

Opportunity Bank Serbia: *Implementing a strategic plan for SPM*¹



INTRODUCTION

This case study is directed toward microfinance providers who seek to improve their social performance management (SPM) practices. The case of Serbian bank Opportunity Bank J.S.C. Novi Sad (OBS) highlights how an institution can implement a strategic plan for SPM in order to avoid mission drift.

The good practices discussed in this case study exemplify how providers can implement two of the standards found in the SPTF's Universal Standards for Social Performance Management:²

- Senior management oversees implementation of the institution's strategy for achieving its social goals (Standard 2a).
- Equity investors, lenders, board, and management are aligned on the institution's double bottom line and implement an appropriate financial structure in its mix of sources, terms, and desired returns (Standard 6B).

See the Annex for more information on how OBS's practices compare to the practices found in the Universal Standards.

BACKGROUND

Social mission: OBS was founded by Opportunity International in 2002. OBS's mission is, "to create jobs, stimulate small businesses and enable economic transformation of our clients and their families." OBS

currently focuses on rural households and the agriculture sector. OBS has received an A- Social Rating from MicroFinanza Rating (2013) and a Smart Client Protection Certification (2014).

Products and services: OBS currently offers credit, savings, insurance, overdraft, payments, and currency exchange services to its clients. Credit products, accessible under the individual lending methodology, are designed for business, agriculture, and retail needs. OBS's savings strategy is conceived mainly as a funding mechanism for the bank, resulting in minimal overlap between the higher-income clients targeted for savings and the low-income market segment targeted for credit.

Table 1: Key performance indicators

Area/year	2011	2012	2013
Borrowers	11,923	14,063	20,565
Loan portfolio (US\$K)	41,255	47,929	58,108
Savings clients	1,904	2,164	2,598
Savings portfolio (\$K)	31,743	43,919	48,212
PAR% (<30 days)	8.2%	6.9%	6.04%
Client exit	28%	37%	33%
Rural clients	37%	38%	39%
Outreach to women	35%	32%	36%
Staff (total)	190	198	215
Staff turnover	17%	10%	14%

Box 1: The Social Performance Fund³

The Social Performance (SP) Fund for Networks is designed to mainstream the new Universal Standards for Social Performance Management. The SP Fund works with 10 networks that run 18-month projects to document learning and experience around innovative solutions to implementing the essential practices of the Universal Standards. They also support their members to reach full or partial compliance with one or more dimensions of the Universal Standards. Supported by the Ford Foundation, the Fund is managed by the Microfinance Centre (MFC), a microfinance resource center and network serving the Europe and Central Asia region and beyond.

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²The Universal Standards are a set of management standards that apply to all MFIs pursuing a double bottom line. Learn more at www.sptf.info/spmstandards/universal-standards. All of the Smart Campaign's Client Protection standards are found in the Universal Standards.

³For more information visit www.mfc.org.pl/en/content/social-performance-fund

“When we became a bank in 2007, the misalignment among shareholders’ interests and the lack of a clear strategy created an impression that we were going to be just another ‘high-street bank’ but we and the OI Network realized that it was not the strategy we wanted to pursue.”
- Mirjana Panin, Marketing Manager

MISSION DRIFT

Pressure from shareholders: In 2007, OBS transformed from a small savings bank into a full service bank. After the transformation, shareholders asked the company to start targeting small and medium enterprises (SMEs), even though this focus contradicted the bank’s original mission. Additionally, OBS’s minority shareholders began pushing for higher financial returns—an ROE between 15-20%, while Opportunity International, as the majority shareholder, was satisfied with an ROE of 7.5% and profit distribution to benefit the clients first and foremost.

Mixed staff expectations: This significant change created expectations among staff that OBS would begin running its business like other “high-street banks” in Serbia, which typically focus on an urban middle-class population and larger business clients. This expectation led to a shift towards larger loans disbursed to the medium and small businesses and farmers.

While OBS had traditionally hired former employees of non-governmental organizations or people without previous banking experience, the bank began recruiting employees with formal banking experience to fill in the gaps in financial services knowledge and skills. These new employees were given limited information about the bank’s vision and mission during staff induction trainings, but there was no systematic “internal branding”—communication on the institution’s purpose and objectives that would guide both new and old employees toward a more consistent approach to the Bank’s intended target clients.

Financial trouble: In 2008, at the same time that contradictory shareholder demands and inconsistent staff expectations began to trouble the bank, the world economic crisis hit. A weakening Serbian economy sparked a rapid growth of non-performing loans. In 2009, the senior management team at Opportunity International recognized that the bank was not only in financial trouble, but also drifting significantly from its original mission and core target clients.

CREATING A NEW SPM STRATEGY

A new strategic direction: Recognizing the worsening problems of mission drift and portfolio decline, senior management commissioned an organizational assessment to look at the current situation and create a plan for the future. As a result of the assessment, the board and senior management of OBS created a new strategic business plan for 2014 to 2018. In order to achieve the new plan, OBS is implementing three significant strategic decisions:

- To return to a focus on low-income and rural target clients
- To strengthen communication between management and the board
- To adopt an SPM strategy as part of the overall business plan.

Strategy decision 1: Returning to the bank’s original target clients. After the assessment, the senior management and board at OBS decided to return to its original focus on underserved, low-income clients in rural areas. Sales teams were given a new mandate—reduced SME lending and focus on microenterprises. The bank offered sales teams new trainings and retreats to learn about the bank’s short and long-term goals, primary client target groups, and what makes OBS different from its competitors.

Strategic Decision 2: Improved communication between management and the board. A new CEO joined OBS in 2011 and played a key role in the integration of the Bank’s mission into all aspects of the bank’s operations. One crucial role was to establish an on going information flow between senior management and the board. The ultimate goal was to ensure a proper and constant oversight of progress made in the achievement of the new strategy and to avoid situations of misalignment between board and management.

With improved communication at the governance level, the board was able to more easily discuss and set profitability expectations. ROE expectations were adjusted down from 15+% to between 7.5% and 10%

and ROA expectations were adjusted from 1.5+% to between 1% and 1.5%.

As part of developing a more cohesive relationship between management and the board, OBS gave each senior manager a distinct role in managing the institution's social performance and also decided on roles for the board. Additionally, the Opportunity International Network supported OBS by nominating a new board representative with a strong social perspective, who provided guidance on how to fulfil the institution's new strategic plan.

Table 2 demonstrates the seven major internal stakeholders involved in developing and implementing the new organizational strategy, along with their specific role, and the time spent to accomplish their objectives. By involving stakeholders from all parts of the bank and giving each a specific role, OBS was able to cultivate a cohesive governance team.

OBS faced challenges when trying to align the goals of management and the board. During and after the

process of developing a new organizational strategy more oriented toward the institution's social goals, it became apparent that some of the minority shareholders did not value SPM as highly as Opportunity International. OBS realized that some financial and social expectations would not change until the ownership structure changed further and some minority shareholders exit the board. Looking toward the future, Opportunity International is seeking out socially-driven investors and also exploring the option of buying out all the shares. The new prudential governance policy, issued by OI, has been designed to ensure full mission alignment, while profitability expectations have been revised and shared among the current owners. OBS has included in its updated business plan (2014-2018), specific social objectives to be reached by 2018 (see box 2) and it is planning to add more once the new shareholder composition is finalized.

Strategy Decision 3: Adoption of a global SPM strategy.

In 2013, Opportunity International decided that SPM would be among its top priorities for its entire network

Table 2: Roles for managers and board

	Stakeholder	Role in brief	Time
Board	Majority shareholder (OI)	Defined SPM as one of the priorities for the entire OI Network and created the OI Global SPM Strategy	Six months
	Board of Directors	Attended a board presentation on the new SPM strategy and formed a board SPM committee	< 1/2 day
Management Staff	HR Department	Organized trainings and retreats for management and staff	2 a year for 2 days each
	Marketing Department	Formally adopted and consistently communicated the OBS mission and vision, both internally and externally	One month for adoption; 5 hours/month on communication
	HR and Marketing Departments	Staff and client satisfaction surveys to gather input for, and then feedback on, the new strategic direction	10% of working hours of 4 full-time employees
	Senior Management	Translated OBS mission into concrete goals and outlined them in Business Strategy Plan 2014 - 2018	4 members of management allocated 10% of their time over a period of 3 months
	SPM Champion and Senior Management	Conducted a series of meetings for management, board, and support staff on: SPM, Smart Certification, and social rating	10 hours in total over a six-month period
	SPM Champion	Held an SPM presentation for members of OBS Board of Directors set up the OBS SPM Committee	October 2013 (one hour)

of partner institutions. The organization adopted a “Global SPM Strategy”⁴ and asked the Marketing and Communications Manager at OBS to head the bank’s SPM initiatives, according to the global strategy. Once it was clear that social performance was a priority for the entire Opportunity International Network, the Marketing and Communications Manager was assigned the title of “SPM Champion” and subsequently the department was renamed “SPM, Marketing and Communications.”

OBS adopted Opportunity International’s SPM strategy and focused on adjusting its operations and processes to meet the industry’s SPM standards, including the Smart Campaign Client Protection Certification Standards and the SPTF Universal Standards for SPM.

The entire OBS senior management team participated in numerous meetings in order to learn more about the importance of the social mission and SPM in general. In January 2014, a Social Performance Management Committee was created at the bank board level. The Committee decided that OBS should endorse the Smart Campaign, and then undertake a Smart self-assessment and a social rating. Soon thereafter, the bank received Client Protection Certification. In addition, OBS became a member of the SPTF and began publishing social data on the Mix Market.

Adoption of clear social objectives. As part of the SPM strategy, OBS managers and board members set the following social objectives to be achieved between 2014 and 2018:

- To help create 100,000 new and sustain 150,000 existing jobs (for clients) by the end of 2018
- To have 40% of new clients categorized as “Poor” or “Very Poor” according to OBS’s internal poverty assessment tool by the end of 2014—and 50% by the end of 2018
- To enable 20% of renewed clients to progress to a higher poverty classification by the end of 2018 (e.g., movement from “Very Poor” to “Poor”)
- To be recognized as one of the best employers on the Serbian market, in order to attract quality staff members and enable all OBS employees to provide a safe future for their families.

Once Opportunity International announced that the primary focus of the entire network was social performance, we were initially puzzled because the level of knowledge about this topic within our bank was low at the time. But once we made ourselves familiar with the concept, we fully embraced SPM as an element creating huge value for the organization in terms of client, staff, and stakeholder relationships.”
-Vladimir Vukotić, OBS COO

LESSONS LEARNED

Clear and consistent communication of the mission

During the organizational assessment, it became clear that neither clients nor staff could consistently articulate the institution’s social mission and values. To address this shortcoming, OBS asked staff to become more involved in creating the institution’s internal and external brand. For example, staff were encouraged to suggest new slogans for promotional campaigns and to participate in public corporate social responsibility events aimed at creating a new and socially-focused public image for OBS.

To promote internal understanding of social strategy, OBS organized semi-annual retreats designed specifically for different types of employees (e.g., management, sales staff, back office employees).

Additionally, management was careful to increase communication with staff on strategic decisions, to improve staff buy-in to the new strategy. After key management meetings during the strategy-setting and implementation phases, OBS communicated the results of the meeting to the entire organization, helping all staff understand the decision making process and appreciate the organization’s efforts to create a more social-focused culture. The institution’s progress was also more visible to staff, which improved staff morale.

Assess your institution honestly

OBS was not afraid to have several in-depth assessments of both their social and financial performance and the bank believes that this was essential in allowing them to create a strategic plan geared toward improving their existing weaknesses. In addition to a full business assessment, the bank commissioned a social rating and a Smart Campaign Client Protection Certification mission,

⁴ OI’s Global SPM Strategy aims at building local expertise in SPM, improving social reporting to the network and donors and meeting the industry standards for SPM (i.e. Smart Campaign client protection standards, the SPTF Universal Standards for SPM and MFTransparency pricing transparency initiative).

both of which allowed OBS to detect the main weaknesses in its policies and procedures and build a new strategy for correcting these shortcomings. An honest look at the current operations, staff culture, board-management relationship, and other dynamics, helped OBS to ground its new strategy in reality and create a realistic implementation plan.

Recruit staff who are aligned with the social mission

OBS learned that is essential to recruit staff who have the skills, attitude, and experience to carry out the institution's social, as well as financial goals. One way to do this is to hire staff with diverse skills and experience—some more financial and others more social—and provide training to fill the gaps in staff knowledge. It is crucial that orientation training and on-going staff communications are designed to create a shared culture of excellent customer service and commitment to client well-being.

Due to pressure put on the bank to grow quickly and achieve high returns immediately after transformation, OBS did not prioritize a comprehensive suite of trainings dedicated to new staff. Looking back, OBS management believes that the transition would have been much smoother if the bank had invested more in building staff understanding and capacity through training, mentoring, and coaching.

Create a clear SPM strategy

The process of clarifying and re-engineering OBS's SPM strategic plan has helped the bank focus on its core mission. The process also reinforced staff awareness about the bank's priorities and the how daily operations are designed to positively impact clients. This new focus

Figure 1: Members of the Board visit a clients' business



has also allowed OBS to differentiate itself from other financial services providers and expand its market share. Additionally, as a result of receiving a high social rating grade and becoming Smart Certified for client protection, OBS has been contacted by several potential investors.

The internally developed SPM methodology has helped OBS keep its focus on its target clients (e.g., rural populations, small farmers, micro-businesses in a start-up phase, etc.). OBS sees the opportunity to help them grow their businesses, providing additional income for their families. This clientele is likely to become eligible for larger loans in the future, enhancing OBS's long-term financial sustainability. OBS considers the efforts made in SPM extremely beneficial for the bank and the costs incurred were not significant when compared with the positive effects they had on OBS's operations.

For more information:

Find more details on the topics presented in this case, please see the following resources:

Opportunity Bank Serbia: www.obs.rs/en

Opportunity Bank Serbia on the MIX Market: www.mixmarket.org/mfi/obs

Opportunity International: www.opportunity.org

Opportunity SPM 2013 Report: bit.ly/OISPM2013rep

Microfinanza Rating: www.microfinanzarating.com

The Microfinance Centre: www.mfc.org.pl

Social Performance Task Force: www.sptf.info

ANNEX 1: COMPARING OBS' PRACTICES TO THE UNIVERSAL STANDARDS

Dimension 2: Ensure Board, Management and Employee Commitment to Social Goals

Standard	Evaluation of OBS's practices
2a: Members of the board of directors hold the institution accountable to its mission and social goals.	The social commitment of the Bank is not yet perceived to be of equal importance among the different members of the Board. However, recent changes have been made in the members representing OI, reinforcing the social perspective of the governing body and representing a positive trend. Such changes will have to prove their effectiveness in achieving balanced decision making over time.
2b: Senior management oversees implementation of the institution's strategy for achieving its social goals.	The consideration of social performance in the strategic and operational decisions made by upper-level management seems to be of growing importance. OBS has included in its updated business plan (2014-2018), some specific social objectives to be reached by 2018. OBS has recently produced its new business plan for the period 2014-2018, where the targeted profitability is clearly stated. Among the various financial key performance indicators, the Bank has identified several social and outreach targets by product line, always related to the mission of the Bank. These objectives are measurable and have been given realistic timeframes.
2c: Employees are recruited, evaluated, and recognized based on both social and financial performance criteria.	The recruitment process and the induction trainings are well aligned to the mission. The mission, vision, values and target groups of OBS are used to filter candidates through interviews since the early steps of the recruitment process and are further analysed during the induction trainings. OBS clearly tries to differentiate itself from its main competitors in terms of social goals, and candidates are well aware of the institutional profile of the bank. The annual staff appraisal form covers the general standards of behaviour expected from all staff in order to be in line with the mission of OI (client respect, commitment to social and economic transformation, integrity, effective communication with clients, etc.).

Dimension 6: Balance Social and Financial performance

6a: The institution sets and monitors growth rates that promote both financial sustainability and client well-being.	OBS growth projections are approved by the board and give the bank a reasonable timeframe for achieving growth targets, in line with the bank's internal capacity and external factors. OBS takes into account external factors such as competition and client over-indebtedness, while planning its growth or the development of its products, though the bank's analysis of market penetration could be improved. Currently the market potential of a targeted area is estimated without a precise measure of the unmet demand, obtained as a difference between the eligible target population and the population already served by competition, which could be relevant in more competitive areas. The internal systems allow close monitoring of growth—product growth is monitored against projections while the breakdown of portfolio growth by branch is analysed on a monthly basis
6b: Equity investors, lenders, board and management are aligned on the institution's double bottom line and implement an appropriate financial structure in its mix of sources, terms, and desired returns.	OBS has recently produced its new business plan for the period 2014-2018, which was jointly created and approved by management and the board. However, OBS still suffers from some misalignment in the profit expectations of its shareholders, as its majority shareholder (Opportunity International) has lower profit expectations than some of the minority investors. The ownership is likely to change in the near future, leading to the exit of minority shareholders and to the consolidation of OI's position, significantly improving the balance of expectations among investors.
6c: Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being.	OBS is committed to offering products and services that respond directly to demand from clients. The bank regularly organizes client focus groups and client satisfaction surveys in order to analyze client need/demand and whether products and services offer value to clients for the cost. OBS's prices are overall competitive in the market and further cost reduction will be considered once bank profitability is consolidated. The bank has an interest rate policy that defines maximum margin that can be added to the cost of capital, operational and risk expenses, and inflation coverage. The margins are in line with bank's stage of development and social mission. The bank has also defined a reasonable field officer-to-client ratio and when it is reached, new field officers are hired in order to maintain high service and portfolio quality.
6d: The institution offers compensation to senior managers appropriate to a double bottom line institution.	The board supervises that top management compensation is line with the company social goals. The salary gap between the management team and field staff is low and the management team's salaries stand below the local benchmark. The bank provides transparent information on compensation upon request and it is included in the annual HR report prepared for the Board of Directors.