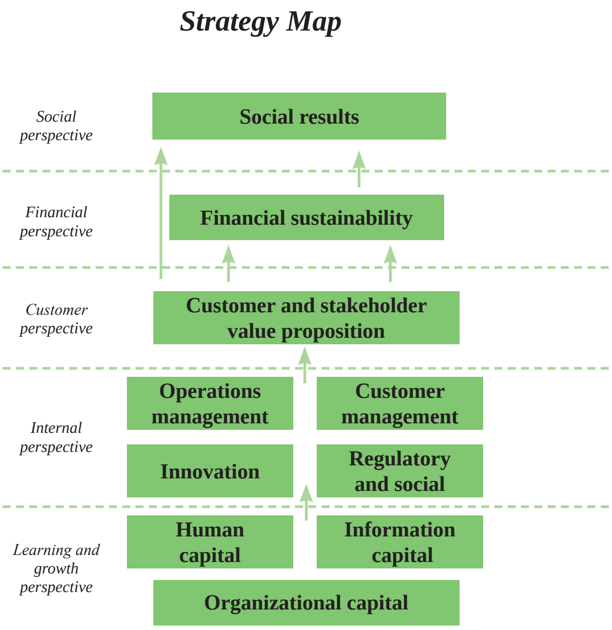
Figure 10.1 Strategic management process



10.1 What is the value of the BSC measurement system?

Enhanced management through strategy measurement
While the strategy map provides a concise and comprehensive description of your strategy, your **Balanced Scorecard measurement** system facilitates its regular monitoring and evaluation.
The BSC measurement system divides each perspective and strategic statement into three elements: objectives, measures and targets (as shown in the Figure 10.2).

Figure 10.2 Strategy map and the Balanced Scorecard measurement system



BSC Measurement System

Objective	Measure	Target
xxxxx	xxxxx xxxxx	xx%
xxxxx	xxxxx xxxxx	xx%
xxxxx	xxxxx xxxxx	xx%
xxxxx	xxxxx xxxxx	xx%
xxxxx	xxxxx xxxxx	xx%

10.2 Setting SMART objectives

Specify what you want to achieve with clearly defined strategic objectives
Your objectives define more specifically what your MFI is trying to achieve within each perspective. You should distinguish strategic from operational objectives and focus on the former. Operational objectives articulate **how** to operationalize your strategy to achieve the planned results and focus mainly on actions. In contrast, strategic objectives **state** what you want to achieve and focus on results. For example: "The new MFI strives to increase outreach to low-income households (strategic objective describing expected results) by opening two new branches in poor areas (operational objective describing an action)."

Objectives should be SMART – Specific, Measurable, Achievable, Relevant, Time-bound:

- Specific:

A specific objective is concrete, detailed, focused and well defined. It addresses only one issue and clearly communicates what you would like to see happen. To set specific objectives, it helps to ask: **What** am I going to do? Your answer should contain strong, action verbs, such as conduct, develop, build, plan, execute, etc.

- Measurable

A measurable objective can be tracked; it offers clear ways to know that change is occurring. Measurements help us to realize how far we have progressed toward our objective(s).

- Achievable

An achievable objective is set in line with institutional capacities and resources. If your objectives are unrealistic or aim too high, you may find it difficult to stay motivated enough to attain the goals.

- Relevant

A relevant objective supports the goals in your strategic statement. Ask yourself this question: **Why** is this important? Your answer will help you understand how your objective is linked to your strategic statement.

- **T**ime-bound

A time-bound objective has to be achieved within a set time frame. Realistic deadlines stimulate action. Their absence undermines both the motivation and the urgency required to execute tasks.

Table 10.1 SMART objectives at Prizma

Perspective	Strategic statement	SMART objective to be reached within one year
Social	Improve well-being of clients' families	Increase outreach to poor clients by XX percent Increase by xx percent the well-being of poor clients staying with the program for more than 3 years, as measured by improved life conditions (consumption, educational opportunities, housing)
Financial	Continue growth	Increase outreach to the poor target clients in rural areas, by xx percent Maintain current financial sustainability
Customer	Satisfy core financial needs	Improve products and services to meet more financial needs of poor target clients, as measured by increased client satisfaction
	Retain poor clients	Increase client satisfaction with product and service quality by XX percent Minimize customer service errors related to new product introduction by XX percent, as measured by the customer service audit error rate Increase loyalty among poor target clients, as measured by xx percent increase in number of clients staying with the MFI for at least 3 years
Internal – operations	Maintain fast cash disbursement	Increase by XX percent budget allocations for improving mobile lending Shorten loan processing time by XX percent
Internal – customer	Build brand	Build brand awareness among the target population, as measured by xx increase in number of poor people and key stakeholders recognizing the MFI as a reliable poverty-focused institution
L&G – human	Develop new competencies in Customer Service, marketing and Research & Development	Improve the budgeting structure to increase competencies in the mentioned areas, as measured in % of development budget used to build competencies in strategic areas Improve training needs assessment, as measured by % of staff delegated to training
L&G – organization	Culture of innovation	Develop effective mechanisms to stimulate new ideas as measured by the number of ideas generated by staff that are successfully implemented Increase market responsiveness by researching new ideas, as measured by time to market for new products

Table 10.2 Strategic objectives and indicators at NGO Manuela Ramos, Peru

Perspective	Objective	Indicator	Target 2007	Target 2008	Target 2009
Social	To strengthen the autonomy of women clients	% of women clients who have improved their health			
		% of clients who have improved their resistance against violence			
		% women clients in CrediMUJER who use credit			
	To improve women's economic situation	% of women clients who reached their goals			
		% of clients who increase their business yields			
		% women clients who improve their activities			
Financial	To offer efficient and sustainable financial services	% of financial sustainability in CrediMUJER			
		% of decreasing costs of granted credit			
		% increase in the active portfolio			
Stakeholder	To consolidate the permanence of clients in communal banks (maintaining the actual market)	% of women clients in CrediMUJER who used services actively for at least 2 years			
		% of total withdrawals made u p of clients with voluntary first circle withdrawals			
	To expand and deepen CrediMUJER financial services in emerging markets	% of all clients in conditions of poverty			
		% of new clients in new zones			
		% of new clients who receive credit for the first time			
	To improve the satisfaction level of clients	% of satisfied clients			
	To improve CrediMUJER's institutional image	% of new clients referred by other clients			
		% of all clients who actively participate in public tenders			
		% of clients who participate in meetings in BBCC and capacity projects of MMR			
	To secure financial resources from the CTI and/or the state	Amount obtained from CTI vs the total revenues obtained			
		Amount lent by the state vs total amount from a third party			
		% of amounts collected vs the required total			
	Establish cooperation between networks and partners	Amount of total savings vs the whole budget of CrediMUJER			
		Personnel activated through networks and allies			

Test if objectives are SMART
The table below presents questions you can ask to test whether your objectives are SMART:

Table 10.3 SMART test

Area	Questions
Specific	• What exactly are we going to do? With or for whom? • Is our objective well understood? • Is our objective described with action verbs? • Is it clear where this will happen? • Is it clear what needs to happen? • Is the outcome clear? • Is our objective linked to the desired results?
Measurable	• How will we know that a change has occurred? • Can these measurements be obtained?
Achievable	• Do we understand the limitations and constraints? • Can we do this with the resources we have? • Do we need to re-prioritize to make this happen?
Relevant	• How does this objective support our strategic statement? • Is it relevant to our objective? Why?
Time-bound	• When will our objective be accomplished? • Is there a stated deadline?

10.3 Developing indicators

The Balanced Scorecard uses indicators to provide you with a way to measure progress toward achieving your mission, and is, therefore, central to the effective execution of your strategy. The indicators you decide to use must be selected with the greatest care. When you ask the question: "How do we know we are performing well in pursuit of our objectives?", you are searching for indicators. There are many possible kinds of indicators, but you will find that "lag" indicators and "lead" indicators are the most useful in strategic management.

Lag indicators are the quantified consequences of actions previously taken and provide an overall score (e.g. sales volume, market share). They tell you whether you are reaching desired outcomes, or not. They help you track historical performance and understand how results change over time. Most financial indicators are of the lag variety. They are often expressed by ratios (percentages).

Lead indicators are measurements of situations (or facts) that - at least in part - determine the desired and/or expected quantifiable consequences expressed as lag indicators. For example, time spent with clients (a lead indicator) can determine an increase in client satisfaction (lag indicator). Lead indicators will allow you to manage your strategy operationally. They can also help to track intermediate changes in processes or identify intangible assets that are necessary to achieving the desired final results.

Table 10.4 Prizma's lead and lag indicators

Perspective	Strategic statement	Objective	Lead indicators	Lag indicators
Social	Improve clients' families well-being	Increase outreach to the poor clients by XX % Increase well-being of poor clients in terms of improved living conditions (consumption, educational opportunity, housing) by XX %	# of poor clients	% of poor with increased well-being
Financial	Continued growth	Increase outreach to poor target clients in rural areas within the next year Maintain financial sustainability at the current level for the next 5 years	Penetration rate in rural areas	Financial sustainability
Customer	Satisfy core financial needs	Improve products and services to meet more financial needs of poor target clients by XX %	# of clients with more than one product	% of financial needs met
	Retain poor clients	Increase client satisfaction with the product and service quality by XX % Minimize customer service errors related to introducing new product by XX % Increase loyalty among poor target clients by XX %	% of Client satisfaction with – product and service quality % of customer service errors	Client retention %
Internal – operations	Maintain fast cash disbursement	Develop budget allocations and usage procedures for improving mobile lending by XX % Shorten loan processing time by XX %	% of budget allocated and used for improvements in mobile lending	% of disbursements taking longer than X days
Internal – customer	Build brand	Improve image of poverty-focused institution among clients and key stakeholders by XX % Build brand awareness among the target low-income population	# of initiatives on branding among target clients and key stakeholders	% of brand aware low-income population
L&G – human	Develop new competencies in Customer Service, Marketing and Research & Development	Improve budgeting structure to increase competencies in the mentioned areas Do training needs assessment	% of budget allocated and used	# of staff with relevant competences
L&G - organization	Culture of innovation	Develop effective mechanisms for generating new ideas Increase responsiveness to the market by researching new ideas	# of innovative ideas generated	# of innovative ideas incorporated in R&D processes

Table 10.5 Example from Genesis: social perspective				
Objective	**Lag Indicator**	**Target: 1 year**	**Lead Indicator**	**Target: 1 year**
To improve, in a sustainable manner, the quality of life of our clients' families by offering financial and non-financial services	• % targeted population served • # cumulative clients served from the target population • Increase in the clients' capital • Average client income • Average family income • Indicators of social impact (baseline data)	• >70% • 214,000 • >20% • Q 2000 • Q 6000 • tbd.	• # clients served from targeted population • # active clients from targeted population • Average # of operations by client • % of active clients with more than 5 operations • Number of baseline data	• 40,000 • 110,494 • 3 statistic • 50% statistic • 1

Include both lead and lag indicators for a comprehensive view of your performance
Having information about both what you have achieved (lag indicators) and what your chances are for further achievement (lead indicators), will help you to monitor the implementation of your strategy, and help you to react at an earlier stage if something goes wrong. If you are off track on your plan, the lead indicators will immediately show you how to deal with the problem.

Measure what you value the most in a cost-effective way
Cost will be a factor in selecting indicators. You will want to find indicators that are easy to quantify, already available, reliable and relevant. Think carefully about who will need the information and how often they will need it. Then re-evaluate your list of indicators to decide what you will NOT need to measure. Look for ways to use similar information for different purposes, and take advantage of pre-existing data collections, reports and analyses.

10.4 Setting targets

Performance targets are quantifiable estimates of the expected results for a given period of time. Targets refer to selected BSC indicators and allow you to monitor progress towards your strategic goals. The targets should balance social and financial, as well as short and long-term goals.

To be realistic, targets should be rooted, if possible, in historical data. Your MIS is a good source of information to start with. Benchmarking with competitors and the MIX peer group or using country/ regional benchmarks as a reference can help you develop realistic targets.

For each indicator, review:

- Current results;
- Industry standards;
- Competitor's score;
- Staff feedback on what is feasible;
- Client perspective.

Look at information from the last three years and compare it with potential short-term results (3-6 months). This information should enable you to set an annual target for each objective.

Table 10.6 Prizma'a targets

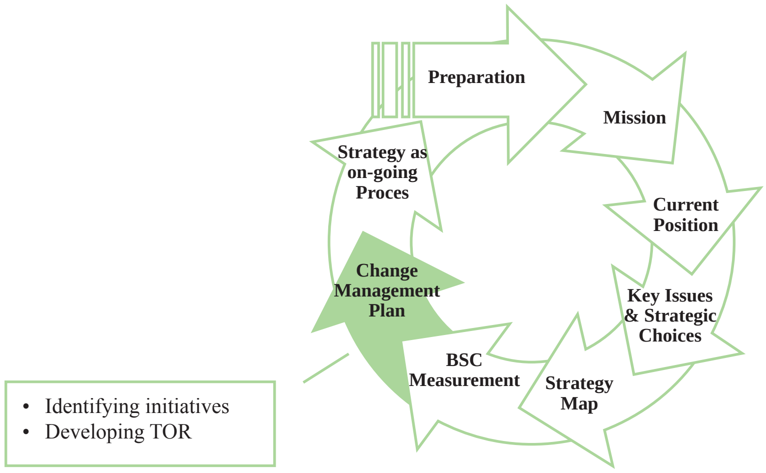
Perspective	Strategic Statement	Objective	Lead Indicators	Lag Indicators	Targets
Social	Improve clients' families well-being	Increase outreach to the poor clients by XX % Increase well-being of poor clients measured by improved living conditions (consumption, educational opportunity, housing) by XX %	# of poor clients	% of poor with increased well-being	**25 000** **20%**
Financial	Continued growth	Increase outreach to poor clients in rural areas within the next year Improve financial sustainability within the next 5 years	Penetration rate in rural areas	Financial sustainability	**5%** **>120%**
Customer	Satisfy core financial needs	Improve products and services to meet more financial needs of poor clients by XX %	% of clients with more than one product	% of financial needs met	**50%** **50%**
	Retain poor clients	Increase client satisfaction with the product and service quality by XX % Minimize customer service errors related to introducing new product by XX % Increase loyalty among poor target clients by XX %	% of client satisfaction with product and service quality % customer service errors (mystery shopping)	Client retention %	**80%** **<10%** **>70%**

Internal – operations	Maintain fast cash disbursement	Develop budget allocations and usage procedures for improving mobile lending by XX % Shorten loan processing time by XX %	% of budget allocated and used for improvements in mobile lending	% of disbursements taking longer than X days	**90%** **<5%**
Internal – customer	Build brand	Improve image of poverty-focused institution among clients and key stakeholders by XX % Build brand awareness among the target low-income population	# of initiatives on branding among target clients and key stakeholders	% of brand-aware – low-income population	**4 times** **15%**
L&G – human	Develop new competencies in Customer Service, Marketing and Research & Development	Improve budgeting structure to increase competencies in the mentioned areas Do training needs assessment	% of budget allocated and used	# of staff with relevant competences	**90%** **3**
L&G - organization	Culture of innovation	Develop effective mechanisms for generating new ideas Increase responsiveness to the market by researching new ideas	# of innovative ideas generated	# of innovative ideas incorporated in R&D processes	**25** **10**

Chapter 11. Develop a change management plan to ensure strategy implementation

This chapter:
- *Defines the change management plan*
- *Discusses cascading for alignment*
- *Gives an overview of project management, the training needs assessment plan and the communication plan*

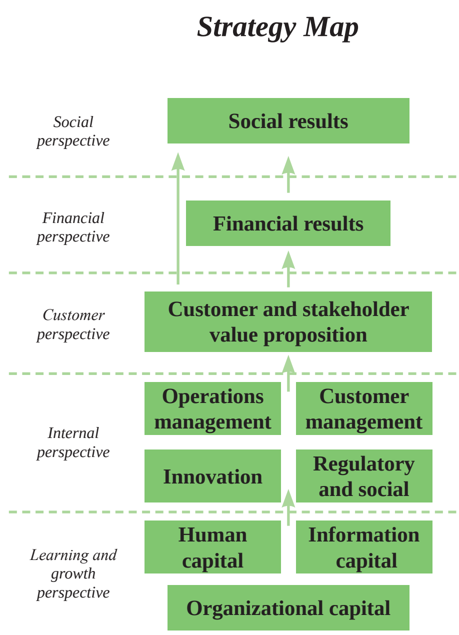
Figure 11.1 Strategic management process



11.1 Change management plan

Change management plan involves allocating resources and setting deadlines
Successfully implementing strategy often involves change. Therefore, the BSC tool includes a change management plan to assist you through the changes. This is done by aligning the current initiatives, allocating financial and personnel resources, and setting achievable deadlines.

Figure 11.2 Change management plan



BSC Measurement System			Change Management Plan			
Objective	Measure	Target	Initiative	Who?	When?	Budget
xxxxx	xxxxx xxxxx	xx%	xxxxx xxxxx	xxx	xxx	xxx$ xxx$
xxxxx	xxxxx xxxxx	xx%	xxxxx	xxx	xxx	xxx$
xxxxx	xxxxx xxxxx	xx%	xxxxx xxxxx	xxx	xxx	xxx$ xxx$
xxxxx	xxxxx xxxxx	xx%	xxxxx xxxxx xxxxx xxxxx	xxx	xxx	xxx$ xxx$ xxx$ xxx$
xxxxx	xxxxx xxxxx	xx%	xxxxx xxxxx xxxxx	xxx	xxx	xxx$ xxx$ xxx$

Aligning current initiatives

To implement your strategy cost effectively, you should first evaluate all current initiatives to see how they fit into the BSC (objectives and targets). Your goal is to align current initiatives with both expected results and your institutional capacity as determined by human and financial resources. Only initiatives that contribute to achieving your objectives and are within your institution's capacity should be pursued, while others should either be revised or dropped to make more efficient use of scarce resources. It is best to identify a few initiatives that can address multiple objectives.

Box 11.1 Strategic initiatives in MDF-Kamurj

- Open new branches
- Refine existing standards and procedures (both rural and urban)
- Strengthen fundraising activities
- Develop and disseminate public relations information about MDF-Kamurj foundation and CO
- Mobilize task force to work on new incentive system
- Conduct semi-annual corporate meetings
- Hire and train staff for Human Resources department

Develop a Term-of-Reference document and allocate resources

A detailed Term-of-Reference document and budget for each initiative can be useful. While planning to implement each initiative, pay attention to the following issues:

- For staff to effectively lead their assigned initiatives, they need to feel ownership of them.
- Budget carefully to ensure the project has sufficient resources.
- Unrealistic deadlines will undermine staff commitment to the process.

11.2 Alignment

Both your measurement system and initiative alignment should concern all units in your organization. In order for their actions to be aligned with and supportive of your strategy, each will need its own targets. Therefore, distinct measures and targets should be developed for your executive team, departments and decentralized organizational units (branches, offices, etc.). The same holds true for the change management plan.

Box 11.2 Out of alignment

A product design contradicts institutional objectives: e.g. the objective to increase outreach to women is not well aligned with product features that do not respond to women's limited mobility, tendency to want smaller loans or higher savings rates.

An objective to increase outreach to poor clients may be out of alignment with an incentive system that favors portfolio value.

An organization wants to develop new products but its organizational culture doesn't value learning from mistakes or risk taking.

The Table 11.1 show how the BSC measurement system for one objective within the customer perspective reverberates to the marketing and human resource departments as well as to the branch level.

Table 11.1 BSC cascading

	Organization wide BSC		
Perspective	*Objective*	*Indicators*	*Stretch Targets*
Customer	To: satisfy core financial needs	% of financial needs met Responsiveness of mix of products % of clients using more products % loan officers able to promote and sell all products available	50% 75% 20% 60%
	Marketing department		
Perspective	*Objective*	*Indicators*	*Stretch Targets*
Internal	To: satisfy core financial needs (customer perspective)	# new products introduced Client satisfaction from integrated offering # of delivery model concepts developed and pre-tested	2 80% 4
	Human Resource department		
Perspective	*Objective*	*Indicators*	*Stretch Targets*
Internal	To: satisfy core financial needs (customer perspective)	% loan officers trained in sales and counseling	60%
	Branch level		
Perspective	*Objective*	*Indicators*	*Stretch Targets*
Customer	To: satisfy core financial needs (customer perspective)	% of clients using more products % loan officers able to promote and sell all products available	20% 60%

11.3 How to implement a change management plan

Project management
Each initiative is part of your change management plan and represents a project with a defined time frame; thus, your champion will have a portfolio of projects to supervise as part of your strategic management system. Each initiative should be led by a project manager responsible for the completion of the project within its defined scope, time-frame, and budget to ensure that the desired objectives are reached. Box 11.3 lists management tips and principles.

Box 11.3 Project management principles

1. **Choose the right people for the project team** vs. who is available. They should bring insight and information to the effort.
2. **Have your team agree on the nature of the problem.** Otherwise, you can develop the right solution to the wrong problem or wind up with paralyzing bickering about goals.
3. **Get commitment to the project from all stakeholders** to avoid conflicts of interest later on.
4. **Remember and follow the mission statement** throughout the course of the project.
5. **Plan the project by answering the following questions:** what must be done?, by whom?, for how much?, how?, and when?
6. **Brainstorm possible solutions** and choose the most suitable one based on parameters set at the outset (e.g. cost, time, goals, etc.).
7. **Develop a project strategy** that will meet all project objectives.
8. **Check periodically** to make sure the project stays within its original scope.
9. **Determine milestones and benchmarks:** the desired outcome, obstacles to achieving it, and guidelines that will let you know you have achieved the desired result.
10. **Work as a team:** if all members of a team operate individually, the end product will be disjointed.
11. **Negotiate for scarce resources.**
12. **Have a deliverable at each major project milestone** so that progress can be measured more easily.
13. **Qualify estimates,** specifying any factors that might affect their validity.
14. **Don't schedule any task with a duration longer than four to six weeks;** subdivide longer tasks to monitor progress.
15. **Continually ask questions.** The more you ask, the more problems you'll solve.
16. **Avoid the temptation to perfect everything** – that's what the next generation of the product or service is for.
17. **Keep extra time in reserve** in case of unexpected problems or bad estimates.
18. **Keep critical tasks on schedule** – a slip-up here can stall the entire project.
19. **Be alert to roadblocks and be very pro-active** to help project members complete their tasks.
20. **Consider co-locating team members on critical tasks** so that they aren't constantly being pulled off to do other jobs.
21. **Identify team members who will champion** various parts of the project management process.
22. **Don't let project members wait** until the last moment to begin tasks.
23. **Remember the Triple Constraint:** to complete the project at cost, on time, and in keeping with the scope and customer expectations.
24. **Do a post mortem review of projects** – review both group dynamics and task implementation.

Develop a Communication Plan to involve all stakeholders

The strategy map and BSC are most useful when developed in a participatory way involving as many staff members and stakeholders as possible. However, because it can be hard for everyone to participate, you must communicate effectively about the strategic management process. This can be done in different ways depending on your audience and the communication tools that your MFI already uses. The key to good communication is to fully understand all stakeholders' interests and their roles in the strategic management process.

The Communication Plan

Your communication plan should address the following issues:

- Building awareness of your project at all organizational levels;
- Providing education on key concepts to all audiences;
- Getting commitment from key stakeholders in the project;
- Encouraging participation in the process;
- Generating enthusiasm for the strategy and the BSC;
- Ensuring that team results are rapidly and efficiently disseminated.

Table 11.2 Sample communication plan

Audience (Who?)	Purposes (Why?)	Frequency (How often?)	Delivery vehicle (Where and How?)	Communicator (Who?)
Senior leadership	Gain commitment Remove obstacles Report progress Prevent surprises	Bi-weekly	Direct contact	Sponsor
Board members	Gain commitment Remove obstacles Report progress	Monthly	Direct contact	Sponsor
Management	Convey purpose Explain concepts Report progress Gain commitment	Bi-weekly	E-mail Management meetings Articles Intranet	Champion/Team Members
All staff	Convey purpose Introduce concepts Eliminate misconceptions Report progress	Monthly	E-mail Newsletter Town-hall meeting Intranet	Team Members
Project Team	Track progress Assign tasks Review expectations	Weekly	Team meeting Status memos Intranet	Champion

Box 11.4 The Communication Plan at Genesis (Guatemala)

The experience of Genesis in Guatemala illustrates why communication tools are important. Genesis had a communication problem within the institution because the implementation team was disconnected from the strategy decision-making process and the different groups were not aware of each other's goals and targets. Everything worked independently from everything else.

Now when Genesis uses the BSC tools in its on-going management, it does so via intranet. In this way, the mission, strategy, objectives, targets and actions are easily accessible to everyone in the organization. The managers access intranet to update the areas of their responsibility and track progress against their objectives.

Also worth noting in the Genesis experience are lessons learned from communication between headquarters and the regions. Before it was time to begin using the tools, bulletins about the concept and its implications for the MFI were sent ahead to the regions. This was very helpful during the subsequent institution-wide videoconference because everyone was prepared and understood what was being presented. In contrast, the first communication of the initiative to the HQ support staff resulted in confusion and misunderstandings. How you inform people is very important.

Develop a Training Needs Assessment Plan to equip people with necessary skills
To introduce change you need to change people's behavior; to accomplish this, people will need to acquire new knowledge, learn new skills and change their beliefs. Develop a training plan that specifies which people require what kind of training and when. If you carefully explain all new or revised processes to the staff with a particular focus on their requirements and implications, you can more readily identify their concerns and which skills are lacking. There are various ways to train staff. Classroom training or workshops are not required for every occasion; for some routine activities you can develop handbooks or manuals. Below is Zeze za Zene's training plan, which is integrated with their objectives, indicators and actions.

Table 11.3 Training Plan for Zene za Zene (Women for Women International, B&H)

Actions/Steps	Indicators	People Responsible	Resources Needed	Deadlines
To introduce staff to the term and goals of strategic planning and to the measurement system	Staff trained to understand the term SP	Sajda and Dženita	Internal capacity	End in June 2006
To introduce staff to new forms for data collection and how to use them	Staff trained to collect information	Dženita, Ajša and Dina	Internal capacity	End in June 2006
In accordance with defined goals of SP, to introduce staff to the marketing activities which will be implemented	Staff introduced to marketing activities and how to implement them	Dženita, Ajša and Dina	Internal capacity	By the end of 2006
To provide training in promotion	Staff introduced to promotion activities	Sajda	External consultant	1st quarter of 2007
To train staff in techniques of personal selling	Improved techniques of personal selling	Sajda	External consultant	2nd quarter of 2007
Train staff in motivational systems	Staff understands systems of motivation	Sajda and Dženita	Internal capacity	By the end of 2006
To train staff in communication skills	Improved communication skills	Sajda	External consultant	2nd quarter of 2007
To train staff to improve operational efficiency	Improved efficiency	Sajda, Sadžida and Dženita	Internal capacity and external consultant	1st quarter of 2007
To train staff in planning and managing portfolio				2nd quarter of 2007
To introduce staff to the term "organizational culture"	Staff understands the term "organizational culture"	Sajda	Internal capacity	2nd quarter of 2007

Chapter 12. Strategy as an on-going process

This chapter discusses:
- *Monitoring, evaluation and learning*
- *Principles for effective strategic management*

Figure 12.1 Strategic management process

12.1 Using the Balanced Scorecard toolkit for monitoring and revising the Strategy

Strategy as an on-going process
Planning and implementing your strategy is just the beginning. Strategy management is an on-going process that is ever present in your daily work. Strategic questions arise as part of your everyday job and need to be managed regularly. Responsive to internal and external changes, strategic management is dynamic, evolving and interactive. It is never static. In this way, strategy is a never-ending process by which you deal with change while continuing towards your main objectives.

Institutionalize monitoring, evaluation and learning
Obviously, strategic progress should be reported to your organization's executives, as well as to relevant staff members, who will naturally review, analyze, discuss and act upon it for improved performance. However, the process of systematizing longer-term (strategic) and shorter-term (annual/operational) planning and control processes should include the integration of the BSC tools. This way you can regularly monitor, evaluate and learn from these processes.It is the task of top management to make sure they function well enough to achieve the goals you have set.

Table 12.1 Matrix of the implementation process

PA1	**Action plan**	Institutionalize the strategic management process
Action plan objectives		1) Implement the tools at the organizational and regional levels 2) Link management contracts with the strategy plan

Nº	Activities	Pto (S/.)	Oct		Nov		Dec		Jan		Feb		Mar		Apr		May		Jun		Jul		Aug		Dec		Person in charge
			I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	
1	Finalize the flowchart of the strategic management process to be systematized (this action plan)		x																								Gloria Diaz / with help from COPEME
2	Review and systematize the current strategic management process			x	x	x	x	x																			Jorge Nuñez / GG
3	Develop the strategy map and the measurement system at the organizational level		x	x	x	x	x																				GG / COPEME
4	Describe and prioritize the action plans (strategic initiatives)					x																					GG / COPEME
5	Extend the strategy map and BSC measurements to regions					x	x																				SR / GG / COPEME
6	Organize an Action and Learning Workshop of BSC in the regions and HQ					x	x			x	x			x	x			x	x			x	x				GG / COPEME
7	Link strategy to the operational plan and budget				x	x	x	x	x																		GG
8	Communicate the strategy plan to directors, managers and staff						x	x	x																		GG
9	Elaborate management contracts for all staff						x	x	x																		GG
10	Develop an annual plan of evaluation and follow-up								x	x																	Jorge Nuñez / GG / COPEME
11	Implement mechanisms of progress control, learning and follow-up									x	x	x	x														Jorge Nuñez / GG
12	Evaluate the tools													x							x					x	Jorge Nuñez / GG / COPEME
13	Collect and analyze information						x			x			x			x			x			x			x		Jorge Nuñez / GG
14	Annual revision																						x				Jorge Nuñez / GG

Learning and Action Workshops will help you to stay in touch

To stay abreast of changing situations, it is crucial that you check the status of various projects. Regularly scheduled action and learning workshops can help to monitor both the internal and external environment of your institution. These regularly scheduled meetings should group key strategic management players with project (or initiative) leaders. Those with special knowledge about the changing environment can be invited to update everyone about the situation. These workshops, together with their specific objectives, structures and time-frames should also be planned and announced well in advance in order to give the participants time to prepare. In addition, emergency meetings should be called in response to sudden problems.

Questions to raise during the Learning and Action Workshops

- Has your strategy been working as measured by progress towards set targets and timely realization of initiatives?
- Where has it been working and where not?
- Why has it not been working? Is the strategy wrong or outdated? Has it been inadequately implemented?
- What should be done to deal with any problems?

Answering these simple questions serves as a regular evaluation and revision exercise, which helps to improve the execution of your strategy.

Box 12.1 Learning from Cause-Effect Analysis at Store 24

Store 24 is a chain of retail shops. In order to enhance customer relations and increase profits, it introduced an innovative strategy known as "Ban Boredom". The idea was to get a leg up on the competition in two ways: by providing customers with an enjoyable shopping experience and entertaining them with interesting promotions. It was hoped that providing fun for customers would create and sustain long-term relationships. However, things did not go quite as planned. After 3 months of the new strategy, analysis of actual results revealed problems and the cause-effect relationships depicted in the strategy map enabled company analysts to decipher them. Customer surveys showed that while the entertainment strategy had worked well and met targets in a few very well-managed stores; in most, customers were simply interested in receiving fast and efficient service. As a result, Store 24 shifted its strategy to stress operational excellence and maximize the competitive advantage of its already fast and efficient network. This case study illustrates that intuitive strategies do not always work in practice, highlighting the need for ongoing monitoring and evaluation so as to adapt strategies to customers' ever-changing needs.

Source: Dr. Dennis Campbell, Harvard Business School, presented at BSCol Conference, Cambridge, MA, May 20, 2005.

12.2 How to use the Balanced Scorecard for effective strategic management

Become a strategy-focused organization

For your organization to benefit from effective strategic management a strategy-oriented culture has to dominate. There are five principles any strategy-focused organization should adhere to:

1. **Mobilize change through executive leadership:** Although the BSC should be used by executives and managers as an interactive system to stimulate dialogue and debate, more important for on-going improvement is the stimulation of learning and leadership at all levels of the organization.
2. **Translate the strategy to operational terms:** Operationalize the desire to use existing resources in pursuit of the mission. To do this you have to use the BSC to change your long-term goals into shorter-term objectives, indicators and targets.
3. **Align the organization to the strategy:** Because organizations are made up of many different elements, the BSC can help create synergies on the way to becoming strategy-based.
4. **Motivate to make strategy everyone's job:** The BSC is an effective tool for communicating the link between staff contribution and overall organizational progress. You should develop a reward system for strategic results that includes team bonuses, individual incentive systems or human resources evaluations.
5. **Govern to make the strategy a continual process:** It will make sense to establish a **Strategic Management Team (SMT)** to be responsible for the overall execution of your strategy. The SMT works as an umbrella for different key functions, such as strategy formation, planning, BSC coordination, change management, and strategic communication and alignment, etc.

Conclusion

To end our journey with this handbook, we offer what we have experienced as the keys to a successful integration of the BSC approach. First and foremost is support from top management, both to initiate the process and to support it along the way. Second, the quality of your strategic implementation team will influence results. The facilitator needs to be good at transferring his or her knowledge and skills; the champion needs to be able to keep the process moving and sustain the team's commitment to it. Team members need clear and distinct roles with appropriate decision-making authority in order to maintain forward momentum. Finally, pay attention to the obvious: Communicate regularly with each other and your executives about your progress. Build a common understanding throughout the organization of the project's benefits. Meet regularly. Hold your workshops away from the office.

Now it is up to you to initiate your own trip in your institution. Maybe you already have. You and your team will be putting this know-how into practice – making real choices, taking real actions and delegating real tasks. It is now in your hands to make every staff member and every activity an additional brick in your institution's strong performance. That performance is built upon the strong foundation of your mission, emerging as a functional, well-designed building that is evenly distributed on two pillars: one financial and one social.

We are happy that your MFI will become a member of the already large and growing number of BSC implementers. The BSC is already used very effectively in big corporations, small firms, government and non-profit institutions. Now, equipped with this practical guide, which has adapted the BSC for microfinance, you can make your organization a part of this successful group. Improve your strategic management systems, let your mission drive you and balance your strategy and operations. Your social values will be highlighted in everything you do. Traditional and new competitors will stay one step behind your highly competitive MFI. You will benefit from the loyalty of your growing clients, and your partners will accompany you in the long-term, believing in and sharing your compelling vision.

Take these practical steps to make your mission a reality and infuse microfinance management with new meaning and quality – quality characterized by business conduct that goes beyond profit maximization, that delivers enhanced value for clients by solving their social problems and challenges, that seeks business solutions with a social face.

You will be the leader of the new era of professional management that effectively links client success with institutional performance and demonstrates that doing good is not only good for business but becomes the best practice for professional management. By putting your mission into action, you can become a real social entrepreneur.

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Annex 1. Glossary

Balanced Scorecard: a tool developed by Robert Kaplan and David Norton to assist businesses in developing, implementing and monitoring their strategies. The BSC tool consists of three elements:

1. A strategy map that depicts the organizational strategy and helps to make sure it is integrated and balanced;
2. A scorecard measurement systems that enables businesses to translate broader strategic goals/ statements into measurable and time-bound objectives linked to the system of monitoring results towards their achievement;
3. A change management plan – action plan of strategic initiates tightly linked to the BSC objectives and the strategy informing day to day operations.

Business plan: a summary of how an institution intends to organize its operations and implement activities necessary and sufficient for the organization to succeed. It is a written explanation of the company's business model. A business plan can include strategic elements (where the institution is heading) plus a description of how to maintain the business (administration, etc.).

Competitive advantage: an advantage that one firm has relative to competing firms. How one firm differentiates itself from others, and delivers products and services to the target market better than the competition. To be really effective, the advantage must be difficult to copy, unique, sustainable, superior to the competition and applicable to multiple situations.

Customer value proposition: a clear and specific statement about the tangible benefits a consumer receives by using a product or service. It should respond to customers' needs as well as expectations. It is the value (products and services) that should be delivered to clients to meet their needs and expectations. Understanding needs is a prerequisite for realizing social mission while knowledge of expectations facilitates selling the product to large numbers of target clients.

Goal: defines in more general terms what the institution is trying to achieve, overall and within each institutional perspective.

Management: consists of defining purpose, setting aims, planning; organizing and designing infrastructure; budgeting; allocating resources; staffing, coaching, motivating; monitoring performance, informing, controlling and negotiating.

Objectives: define in more specific terms what the institution is trying to achieve within each institutional perspective. Strategic objectives state what you want to achieve and focus on results while operational objectives state how to move forward to achieve the planned results and focus on action. Objectives should be SMART (Specific, Measurable, Achievable, Relevant, and Time-bound).

Performance drivers: activities that shape future results.

Social Performance: the effective translation of an institution's mission into practice (its actions, corrective measures and results/outcomes).

Social Performance Management (SPM): a practical approach to business that guides MFIs in translating their "lofty missions" into specific, measurable, realistic and time-specific social performance objectives. These objectives provide the MFI with tangible benchmarks against which progress can be measured and performance improved.

Stakeholder: an individual or group with an interest in the success of an organization in delivering intended results and maintaining the viability of the organization's products and services. Stakeholders influence programs, products, and services.

Strategies: broad organizational priorities identified in a process of decision making and actions that lead to:

- formulation of long-term goals and plans,
- choice of resources and assets to their realization,
- choice of future directions.

Strategic management: a complex and ongoing process of organizational learning and change that links the following elements: strategy development, implementation and monitoring and leads to meeting the expectations of the stakeholders. It is about specifying an organization's objectives, developing policies and plans to achieve these objectives, and allocating resources so as to implement the plans. The process involves developing appropriate products for selected markets and matching the companies' strategic advantages to the business environment the organization faces. It is the highest level of managerial activity, usually performed by the company's Board of Directors, chief executive officer and executive team.

Strategic planning: is a process of developing long-term plans based on the organizations overall business objectives. Defining objectives linked to your mission, and articulating strategies to reach them.

Strategic statement: statements of what you must do well to achieve the mission and implement the strategy.

SWOT: a strategic planning tool used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. Strengths and weaknesses are internal to an organization. Opportunities and threats originate from outside the organization. A SWOT analysis, usually performed early in the development process, helps organizations evaluate the internal and external factors involved in a project.

Annex 2. Implementing the Strategic Management Toolkit: Case Study of Genesis Empresarial

by Ragnhild Liljeros and Adela de Rizzo

1. Institutional background

Genesis Empresarial is a non-profit Private Development Organization (PDO), active in Guatemala. Genesis Empresarial was founded in 1988 by Fundacion Tecnologica (FUNTEC) and began lending to rural communities to supply areas with electricity and support potable water projects. In 1997, Genesis became an independent foundation and expanded its services. Genesis promotes development through financial services, trainings and advisory services. Its target groups are micro-enterprises, small businesses and people in rural and urban areas. Genesis has 55,184 active clients and an active portfolio of $31,975,505. Seventy-three percent of the clients are women and the clients are typically market vendors, artisans, seamstresses, carpenters, shoemakers or bakers. Genesis has initiated a process of transition, turning from an NGO into a regulated institution.

2. The rationale for implementing the BSC in Genesis

Genesis had a well defined long-term focus, but found it difficult to balance the urgent with the important. Although the Genesis implementation team had an understanding of the social mission and how they differentiated themselves from other banks, at the same time they had a lack of clarity about exactly what changes they hoped to affect in their clients' lives. A deliberate strategy was decided by the board – but there was a lack of internalization and understanding of the strategy by the staff. Genesis was not measuring social performance. There was no adequate learning system nor any system for collecting, storing and/or disseminating learning and knowledge.

Participating in the Strategic Management Toolkit pilot test, Genesis decided to take the following steps:

- To strengthen the management process with a view to becoming a regulated institution;
- To manage strategic information effectively;
- To work together like a team, all going in the same strategic direction;
- To focus on the important things and not just the urgent ones;
- To clarify the strategy and actions, and be able to measure them in a proactive way.

3. Planning processes in place before the pilot test

Before the Strategic Management tools were implemented, Genesis used a traditional planning cycle each year, in which all the decisions were made by the management team. Each area was independent from the other, without integration and without establishing SMART objectives for each broader goal. Therefore, no cause and effect indicators were in place to measure the progress towards their realization of the goals.

The Director of Planning and Development implemented a template for diagnosis and the planning was transferred to all areas, departments and branches. Every employee made a personal action plan to meet their needs, capacities and labor and this was integrated into the Annual Institutional Plan. This was a time consuming process. In essence, it meant that each area had its their own plan without knowing the plans of the others.

4. Outputs

The Genesis mission and target clients of Genesis
For the first step, Genesis clarified its mission and vision.

Mission and vision of Genesis Empresarial	
Mission	**Vision**
Provide agile and opportune credit services, along with consultancy and training for micro-enterprises, small businesses and rural communities in order to achieve their sustained development with a broad outreach, hence accelerating Guatemala's progress.	Become an effective, dynamic and leading intermediary of financial and non-financial services in the micro and small enterprise sector and in communities of low-income populations, capturing and lending funds efficiently, effectively and broadly.

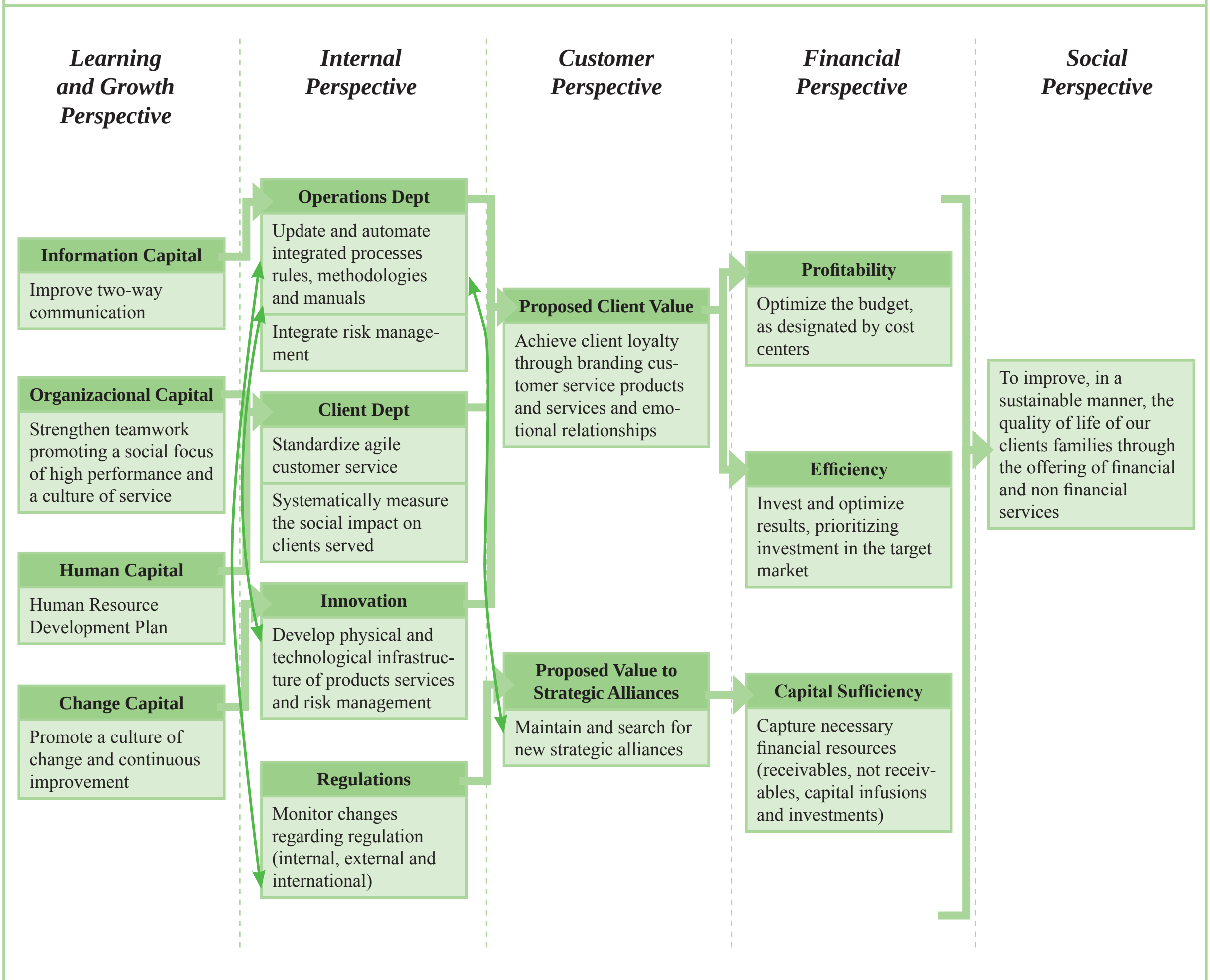
It was particularly challenging to explain the concept of the "target client(s)" across the MFI. Thus, one of the most important tasks was to define the target clients in a standard way, so that everybody could understand who the target clients are.

Target clients of Genesis		
Rural women	**Salaried employees**	**Business owners**
• Women between 18 and 60 years old • Married, in partnership, or single mothers (head of household), young mothers • High level of illiteracy • Speak their native tongue • Willing to get organized • Low self-esteem • Desire to overcome • Do not have fixed incomes • Do not have a technical specialization but know how to do productive activities • Dedicate themselves to farming, production, commercial, service and diverse activities • Highly responsible and reliable • Good management of limited resources	• Men and women • between 18 and 60 years old • Situated in urban or rural areas • Employed by state or private companies • Have familial responsibilities • One year of stable employment	• Have limited economic resources • Businesses concentrated in urban and peri-urban areas • Rudimentary productive processes • Slow growth • Minimal ability to save or reinvest • Self-employed business owners with family help • Low sales volume • Varied products with diverse quality • Business income is mixed with familial needs • Do not have formal bookkeeping methods • Have their business location where they live • Are mostly commercial vendors, but also work in production, services and farming • Constitute an answer to survival

The strategy map
The development of the strategy map was accomplished with an amount of innovation in the case of Genesis. The standard strategy map is usually created in a pyramid form, developed from the top-down and when finished, read from the bottom-up. This usually means that the map needs to be explained to someone who is reading it for the first time. In the case of Genesis, they tilted the map so it now reads from left to right, and it does not require explanation, it is comprehensive and easy to follow from the first glance.

The map allows the management team and staff to clarify the links between different organizational areas, review the shorter-term inputs and the link to the expected results. As a consequence, a common understanding develops of the broader strategy and how each department and staff member fits into it. This allows everybody to work as one team and to align the goals at organizational, departmental and individual levels. In this way everybody supports the fulfillment of the mission.

Génesis Empresarial – Strategy Map



The Balanced Scorecard

The Balanced Scorecard is a very practical and applicable tool putting the different perspectives, objectives, targets and measures into the same diagram. The most interesting perspective in Genesis is the internal perspective, because this is where Genesis has carried out a lot of work to effect change.

Genesis developed BSC's for five perspectives, three of them are shown here as examples: the social, client and internal perspectives.

Social perspective				
Objective	**Lag indicator**	**Target: 1 year**	**Lead indicator**	**Target: 1 year**
To improve, in a sustainable manner, the quality of life of our clients' families by offering financial and non-financial services	% of targeted population served # of cumulative clients served from the target population Increase in the clients' capital Average income of clients Average family income Indicators of Social Impact (baseline data)	>7% 214,000 >20% >Q2,000 >Q6,000 ?	# of clients served within the targeted population # of active clients from the target population Average # of operations by clients % of active clients with more than 5 operations Number of Baseline Data	40,000 110,494 3 statistic 50% statistic 1

Client perspective				
Objective	**Lag Indicator**	**Target: 1 year**	**Lead Indicator**	**Target: 1 year**
Brand Positioning	Genesis positioning in the national survey	From 4th to 2nd place	Increase marketing budget	From 3% to 12%
Client Loyalty	Desertion Delinquent Lost Clients (with or without motivation to re-pay)	From 37 to 25% ideally 15%	ME, SE, BC Interest rate VIV Interest rate New financial products Terms Amounts	From 30 to 26-24-22-18% From 24 to 20-18% 3 ? ?
Satisfy financial and non-financial needs	Desertion	From 37 to 25%	New financial products SDE coverage	3 From 31 to 41 offices
Quality of Service	Desertion due to bad service	Reduce by 50%	Sequential Customer Services workshops	2
Develop strategic alliances with institutions that have a social focus	% of capital from socially-focused sources	From 25% to 35%	Contact new socially-focused investors	
Show social impact	% of clients with an impact indicator	100%	Meeting to define how to measure social impact # of hours in creating a social impact measurement system	2 40 hours

Internal perspective				
Objective	**Lag indicator**	**Target: 1 year**	**Lead indicator**	**Target: 1 year**
Operations Dept. evaluate process functionality	% evaluated processes	100%	Number of annual updates (foundation)	2
Update processes, manuals, methodologies, and regulations	# of updated policies & procedures # of updated bank policies & procedures (new bank products)	From 70% to 100% 100%	Number of annual updates (foundation)	2
Risk Management	% of controlled operational and credit risk	>80%	% of areas with integrated risk management in their activities: **operational**: [strategic, technological (activity: obsolete equipment, facilities), fraud, security, etc.] and **credit** (financial and business) Amount of training on risk management integration	100% 2
Client Dept. Standardize and facilitate customer service (marketing, sales, follow-up, client retention, etc.)	% of customer service standardization	> 80%	Customer service standardization training to all employees Number of people joining the team on Methodological Monitoring % of offices that are methodologically evaluated	2 4 90%
Systematically measure social impact in served sectors	% of clients with impact indicators	100%	Meeting to define how to measure social impact (indicators) Social impact measurement system	1 Reporting
Innovation Improve current physical infrastructure	Number of renovated branch offices	From 37 to 47 %	Assigned budget and renovation timeline Qualified construction firms	3.5 million Quetzales 2

Implement new risk management and methodological tools	Number of areas with implemented risk manage-ment and methodology	>80%	Number of people joining the team on Methodological Monitoring Risk management policies adapted to Genesis Design of indicators to measure risk man-agement	5 1 1
Develop complementary and integrated products and services	Desertion	From 37% to 25% (ideal 15%)	Number of imple-mented new products and services	3
Social & regulatory Monitor effect of changes to applicable regulation	% of regulatory changes ap-plication	100%	Area responsible for informing of relevant regulatory changes (daily official moni-toring) Hire firm that pro-vides changes	1 1
Applying international standards	% of international standards application	100%	Area responsible for informing of relevant changes in interna-tional standards Contact Superinten-dence of Banks and other sources that provide information	1 1

The communication tool
The communications tool is a perfect example of why the Strategic Management Toolkit is so successful. Genesis did not lack strategic planning skills before the implementation, what they lacked was working communications within the institution. The implementation team was disconnected from the strategic decision makers and the two teams were not aware of each others goals and targets. Everyone worked independently from each other. After the Strategic Management Toolkit implementation the whole organization now works together towards the same goal, the result of successful communication.

The second column in the communications plan, specifiying the purpose of the communications plan, is an important step in developing the process. It is important to understand that different departments and levels in the organization will have different information to communicate to different levels in the organization. The communications plan is an excelent tool to demonstrate this.

Worth noting in this case study are examples of communications with the HQ and the regions. In the regions communications bulletins were sent ahead, so that during the videoconference everybody was prepared and understood what was presented. The HQ did not prepare these and as a result there was more confusion and misunderstanding. Lessons learned – even communications events need preparation!

Communication plan

Audience (Who?)	Purpose (Why?)	Content (What?)	Frequency (How often?)	Delivery Instrument (Where & How?)	Communicator (Who?)
Board of Directors	Validation of institutional focus	Strategic map, perspectives, objectives, control board, goals and budget	Annual	PPT Presentation Board Meeting	General Manager (Executive Director)
New employees	Share and maintain institutional focus	Strategic map, perspectives	Bi-monthly	PPT Presentation Headquarters orientation processes	General Manager (Executive Director) or Planning Director
All employees	Share and maintain institutional focus	Strategic map, perspectives	Annual	PPT Presentation Video conference, and written communications	General Manager (Executive Director) or Administrative Counsel (2 people)
Regional Directors and Office Managers	Share and maintain institutional focus and evaluate follow-up	Strategic map, perspectives, objectives, control board, goals	Trimester (every 4 months)	PPT Presentation Regional Meetings	National Director or Headquarters representative
Each Branch, Department and Management (complete teams)	Direct participation prioritizing the strategic and its execution in the Operational Plan and modifications	Strategic map, perspectives, objectives, Balanced Scorecard, goals and detailed activities to be developed	Monthly	PPT Presentation Follow-up meetings	Area Manager or Director
Administrative Committee	Feedback, evaluation and modifications to the strategic direction	Strategy map, perspectives, objectives, Balanced Scorecard, goals, strategies and actions	Monthly	PPT Presentation Follow-up committee meetings	Planning Director

5. The implementation process of Genesis Empresarial

The preparation phase

When the decision to implement the Strategic Management Toolkit was made, representatives from all levels of Genesis were invited to participate in the workshops. A champion was selected from the planning team, who would know about the planning processes and where Genesis had found problems in the past.

Launching activities

In order to get to know the Strategic Management Toolkit an initial workshop was organized with an external facilitator.

The team participated in an intense 4-day workshop. Unfortunately the change of the ED position happened just before the initial workshop, so none of the Department Directors were present. The intensity of the workshop was mainly due to the absence of the ED, together with the fact that none of the participants had any previous experience with the concepts of strategic planning, or knowledge about the particulars of Genesis' strategy.

Another difficulty for Genesis having the workshop participants come to a consensus on how to measure the goals and objectives of the mission, especially defining quantifiable measures for the change in the target clients' lives. Every strategy, every objective and every activity should relate back to and support the mission statement (either qualitatively or quantitatively). To facilitate this process of deciding on measures, it could be of benefit for the external facilitator to have information on the target groups[1], in order for them to be able to take a constructive role in this discussion.

Internal development of the outputs

The initial Kick-Off Workshop was followed by a second one, the Learning and Action Workshop, after about six weeks. During the intervening period the outputs from the first workshop were completed, revised and perfected. The outputs from the Kick-Off Workshop included a clearly defined social mission, strategy map, SWOT analysis and communications plan. The development of the communications plan was of particular importance since the internal communications at Genesis was one of the previous problems.

One of the biggest obstacles during this interim period was to find the time needed to finalize the outputs. During a three-week period the implementation team got to work early and left late. Another challenge for Genesis was the lack of continuity of the participants in the follow-up work sessions. The group decided to take attendance at the weekly work sessions and review the level of participation from week to week. To guarantee the success of these meetings at least one person with decision making authority for each area needed to be present in every work session.

[1] For example the information could include: social impact studies of their work (help to clarify mission statement), detailed description of their clientele such as economic strata, % of potential market per region, city, etc., level of income of different client groups and % of portfolio by product.

Learning and Action process

Next steps		
Activity	**Date**	**Responsibility**
Describe in more detail the three aspects of the mission statement, specifically: • "Sustainable" • "Quality of Life" • "Non-Financial Services"	Mondays 15:00 (from 11 September to 6 October)	Whole team
Create an Action Plan (both general and for each functional area)	Mondays 15:00 (from 11 September to 6 October)	Whole team
Design a Management Information System (for all information other than portfolio management)	Mondays 15:00 (from 11 September to 6 October)	Whole team
Create a new Strategy map (a version that is more complete than the latest one but less detailed than the prior version)	20 September Mondays 15:00 (from 11 September to 6 October)	Whole team
Communicate the Strategy map and overall strategy to the whole staff	Mondays 15:00 (from 11 September to 6 October)	Whole team

After the second workshop, the Strategic Management Toolkit has been implemented for the strategy process within Genesis. By using the knowledge and methods learned during the pilot test, Genesis successfully implemented the Strategic Management Toolkit and BSC systems.

The planning for 2007 is being carried out with the BSC, basing it on the strategy map. The tool is in use already and will be used for the monthly follow-ups at the institutional level as well as each functional level. All plans have been reviewed to make sure that all strategic objectives are included and that there are actions to respond to each objective. All new and final actions, from all the members in the planning team, have been actualized in the BSC.

The outputs created from the pilot test were put onto the intranet making them accessible for all staff. This is also an important step for the communications in Genesis: now the mission, strategy, objectives, targets and actions are easily accessible to everyone in the organization. It is also an important step for the facilitation of the on-going use of the tool. Every manager can change their part of the BSC on the intranet, and the use of this technology can be a link in the reporting on the implementation progress. The general plan at the macro level is aligned with the budget and with a clear idea and perspective for 2007.

6. Key challenges

Good timing: *"it could not have been later nor earlier."*
The introduction of this new Toolkit had perfect timing and was very relevant to the issues that Genesis was encountering. Genesis is transforming from an NGO to a regulated institution. This process both threatened, and contributed to, the success of the implementation process because of the increased demands and need for more effective planning to implement the necessary changes.

Allocating time
The whole process demanded extra time and effort from all team members. During a three-week period all members worked extra hours, 07:30-9:30 daily, in order to make all of this happen.

To persist through the whole process
It is important to know and understand the whole process and its benefits. The challenge is to continue to work hard until the finish line. An understanding of the process, and particularly of the resulting benefits, will help keep participants motivated until they are finished with their work, so that they can achieve the desired results.

Buy-in from the Executive Director
A week before the Kick-Off Workshop Genesis got a new Executive Director. This was a potential threat because a lot of the participants did not know him and they did not know his views on the importance of strategic management and the Strategic Management Toolkit. The new ED supported the project even though he did not have the possibility to participate in the first workshop. Since the ED was new, the strategy map and the Balanced Scorecard wasn't presented to the rest of the staff immediately after the initial workshop but was instead postponed to a future date.

7. Success factors

Charismatic champion
Key for the success of Genesis was the support from top management and the new ED, but most importantly a competent and charismatic champion, Adela de Rizzo. She knew the organization well, was committed to the process, and put in the extra effort. She commented throughout the workshop about the value of the Balanced Scorecard, especially given the upcoming transformation of the institution. During the process, she would remind her colleagues of how difficult it had been for them in the past – using their old system – to follow-up, measure, and report on the degree to which their efforts were contributing to the strategy of the institution.

Commitment to the process
The willingness to put in the extra hours for the success of the tool requires a strong belief in the outcomes. The implementation team and the workshop participants worked hard realizing the process. They felt they learned something new and they were excited to see their ideas becoming concrete actions, the experience of successful teamwork. This was also a result of well structured follow-up work – the work was divided into separate tasks and integrated into the staff's everyday activities (they met twice a week to discuss progress).

Support from Board and ED
The new ED in Genesis was totally committed to the process. Having the buy-in from the Board and the ED was vital for this kind of restructuring. The ED saw an opportunity for professional strategic management using the Strategic Management Toolkit. He invested the time and effort needed for his key people – the 13 level managers – to spend the time necessary in order to successfully implement the tools.

8. Key benefits

Everyone now has a mutual understanding of the mission, strategy and the objectives
The Strategic Management Toolkit is efficient since it allows the representatives of all levels in the institution to participate in the process of creating the outputs. Having a mutual understanding significantly helps the institution to work in the same direction.

There are mechanisms in place to monitor whether they are drifting away from the mission
Using the BSC as a monitoring and evaluating tool will help in the future to stay focused on the mission and its fulfillment. The "important objective" is clarified and put into operational steps and

linked to targets and budget, in this way the “urgent objective” does not take the focus away from the activities which are aligned around the mission.

There are mechanisms in place to share this understanding with any new employee (an orientation process)
The simplified strategy map and the accessibility of the BSC facilitates the orientation for new employees to the mission and strategy. The BSC on the intranet with the target client definitions and objectives also facilitates the orientation process – in the past it could take up to 3 years for the employees to get the same understanding.

The nature of the tool requires teamwork and collaboration
It helps the institution in multiple ways since no area or person can implement the BSC alone. Another benefit is that the activities, processes and even the problems within the other units are shared and this helps to understand and feel that everyone is going in the same direction. That is, consistent, accurate and frequent communication about the BSC is critical to its success.

The personal and professional development of the staff
A frequently mentioned benefit was that the staff now has a better understanding of the strategies that support the institutional objectives, better knowledge about the BSC and how to use it, and of the planning process. Most importantly the staff now has a better understanding of the role everybody is playing in the organization and how they all contribute to its success.

Annex 3. Implementing the Strategic Management Toolkit: Case Study of MDF-Kamurj

by Michal Matul and Lusine Simonyan

1. Institutional background

MDF-Kamurj is a non-profit organization that provides small loans to support micro-entrepreneurship in Armenia. MDF-Kamurj began operations in September 2000 after a successful merger between Save the Children and Catholic Relief Services microfinance programs.

MDF-Kamurj believes that the way to rebuild poor communities in Armenia is to build bridges that connect them to greater opportunities. MDF-Kamurj's mission is to provide accessible, long-term financial and non-financial services to micro-entrepreneurs, particularly women, to improve their businesses and their families' well-being.

As of November 2006, MDF-Kamurj has seven branches, a staff of 90 and an impact area that includes Yerevan and eight marzes of Armenia. The organization has achieved an excellent reputation, organizational culture of teamwork, mutual support, customer satisfaction, professionalism, accountability and good quality of portfolio outstanding.

MDF-Kamurj achievements as of October, 2006	
Total number of micro-entrepreneurs served:	37,000
Total number of loans disbursed (cumulative):	104,185
Total amount of loans disbursed (cumulative):	US$ 45,115,950
Current amount of loans outstanding:	4,045,098
Current number of active clients:	9,195
Percent of women:	55.19%
Loan size:	US$ 50 - US$ 1,500 (in Armenian Drams)
Arrears Rate (greater than 30 days):	0.66%
Financial self-sufficiency:	122.1%
Operational self-sufficiency:	167%

2. Rationale for implementing the Strategic Management Toolkit

Having begun the transition to a regulated institution, MDF-Kamurj made the decision to reinforce its strategic management processes with the Strategic Management approach. The transformation process was expected to be an important change for MDF-Kamurj. In particular, the management was concerned by potential mission drift resulting from new regulations, new performance requirements and expected change in organizational culture.

In addition, MDF-Kamurj felt strongly that strategic planning using the Strategic Management approach would strengthen its market positioning, especially in rural markets, which MDF-Kamurj had recently entered and faced stiff competition from a rural commercial bank. This triggered MDF-Kamurj to better leverage its social mission to differentiate itself from commercial players.

Last but not least, the creativity of the staff was boundless; thus, it was high time for MDF-Kamurj to prioritize a long list of ideas for future intervention and select strategic themes, identifying those areas in which MDF-Kamurj must excel in order to realize its mission and stay ahead of competition.

3. Strategic management processes before

Like any professional organization, MDF-Kamurj has had strategic planning processes in place. Most of the strategic activities were carried out by the Executive Director and in consultation with the Board of Directors. Senior managers were involved in some activities, though it was rather ad-hoc. Strategy was usually communicated to the staff in the form of a 3-year business plan.

As a result, staff were knowledgeable about core strategies and planned business activities. However, most managers and other staff were a little bit lost with regard to how their work contributed to organizational success. Thus, managers were rarely taking their own strategic initiative and feeling responsible for the end results; it all ended up in the hands of executive director and the Board. The participatory approach was one of the most appealing factors of the Strategic Management Toolkit, as it promised to make staff internalize the organizational strategy.

4. Outputs

Mission as a starting point
To begin with, MDF-Kamurj analyzed its mission statement, trying to clearly describe and discuss each of its elements.

The deconstructed mission statement of MDF-Kamurj

Sustainability of institution
Building loyalty among clients

Provide **long-term,**

Fast service, affordable price, proximity, low requirements, wide range of services (loans, savings, leasing, BDS, etc.)

accessible financial and non - financial services

Business clients: hiring 1-50 employees
Vulnerable families: up to US$ 4 per day per capita

to micro and small entrepreneurs and vulnerable families

to improve their well - being.

Well being = met wide variety of needs: basic needs (covered food, clothing, education, health education, health expences); improved housing/living conditions, leisure, social life needs satisfied; stable future through sustainable business that provides income to cover this expenses and dedicated services that satisfy those needs.

SWOT and strategy
MDF-Kamurj's key strengths lie in:

- professional staff (client-focused, knowledgeable about clients, focused to the mission);
- strong financial sustainability;
- good customer service (individual approach in rural areas);
- quality products from the point of view of the institution (demand, balance between cost/benefit).

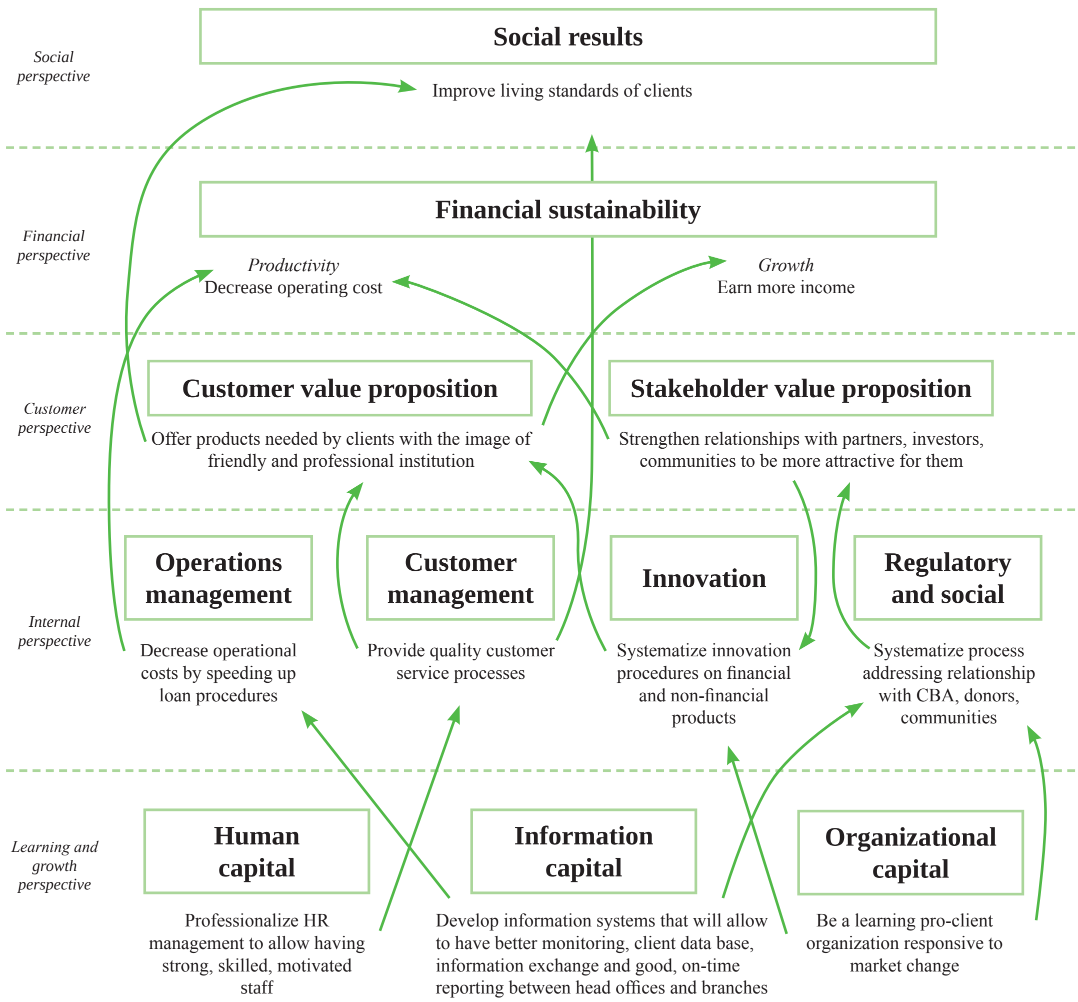
While key opportunities identified by MDF-Kamurj are as follows:

- rural market still untapped, thus possibility of geographic expansion and demand for new services;
- (upon completing transformation) complementary efforts between credit organization and foundation (creating possibility to provide financial and non-financial products).

MDF-Kamurj's strategy builds on its mission and the SWOT analysis. It is to provide complete customer solutions and build lasting relationships with clients and like-minded partners in order to be a leader on the lowest market segment, especially in rural areas. MDF-Kamurj's strategic target group is rural households with small farm activities. This group is vulnerable, large enough and concentrates employment in Armenia. Thus, it ensures sustainable growth for the institution while adhering to the mission. Enterprise loans are a necessity to sustain or grow economic activities of target group representatives. However, agricultural businesses cope with serious market access barriers. Thus, business development services should be provided for this group as a next step. This means looking for new partnerships with professional local development organizations who serve rural businesses.

Strategy map
Strategy as presented above was still abstract for most of the staff. It was when the MDF-Kamurj staff started working on the strategy map that they were able to tell the full story of their organization. This helped the MDF-Kamurj staff to understand casual links between its mission, strategic objectives and all the actions towards its implementation. What was the most useful was linking intangible assets (human, information, organizational) and core internal processes with broad strategies towards the mission, financials and customers. Each functional manager and her/his team members now have a clearer idea of the priorities and the tasks that will allow them to excel and to contribute to the success of the organization. The strategy map was a useful tool for communicating the strategy in such a way that everybody understood it.

Simplified strategy map



Measurable and actionable path towards success

Developing the Balanced Scorecard is the next step, as it makes the strategy implementation measurable and actionable. Based on the strategy map, MDF-Kamurj has developed a measurement system and action plan to monitor performance towards the realization of strategic objectives. A sample extract of the Balanced Scorecard and Action Plan is presented below.

Perspective	Strategic statement	Objectives	Balanced Scorecard				Action Plan for October 2006 - September 2007		
			Lead indicators	Lead measures (targets)	Lag indicators	Targets for Dec. 2009	Sample actions	Person responsible	Deadlines
Social	Improve-well being of low-income families by increasing the outreach and offering client focused services.	Increase outreach to low-income families in both urban and rural areas.	1. Improve service processing. 2. Penetrate new geographical areas. 3. Maintain the average loan size.	1. Minimize loan processing time to less than 10 days. 2. Open 2 new branches/ 3 outlets. 3. 200,000 dr per client.	1. Increase the number of clients from low-income families. 2. Ensure in-depth growth.	1. 2,450 clients by annum. 2. 70% through retention.	1. Open and make operational new branches. 2. Refine existing standards and procedures (both rural and urban).	Operations Manager, Marketing and PR Manager, Rural Services Coordinator.	September 2007
Customer	Strengthen relationships with partners, communities to be more attractive for cooperation.	Increase attractiveness to investors and donors.	1. Maintain an image of a learning professional organization. 2. Actively participate in local and international networks, maintain direct relationship with potential donors.	1. Active participation in different research and innovation related projects. 2. Provide quarterly/ annual internal reports, disseminated locally and internationally.	1. Attract technical assistance, investors and donor funding. 2. New markets, new clients.	1. Investors and donors funds (not less than $ 1 million worth). 2. Add at least 7,100 new clients.	1. Strengthen fundraising activities. 2. Develop and activate dissemination of PR information about MDF-Kamurj foundation and Co.	Board, Executive Director, Marketing and PR Manager.	September 2007
Learning and Growth	Professionalize HR management and increase investing in staff.	Organize workforce capacity.	1. Conduct trainings and experience exchange, select and build product/service champions. 2. Strengthen middle management independency.	1. Conduct semi-annual and annual evaluation of the staff. 2. Organize annual recognition meetings for the staff.	1. Have professional and highly satisfied staff. 2. Maintain staff turnover less than 15% per annum.	1.Have trained and operational HR, finance, loan departments.	1. Mobilize a task force team working on new incentive system. 2. Conduct semi-annual corporative meetings. 3. Hire and train staff for HR department.	HR Manager, Marketing Manager, Operation Manager, CM/ BM, Rural Coordinator, Executive Director.	September 2007

5. Process of implementation

The Strategic Management implementation was a good mix of technical inputs from the external facilitator and internal team work. Key stages of the process were as follows:

Preparation
Spending as much as 3-month time on preparatory activities significantly paid off in the future. Key activities in the preparatory phase focused on consolidating the strategic information and organizing the implementation team.

External consultants helped to consolidate all the strategic information with regard to environment, institution, market and competition. A workshop with senior management was conducted to describe current strategic position and consolidate current organizational strategy.

As strategic management is about people – their knowledge, skills and commitment – selecting an internal champion and implementation team is of utmost importance. MDF-Kamurj's experience shows that much more time is needed for this task. It is not just calling people on another meeting. It is advisable that the Executive Director meets individually with all candidates to discuss the importance of strategic management. Each candidate should be asked how he/she sees his/her contribution to the process. These talks build some initial buy-in and help the Executive Director to select a champion and decide on the team composition. The team consisted of a Marketing Manager, 2 Credit Managers from Yerevan branch, a Rural Lending coordinator, and 2 experienced loan officers. Last but not least, selecting a Marketing Manager as the champion at MDF-Kamurj was a good choice because the person was an experienced staff member with authority and decision-making power.

Launching activities
To launch the Strategic Management implementation, a 4-day workshop was held. The workshop was externally facilitated and brought together the Executive Director, senior management, the champion and the implementation team. Wide representation by the management paid off in the future as the implementation team had an easier time working with different departments. The workshop had two objectives: building skills to develop the strategy map and the Balanced Scorecard; practicing to communicate them.

The outcomes of the Kick-Off Workshop received very favorable evaluations from participants. The participants felt the workshop improved their understanding of the organization's mission and priorities for the next period. Their recognition of the role they play in the overall success of the organization and their ability to work in the team were also positively perceived.

Internal development of the Balanced Scorecard
The workshop was followed by 6 months of internal work devoted to the development of the Balanced Scorecard. Before actual development, the draft outputs from the workshop (deconstructed mission statement, SWOT, strategy map) were consolidated and presented to MDF-Kamurj senior and middle management.

The most difficult task in the development process was to identify a clear and easy-to-use set of lead and lag indicators for each strategic objective. For most of the perspectives, this was the first time in the history of the organization that such indicators were being set. Even if in theory it looked easy, more external help was needed at this stage. In addition, one must remember that this is a back and forth process of communication with different departments. That is why ample time and resources need to be allocated for this task.

Learning and action processes

As the Strategic Management approach is very practical and focused on doing, a good mechanism for learning and action planning needs to be in place. MDF-Kamurj organized a series of Learning and Action Workshops, which provided a platform for troubleshooting and communication. The first workshop was organized 6 months after the Kick-Off Workshop. Additional workshops are slated to be held more frequently – every 2 months.

Learning and Action Workshops played an important role in maintaining staff buy-in and keeping momentum of all the activities. New ideas generated during the workshop significantly enriched final outputs from the process.

Moreover, in the case of MDF-Kamurj there was a need for more technical inputs (i.e. setting indicators) throughout the process. These inputs were provided by consultants through distance mentoring in between the workshops.

6. Key challenges in the process

MDF-Kamurj identified the following key challenges in the process:

- **Staff time** – as not enough time was spent to build buy-in before the implementation, it was difficult to involve those members of the team who work in operations in an effective way. It posed less of a challenge further in the process when better planning was applied.
- **Timing vis-à-vis transformation** – staff have felt that the implementation should have started before the transition. In fact, the Strategic Management process was launched when intensive works to prepare for the transition were already in place. This jeopardized the effectiveness of the process and made planning difficult.
- **Timing vis-à-vis seasonality** – As rural lending is an important share in MDF-Kamurj's portfolio it was difficult to follow the Strategic Management process in the peak season.
- **Composition of the team** – due to some turnover on management positions financial and MIS managers were not part of the team. In MDF-Kamurj case the lack of financial perspective was felt the most acutely.

7. Key benefits

At this point in time it is too early to evaluate to what extent Strategic Management was useful in **avoiding the mission drift during the transition process and in better positioning in the market** – two key issues which triggered MDF-Kamurj to implement Strategic Management. However, more clarity about the mission and the market to be served, mentioned as one of the most important benefits to-date, gives a reasonable foundation to claim that Strategic Management has made a positive contribution to better social performance and competitive positioning in the market.

In general, the process of Strategic Management implementation in MDF-Kamurj has had a positive effect on the **organization's capacity to develop and implement a meaningful strategy**. This was especially evident after the Learning and Action Workshop – all participants felt it would be easier for them to communicate both the mission and strategy to the staff, they understood the value and importance of team work in developing and implementing a strategy and felt more comfortable in implementing the strategy. More specifically, the Strategic Management approach helped MDF-Kamurj **to define priorities and provided tools for ensuring that they will be implemented**. It is even more important in the context of many changes driven by the transformation into regulated financial service provider, when realizing short-term objectives is so urgent that it is difficult to balance it with critical long-term initiatives.

Based on the participants' feedback about the Strategic Management approach, it is clear that the process was useful not only for the organization but also for the **professional development of the staff**. Even though the majority of the participants were not in the management positions, most were able to benefit at a personal level. Among most important aspects were:

- Learning new knowledge and skills in strategizing;
- Better understanding of the organization's mission and strategy;
- Gaining knowledge of how to implement strategy and, more specifically, a better understanding of the interrelation and interdependence between different departments of the organization;
- Improving communication skills;
- Enhancing ability to work in a team to jointly develop solutions for the entire organization;
- Having an opportunity to get away from everyday operations perspective to think about the appropriate directions for the entire organization.

Annex 4. Implementing the Strategic Management Toolkit: Case Study of NGO Manuela Ramos - CrediMUJER[1]

by Katarzyna Pawlak and Ever Luis Egusquiza

1. Institutional background

Manuela Ramos (MMR) is an NGO that has worked for the equality of rights between men and women, and the development of Peru since 1978. Today, it is a solid institution that offers advisory services, research, dissemination and legal services relating to reproductive, social, economic and legal rights for women of the nation's many diverse cultures.

The vision of MMR is to provide men and women with a worthy life that guarantees equal human rights and social justice. The NGO works in four areas: right to a life without violence, economic rights, political rights and citizenship, and sexual and reproductive rights.

Since 2001, the MMR has run a financial division called CrediMUJER, which uses the village banking methodology to provide financial services (loans and savings) to poor women.

Statistics of CrediMUJER, Microfinance Unit of MMR (as of April 2005)	
Number of personnel:	50
Number of active borrowers:	10,600
Average loan balance per borrower:	US$ 186
Woman borrowers:	99,9%
Gross loan portfolio:	US$ 1,822,379
Borrower/staff:	196
Share of rural clients:	60%
Financial sustainability:	113%

2. Rationale for implementing the Strategic Management Toolkit

At the beginning of the *Maximizing Social Performance through Purposefully Driven Microfinance* project, CrediMUJER, like many other MFIs, had mastered the systems for operational management. It was very efficient in executing its annual plan; however, it lacked a system for effectively developing, implementing and managing a balanced and measurable organizational strategy. The lack of systematized strategic management processes made it difficult to distinguish strategic from operational activities and, in consequence, focus on what was really important to its long-term success. Very often, longer-term activities, although seemingly key to the MFI, were put aside as resources were allocated to more urgent on-going activities.

The planning processes were limited to setting annual financial targets for the organization as a whole as well as each regional office. There were no targets set with relation to social performance. Every year, the management met with regional heads to program the annual targets. The mechanism for progress monitoring and control was in place only for financial measures while the achievement of social objectives was measured by periodic impact studies conducted one every few years. Additionally, the system for monitoring the realization of action plans was lacking a link to the organizational strategy.

[1] CreditMUJER is a financial division of NGO Manuela Ramos.

In this context, implementation of the Strategic Management tools was expected to professionalize and systematize strategic management processes and closely link strategy to operations. MMR wanted to identify cost-effective indicators to monitor and manage the fulfillment of strategy including social performance. The intention was to focus the every day work of the whole organization on its key priorities and allocate sufficient resources for the successful attainment of both organizational short and long-term plans in line with the MMR Mission.

3. Outputs

As a result of the Strategic Management Toolkit application, the following tools for on-going strategic management were developed and outputs produced:

- Reformulated mission and vision of the organization
- SWOT analysis
- Strategy Map for the Organization
- Strategy Map for the Regional Offices
- BSC measurement tool for the Organization
- BSC measurement tool for the Regional Offices
- Organization-wide and regional level action plans
- Flowchart of the strategic management process at CrediMUJER
- Standardized description of the strategic management process and its activities
- Strategic budget
- Operational budget aligned to strategic objectives
- Management contracts aligning individual objectives of the staff with the strategic objectives of the organization

Mission as a starting point
To begin with, CrediMUJER analyzed its mission statement, trying to clearly describe and discuss each of its elements. As a result, the mission statement was reformulated to better reflect the interpretations provided by the leadership and staff.

> CrediMUJER is a unit of the MMR which contributes to exercising the economic rights of entrepreneurial women in businesses with limited and vulnerable resources, starting with financial services and promoting sustainable savings with shared guarantee and social control. Working in the rural zones and in the urban marginal in regions outside Lima, CrediMUJER strives to inculcate a culture of gender equality, honesty, respect, solidarity, responsibility and democracy.

> CrediMUJER is a unit of the MMR which facilitates access to financial services and the promotion of savings among entrepreneurial women in businesses with limited and vulnerable resources, in the rural zones and in the urban marginalized areas, contributing to their economic growth and autonomy in decision-making.

Additionally, the vision statement for 2009 was developed describing the desired future state. The vision talks about both the institution and the client to reflect the interdependence of MFI success and client success.

The organizational strategy
The team identified two main components/strategic themes around which a balanced strategy related to both financial and social performance should be built:

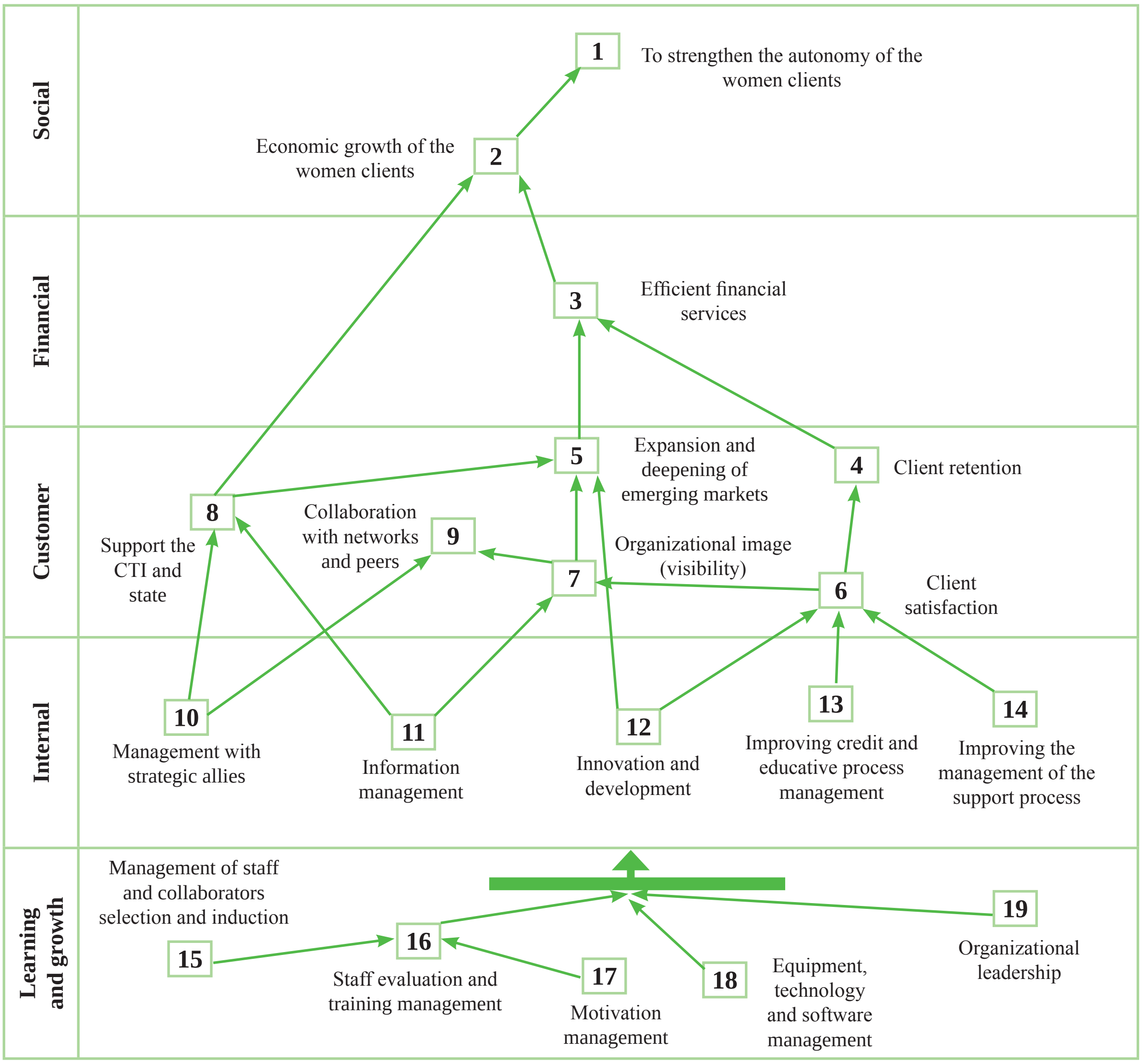
- Contribution to the economic growth of the NGO clients;
- Sustainability in the financial service delivery to women.

The organizational strategy was created to focus on the improvement of current processes, as well as the development of a human resource policy that would enhance the competencies of the CrediMUJER staff. Additionally, the strategy also addressed the need to promote a more innovative organizational culture capable of developing and adapting services to the poorest segments of the market.

The strategy was developed after having analyzed the current strategic position of CrediMUJER using the SWOT (strengths, weaknesses, opportunities and threats) analysis.

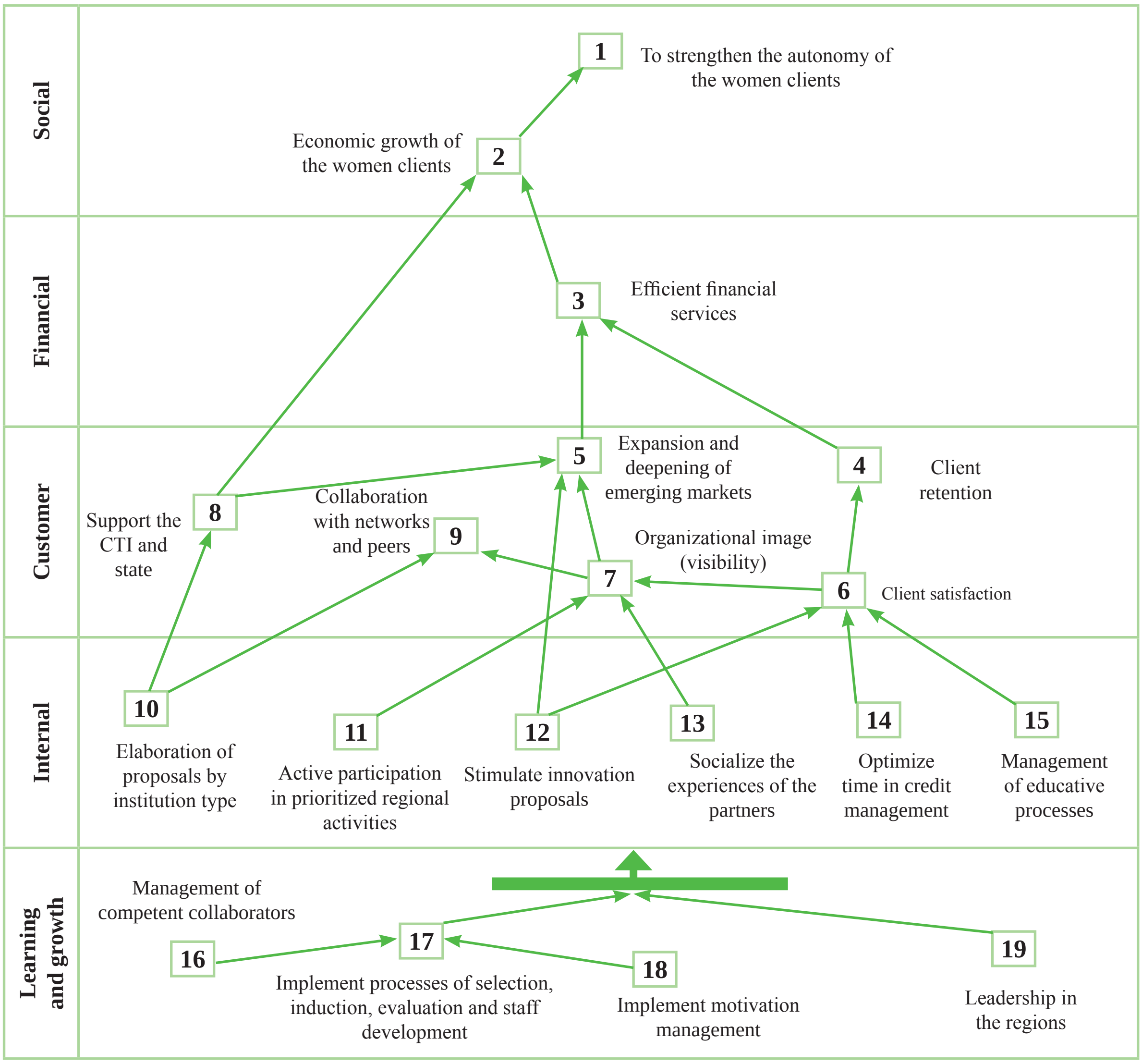
Strategy map

The strategy map was developed to further concretize the strategy and make it easier to communicate. Visualizing different strategy components and causality links between them helped the team to make the strategy more detailed, comprehensive (in terms of reflecting different organizational areas) and aligned. The results expected in terms of **financial** and **social** performance were linked with results required by CrediMUJER's key **stakeholders**: clients, partner, and the state. Key areas inside the organization, in terms of changes to the **processes** of operations, innovation, external relationships and customer management, were identified. Additionally, the necessary investments in intangible assets (knowledge, people and organizational culture) were highlighted to show how the required **learning and growth** will be achieved.



In this way, the mangers and staff developed a one-page tool that can be used to communicate organizational priorities to others as well as be kept for reference in every-day work.

To facilitate the work of regional offices, the strategy map was refined to better reflect the cascaded strategy at the regional level. This particularly helped the regional offices to focus on key areas within the organizational processes and bring attention to key sources of learning and growth for their regions so that their activities contribute to the overall organizational results.



Measurable and actionable path towards success

The next step was to translate the strategy and the identified strategic goals into SMART objectives to make the strategy implementation measurable and actionable. Based on the strategy map, CrediMUJER developed a measurement system and action plan to monitor performance towards realization of strategic objectives at both the organizational and regional levels.

Expected results

Perspective	Objective	Indicator
Social	To strengthen the autonomy of women clients	% of women clients who have improved their health
		% of clients who have improved their resistance against violence
		% of women clients in CrediMUJER who use credit
	To contribute with economical increase for women	% of women clients who reached their goals
		% of clients who increase their business yields
		% of women clients who improve their activities
Financial	To offer efficient and sustainable financial services	% of financial sustainability in CrediMUJER
		% of decreasing costs of granted credit
		% of increase in the active portfolio
Customer	To consolidate the permanence of the clients in the communal banks (maintaining the actual market)	% of women clients in CrediMUJER who used services actively for at least 2 years
		% of clients with voluntary first circle withdrawals vs total withdrawals
	To expand and deepen the financial services of CrediMUJER in emerging markets	% of clients in conditions of poverty vs the whole portfolio
		% of new clients in new zones vs all clients
		% of new clients who receive credit for the first time
	To improve the satisfaction level of the clients of CrediMUJER	% of satisfied clients vs all clients
	To improve the position of the institutional image in CrediMUJER	% of new clients who enter by reference from other clients
		% of clients who actively participate in public tenders vs all clients
		% of clients who participate in meetings in BBCC and capacity projects of MYPES of MMR
	To secure financial resources from the CTI and/or the state	Amount obtained from CTI vs the total revenues obtained
		Amount lent by the state vs total amount from a third party
		% of amounts collected vs the required total
	To establish cooperation between networks and partners	Amount of total savings vs the whole budget of CrediMUJER
		Personnel activated through networks and allies

Organizational Balanced Scorecard and Action Plan			
Perspe-ctive	**Objective**	**Indicator**	**Action Plan**
Internal	Implement management strategy with strategic allies	% of firms vs the total management with agreement with the state and CTI	Design of the fund management model (application of financial protection)
		% of actions with centre and region vs the total plans	Map out the necessities matching the networks and partners
	Implement an information and diffusion strategy in CrediMUJER	% of regional heads who utilize the information systems	Update and systematize the socioeconomic information of the clients
		Time put into financial, socioeconomic and market reports	
		Time for information analysis	
	Develop and implement an innovative behavior in the financial products of CrediMUJER	Number of new products introduced to the market	Plan of design, development and control of products
		% of new financial products	
		% of implemented initiatives vs the total initiatives	
	Permanent improvement of the credit processes	Time put in of the BBCC on performance costs	Redesign of the process and tools in credit management
		Time of credit officials and administrative personnel vs time of all labor	
		% of time decreased in the delivery of credit	
		Improved processes vs total processes defined	
	Improve the support processes	Number of implemented actions vs the total defined in PE	Implementation of the strategic planning process
		Financial bottlenecks vs the total defined by Manuela Ramos	Elaborate the proposal of redesign the support activities

Learning and Growth	Improve the personal competences in CrediMUJER	% of personal evaluation for competence defined for CrediMUJER	Design implementation of the organizational structure and management of HR for competences
		% of staff who reach the minimal competence required	
	Improve the selection, induction and capacity processes of the staff	% of deserting staff	
		Staff capacity compared with all staff	
	Improve personal motivation of CrediMUJER staff	Staff responsible for note 4 and 5 of their satisfaction level in CrediMUJER	
		% of staff who reach improvement proposals in relation to the function it addresses	
	Optimize the use of equipment and software in CrediMUJER	% staff with adequate equipment and software for the required functions	Plan of acquisition, evaluation and use of equipment and software
		% of staff who have effective use of the equipment and software	
		Time spent integrating the information in CrediMUJER for administration of the NGO Manuela Ramos	Development of an application of general interface
	Develop an organizational leadership style in CrediMUJER	Leadership in CrediMUJER established with the 360 degree method (increasing and decreasing evaluation)	Implementation of the leadership model
		% of practical values for all the staff vs total staff	

Regional Balanced Scorecard and Action Plan			
Perspe-ctive	**Objective**	**Indicator**	**Action Plan**
Internal	Optimize costs and capacity of staff and clients	% of staff capacity in the regions vs. the total capacity	Design the capacity plan for staff and clients
		% of clients who have improved their resistance against violence	
	Participate actively in the prioritized regions	% of areas which participate vs all the prioritized areas	Design the instruments for prioritizing public regional events
	Provide an attitude of innovation with the staff in the regions	% of accepted suggestions vs total number of suggestions	Revise and propose of the strategy of recognition to the regional staff
		% of staff who contributes suggestions vs the whole staff	
	Combine the experiences of the partners	Identified experience vs all clients	Revise, propose and apply the experience of the socialization process (including tools and criteria)
		Staff who participate in public tender	
	Optimize the time spent in credit management	Time for meeting the BBCC balance	Design the capacity plan for staff and clients
		Time of credit officials and administrative personnel vs time of all labor	
		% of less time spent of the delivery of credit	
		Processes improved vs total number of defined processes	
	Implement an education management process	% of clients with contacts in the BBCC	
		New areas and modified methods	
Learning & Growth	Competence management	% of staff who reach the minimal criteria of competence	Design capacity plan for staff and clients
		% of clients who have improved their resistance against violence	
	Implement selection, induction and capacity processes	% of deserting staff	Revise, propose and apply selection, induction and evaluation processes and capacity of the staff
		Staff capacity compared with all staff	
	Implement motivation management	% of the staff who actively participate in the management meetings in the region	Revise and propose the strategy of recognition to the regional staff
		% of staff who support improvements and innovation	
	Promote the organizational leadership style to the heads in the region	Leadership in CrediMUJER established with the 360 degree method (increasing and decreasing evaluation) % of practical values for all the staff vs total staff	Revision, proposal and application of the leadership model
		Staff who participate in public tender	

4. Process of implementation

The Strategic Management implementation was a good mix of technical inputs from the external facilitator and internal team work. Key stages of the process were as follows:

Preparation

Analysis and systematization of the strategic management processes

Although the preparation phase took quite a while, the activities undertaken paid off significantly in the Strategic Management implementation. The preparation started with a meeting of the Managing Director, Credit Manager and external facilitator and was devoted to identifying the current mechanisms, planning the implementation process and agreeing on final components of the strategic management process. This resulted in the development of a strategic management process flowchart, a description of the process and process activities.

The mapping of the strategic management processes was very important later on in the context of applying the Strategic Management Toolkit. The Balanced Scorecard or any other strategic management tools cannot be developed in a vacuum but, rather, within a context of on-going organizational processes of strategy planning, operationalization, implementation and control. As was mentioned before, the strategic management process in the NGO was not very systematic, thus it was necessary to add new processes or systematize existing ones before moving to the tools development itself.

Identifying the team

The team assigned to carry out the Strategic Management implementation consisted of the Managing Director, the Credit Manager and regional managers. It was very important that from the very beginning the Managing Director understood her responsibility for strategic management in the organization and disclosed necessary leadership and commitment to the process to make it a very high priority activity in the organization.

Identifying necessary information and collection methods to support future strategic analysis

To prepare for the implementation process, all necessary information about the organization's past experience and performance was identified and responsibility of collection assigned. The Managing Director was supposed to review financial and social performance, while regional and unit managers were reviewing their functional performance in preparation for future strategic analysis of the organizational position.

Launching activities

To launch the Strategic Management implementation, a 4-day workshop was held. The workshop was externally facilitated and brought together the implementation team led by the Managing Director. The wide representation of the management paid off later because the implementation process involved the whole organization, both headquarters and regional offices.

Firstly, the team reviewed the mission and vision of the organization. It was emphasized that the participation of the organizational leaders is key. Only then will the visualization and clarification of the mission makes sense to the staff, as they are sure that this is what the leaders want to apply in every day practice.

Next, the team developed a draft strategy map based on the analysis of its strategic position. In the process of developing the SWOT analysis the team found the previously conducted organizational diagnosis very useful to identify organizational strengths and weaknesses and get external expert support to talk about microfinance industry growth prospects, poverty, and rural development.

Internal development of the Strategic Management tools
As one of the Management's key challenges was devising a way to integrate the strategy and organizational level balanced scorecard into the organization's operational plan; as such, it was decided that after the launching workshop, the first communication event would be devoted to presenting the tools and cascading them with the staff to branch level. Each branch manager met with their staff and presented the outputs of initial workshops and worked together with them to adapt the tools to their regional context.

In the beginning, the communication of the strategy map was a bit difficult, but with experience it became quite easy. Especially when they realized that while the map is constructed top-down the best way to explain it is following the bottom-up order. This helped the staff to better understand the strategy of the NGO and propose ways to improve the map. In the end, all the regional managers sent back revised strategy maps to the headquarters.

Once the regional strategy maps were developed by the regional managers, the Managing Director, with the support of the external facilitator compiled, them into two strategy maps – a revised organization-wide map and regional map – making sure they reflect both the interest of the particular regions but also the principle strategy of the NGO.

Further work considered cascading the Balanced Scorecard to the regional level, as well as development of the organization-wide action plan. Individual contracts for management were developed in relation to the determined strategic objectives and actions linked to the budget and integrated into operational plan.

Learning and action processes
To make sure that the development process is on the right track and improve the Strategic Management implementation, there is a need for a learning and action mechanism to be put in place.

The first Learning and Action Workshop was organized 2 months after the Kick-Off Workshop to reflect on the experience of communicating the organizational strategy map to the regional staff and the bottom-up development of the strategy map for the regions. During this workshop, further work on action planning and cascading the Balanced Scorecard to the regional level was undertaken. The management also realized that, in order to prepare the staff for the strategy implementation, it was necessary to develop an annual capacity building plan to support realization of the strategic objectives through the implementation of the strategic actions.

The next Learning and Action Workshop was held at the beginning of 2007 to revise the experience from cascading the tools to individual level and linking them to operational plans and budgets of the organization as a whole, per unit and regional office.

Learning and Action Workshops also played an important role in maintaining staff buy-in and keeping up the momentum of all the activities, as well as providing additional technical input from COPEME. It was also an opportunity for the President to reinforce the on-going nature of the process and motivate the staff to continue with strategic management tools and process.

Matrix of the implementation process																											
PA1	**Action plan**	Institutionalize the strategic management process																									
Action plan objectives		1) Implement the tools at the organizational and regional levels 2) Link management contracts with the strategy plan																									
Nº	Activities	Pto (S/.)	Oct		Nov		Dec		Jan		Feb		Mar		Apr		May		Jun		Jul		Aug		Dec		Person in charge
			I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	
1	Finalize the flowchart of the strategic management process to be systematized (this action plan)		x																								Gloria Diaz / with help from COPEME
2	Review and systematize the current strategic management process			x	x	x	x	x																			Jorge Nuñez / GG
3	Develop the strategy map and the measurement system at the organizational level		x	x	x	x	x																				GG / COPEME
4	Describe and prioritize the action plans (strategic initiatives)					x																					GG / COPEME
5	Extend the strategy map and BSC measurements to regions					x	x																				SR / GG / COPEME
6	Organize an Action and Learning Workshop of BSC in the regions and HQ					x	x			x	x			x	x			x	x			x	x				GG / COPEME
7	Link strategy to the operational plan and budget				x	x	x	x	x																		GG
8	Communicate the strategy plan to directors, managers and staff						x	x	x																		GG
9	Elaborate management contracts for all staff						x	x	x																		GG
10	Develop an annual plan of evaluation and follow-up								x	x																	Jorge Nuñez / GG / COPEME
11	Implement mechanisms of progress control, learning and follow-up									x	x	x	x														Jorge Nuñez / GG
12	Evaluate the tools													x							x					x	Jorge Nuñez / GG / COPEME
13	Collect and analyze information						x			x			x			x			x			x			x		Jorge Nuñez / GG
14	Annual revision																						x				Jorge Nuñez / GG

5. Key lessons learned from the process

MMR's implementation of the Strategic Management Toolkit has identified the following lessons learned:

- Implementation of the Strategic Management Toolkit should be integrated within the broader strategic management process: it is important to map out the existing strategic management processes upfront and systematize the activities, explaining and deciding on whom?, what?, when?, how?, etc.
- It is valuable to support subjective analysis of the internal and external environments with some objective data coming from institutional evaluations, the MIX, rating reports, etc.
- To operationalize the strategy it is necessary to cascade the tools to the regional, unit and individual levels and to make sure all the actions and activities undertaken within the organization are aligned and support the realization of the organizational strategy.
- Include different level of staff in different phases of the process and Strategic Management implementation: it is especially important for the operationalization and implementation part to involve all the staff, as they are the ones who are implementing the activities every day.

- It is important that strategic objectives are defined by top management and they are held responsible for their organization. If the strategic management lacks commitment at the highest level the strategy realization will not work out.
- Linking the strategy with operational planning in the annual budgeting process is key to strategic success: the biggest challenge is to budget the strategy. Only operational plans obtain proper financing and the strategy part remains under budgeted. As a result, the key focus remains on every day activities and urgent things since there is lack of resources to deal with important things. In this way, short-term objectives are realized at the expense of long-term plans.

6. Key benefits

The following key benefits were identified by the Manuela Ramos staff after completion of the tools development process:

- The Strategic Management Toolkit helped CrediMUJER to clarify its strategy and emphasized the need for systematic measurement of strategic progress at the organizational and regional level.
- The strategy was balanced, incorporating social performance priorities to complete financial performance aspect of the mission.
- The tools helped to differentiate between strategic and operational actions and to identify where the main focus of the organization should be placed.
- The processes of strategic control and early warning with regards to accomplishment of strategic objectives were integrated at the organizational, unit and individual levels, setting necessary conditions for future monitoring of strategic success and stimulating strategic learning.

The process had also a positive effect on the organization's staff capacity in aligning their every day work with the strategy and the mission. The participants felt that they gained a clearer understanding of the strategy and how their every day work can contribute to the overall success of the organization. They stated that it would be easier for them to align their individual objectives to the mission and differentiate between important and urgent.

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