

From Mission to Action

Management Series for Microfinance Institutions

Quality Audit Tool for Managing Social Performance Overview



MICROFINANCE CENTRE
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Why a Quality Audit Tool for Managing Social Performance¹?

The microfinance industry recognises that performance should be managed not solely on the organisations financial achievements but also on the fulfilment of its social goals.

Microfinance Institutions (MFIs) with a social mission seek to serve a particular group of clients – most commonly poor or marginalised people and those excluded from access to financial services – to meet their needs and improve their lives. They also aim to operate in an ethical and responsible way in relation to staff, clients, communities and the environment within which they work. These elements make up the **social performance** of an MFI.

The Quality Audit Tool for Managing Social Performance

The Quality Audit Tool (QAT) is a practical diagnostic tool that is designed to review and improve the effectiveness of management processes for achieving social goals.

Other audit tools that assess social performance examine procedural compliance or benchmark to common social indicators or practices (see box 1, page 3). What makes the QAT different is its focus on an organisation's stated objectives and the effectiveness of its systems for achieving this.

The QAT focuses on:

- process management;
- reviewing internal systems;
- assessing the **status** and **effectiveness** of the system for achieving social performance management;
- identifying necessary actions to improve performance.

More effective performance management

The QAT is aligned to the Social Performance Management (SPM) approach developed by the *Imp-Act* Consortium.² SPM is the internal process by which an organisation defines its social goals and objectives, makes decisions in line with its social objectives and thereby improves its social performance. The day-to-day management decisions of MFIs and the design and quality of their management systems have a direct effect on the achievement of their social mission.

*"...this tool will be useful to any organisation that has a serious intent to improve the management of its social performance."
(ASHI, the Philippines)*

The QAT enables MFIs to assess the **status** and **effectiveness** of their SPM system and to identify necessary action to improve performance.

Transparency for the microfinance industry

The QAT assists external stakeholders in understanding the social performance of MFIs, and therefore contributes to greater transparency. The use of the QAT in conjunction with an external **social rating** provides an objective assessment of social performance and allows for comparison between organisations. The QAT has been designed to be aligned to the social rating methodologies of M-CRIL and *Microfinanza*. In practice this means that information gathered through the QAT can be used directly to inform an external social rating process.³

¹ The Quality Audit Tool for Managing Social Performance (QAT) was developed by Anton Simanowitz within the project "Maximizing Social Performance through Deliberately Driven Microfinance" of the Microfinance Centre for Central and Eastern Europe and the New Independent States (www.mfc.org.pl). The project was sponsored by the Ford Foundation and implemented in cooperation with the *Imp-Act* Consortium, Microfinance Opportunities, *MicroSave* and Eda Rural Systems India. The tool was pilot tested with two MFIs – AgroInvest (Serbia, Montenegro) and ASHI (the Philippines). For more information, please visit www.mfc.org.pl.

² To download the *Imp-Act*/MFC Guidelines on Social Performance Management for Microfinance or learn more about SPM, please visit www.mfc.org.pl or www.imp-act.org.

³ For more information on social ratings see www.edarural.org.



Box 1 Social audit tools for microfinance**Compliance audits**

Conventional financial audits focus on compliance conducting an audit trail looking in detail at the data the organisation has available on its financial performance and checking compliance with policies, procedures and standards. The UK social audit network (SAN) has developed guidance and training for social accounting and auditing. This mirrors a traditional financial audit in that it involves the preparation of a set of social accounts and audits this. It also uses a stakeholder-based approach, gathering perspectives from a range of stakeholders and auditing the social accounts through a half day meeting involving the key stakeholders of the organisation rather than an assessor site visit. (www.socialauditnetwork.org.uk)

Benchmark auditing

A second type of audit assesses the social performance of an organisation in relation to agreed indicators or accepted development norms. This type of audit defines a “good” organisation using benchmark values or practice with which organisations are compared to. Three examples of this type of audit are listed below.

Social Performance Audit Tool (SPA), USAID www.microlinks.org: The SPA tool uses a scorecard to assess social performance using a set of simple indicators falling under one of seven dimensions of outreach: breadth, depth, length, cost, scope, worth and outreach to the community. A number of indicators are defined and points are awarded depending on the organisation’s status in relation to each indicator. For example under the dimension of depth of outreach one indicator is percentage of women clients; zero is awarded if less than 20% of the clients are women, one point for 20-50% and three points for greater than 50%. The scorecard thus describes “desirable” characteristics and allows for comparison and benchmarking between organisations.

ACCION, SOCIAL tool www.accion.org: SOCIAL evaluates the success of the microfinance institution in fulfilling its social mission and contributing to broadly accepted social goals. The tool assesses six dimensions of social performance: social mission, outreach, client service, information transparency and consumer protection, association with the community and labour climate. It consists of interviews with management, staff, board members and clients; strategic plan/business plan, minutes of Board of Directors meetings; MFI client database; available external survey data to validate the MFI database; secondary source data (national data, MIX, market studies); map of geographic coverage; and branch visits.

CERISE: Social Performance Indicators Initiative (SPII) www.cerise-microfinance.org/publication/impact.htm: SPII provides a questionnaire guide aimed at evaluating the intentions, actions and corrective measures implemented by an MFI in order to determine whether it has the available means to attain its social objectives. The SPII posits four dimensions of social performance: (1) outreach to the poor and excluded, (2) adaptation of products and services to target clients, (3) improving social and political capital and (4) corporate social responsibility.

SPII questionnaires can be filled out internally for better knowledge of the MFI and its goals and activities and to provide an opportunity for internal thinking about its social objectives. An external person can also be involved in the analysis. The SPII process indicator scores are used to compare social performance across multiple institutions and contexts.

Process audits

A third type of audit, which includes the QAT, examines the status and effectiveness of organisational systems. Two examples of these are the International Standards Organisation (ISO) quality management auditing ISO 9001:2000 and the USAID SPA tool. The ISO 9001:2000 describes standards for process management auditing. This implies a different approach to auditing, away from compliance-based systems, and the related views of what constitutes objective evidence.

The SPA focuses on alignment of organisational systems with their social mission and therefore is broadly comparable with the QAT, but it is not specifically aligned to the SPM process. In addition to the scorecard (described above) the tool uses a subjective audit of the MFI’s commitment and capacity to achieve social return in five key internal processes. These are internal communication and management leadership, hiring and training, monitoring systems, incentive systems and strategic planning.

The MFI’s performance on the scorecard and in the five key internal processes form the basis for awarding the microfinance institution a social rating score, which indicates the microfinance institution’s likelihood of creating significant social impact both now and in the future.



Who is the QAT for?

The QAT is a useful tool for the managers of MFIs, for organisations that seek to support the effective management of MFIs towards their social mission and for socially orientated investors in microfinance.

For managers	For supporters	For investors
the tool examines the extent to which social performance is being effectively managed and identifies actions needed to address prioritised weaknesses.	the tool provides appraisal of the status and effectiveness of an MFI's performance management system in terms of its alignment to social performance. This highlights its strengths and weaknesses, and supports organisation in understanding and prioritizing the needs of the MFI as well as identifying actions to support improved practice.	the tool provides information which allows investors to evaluate the robustness of an organisation's approach to social performance management, to validate the reliability of social performance information self-reported by an organisation and to compare or benchmark performance between organisations.

The QAT process

The QAT is implemented over a four-day period by an internal staff member and an external facilitator. It brings together perspectives from all levels of an organisation, drawing on both objective evidence and qualitative views and insights around management decisions and field operations. It combines a quantitative questionnaire that is used to guide qualitative follow-up discussions. This allows for triangulation of information from the perspective of different stakeholders and leads to an understanding of the factors that contribute towards reaching the organisation's social objectives.

The QAT uses and benefits

MFIs which took part in the QAT pilot project found it to be cost effective and that the QAT made it more possible to:

- highlight significant issues and help identify where attention should be focused;
- generate increased knowledge of SPM and assist in the buy-in process;
- raise issues and prompt thinking and discussion which lead to action;
- give a framework to engage with the whole organisation, particularly where there is strong management support for SPM but broader institutional buy-in remains a key challenge;
- help identify strengths and weaknesses which affirm and recognise progress made.

"The QAT was an effective tool to enable staff to understand SPM in more depth and look at their own systems objectively."

(ASHI, the Philippines)

Implementing the QAT

One of the unique benefits of the tool is that it encourages organisation wide buy-in at all levels to improve social performance management. Its success therefore requires engagement and commitment during the audit and implementation process from staff at all levels of the organisation.

Roles of internal and external assessors

During the preparation and implementation period one member of staff and one external facilitator are required to work on the QAT for six days: two days on preparation and four on implementation. Implementation also requires input from all members of staff.



Internal assessor	External facilitator
The internal assessor can help to ensure commitment from management and staff.	Skilled in qualitative research ensures appropriate probing.
Valuable knowledge of organisational information and its systems.	Impartiality and independence ensure review of organisational systems and information to check for reliability.
Knowledge of the needs and preferences of the audience for the report.	Skilled in analysis and synthesis of complex information.

The **implementation team** must have the ability to take an objective view of the organisation and its systems and the analytical skills necessary to understand the key elements of the SPM process and be able to synthesise different perspectives highlighted during the audit process.

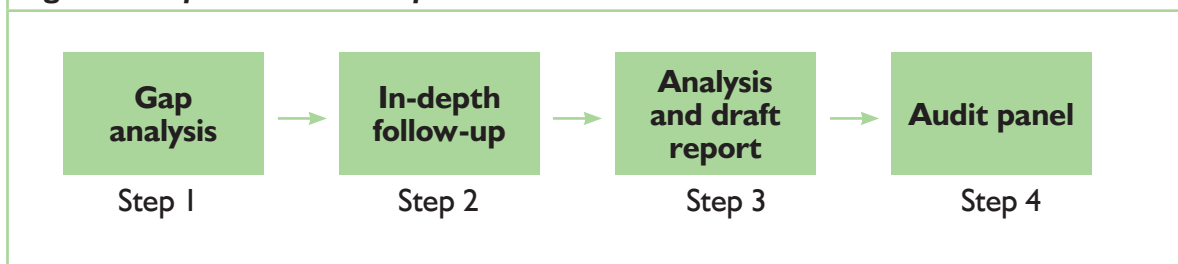
The **internal assessor** should have a broad knowledge of the organisation and its systems and the confidence and respect within the organisation to interact with senior management.

An **external facilitator** brings specialist skills and an objective external view to the organisation which is often very different to the self-perception that staff members may have of their MFI.

The 4 steps of the QAT

There are four steps in the QAT process.

Figure 1 Implementation steps



“It is a simple, comprehensive, self-assessing mean to recognize and critically address issues in the organization. Later on, through follow-up questions and interviews conducted some ideas can be resolved or put to one side as discussion points. As the discussion goes on, a clearer picture emerges and a conversation can be conducted. Almost without noticing, the topic is guiding both parties to resolve the issue.”
(AgroInvest, Serbia, Montenegro)

1. Gap analysis: presents detailed questions which are used to assess social performance management and are answered by a simple “yes”, “no”, or “partially”. In addition, a short explanation is requested. The gap analysis is conducted with senior management as an initial audit (see box 3, page 7).

2. In-depth follow-up: involves gathering more detailed information to verify and better understand the gap analysis. This includes interviews with staff and clients at different levels, examination of documents such as management reports, research reports, MIS reports, and auditing processes such as information flows. Triangulation of information from different sources gives perspective to the issues and establishes rigour in the results.

“The follow-up questions are crucial. The audit gives a framework to actually engage with the whole organisation.”
(ASHI, the Philippines)



3. Analysis and draft report: the assessor pulls together all the material and drafts a report that highlights strengths and weaknesses of the organisation in each of the dimensions covered in the gap analysis. This report captures the perspectives of different stakeholders so that these can be discussed in the panel meeting which follows.

“While in theory the MFI has an elaborate system of collecting client level information – housing, income and productive assets and also entering this data in the computer database – from a detailed review of the data retrieved for one centre, this data is not reliable. This is a fundamental issue. There is no point in putting in all the effort in data collection and entry, if that data is not reliable.”
(ASHI, the Philippines)

4. Audit panel: involves a presentation by the assessor of their findings to a meeting of key organisational stakeholders, including staff from all levels of the organisation and clients where appropriate. Following detailed discussions of these findings, a final audit report is produced.

The panel meeting gives all people involved an opportunity to highlight issues that need to be resolved or addressed by the organization and to share controversial or unclear matters. The strength of this is to look systematically at all the elements involved in the management of social performance and for the organization to think about these. The audit panel:

- provokes discussion, debate and produces results;
- highlights the action points and activities that will solve specific issues;
- identifies the individuals and teams responsible;
- opens up for real engagement and discussions of stakeholders at different levels;
- most important, the panel discussion highlights issues that need to be addressed for the system to be improved.

“I realised that we have a broad mission, but with indicators, benchmarking and targets, it is possible [to manage social performance]”
(ASHI, audit panel member, the Philippines)

In the end a final audit report is produced, reflecting the discussion of the audit panel (see box 2).

Box 2 Extracts of the action plan from audit panel meeting, AgrolInvest, Serbia, Montenegro

Challenges

- A strong internal culture was established during the very early days of AI, and remains in place; today there is a strong belief, respect, teamwork and trust among AI staff.
- Due to the fact that AI is growing in terms of clients outreach, market, staff and external relations, the institutional management needs to seriously take into consideration the development of the strategy to incorporate social performance management systems that support social responsibility and commitment. This will facilitate the realization of its social goals and external transparency.
- It is the responsibility of the AI Executive Director’s office to develop the global strategy to comprehend objectives and activities for each office, position and individual in the organization to **add the social value to every organizational aspect through choosing appropriate means and resources to answer the mission and vision of AgrolInvest.**

Key elements of the action plan

The strategy will be shared with all AI staff, enabling them to effectively apply its outcomes in everyday procedures, resulting in organizational commitment and transparency. All the findings can be reflected through following the main actions/activities that, among others, will be included in the SPM strategy:

1. **Build awareness of staff and management** of the image publicly reflected and delivered, first of all, to clients;
2. The communications office will work on building the **message and culture** that AI staff will emit publicly;
3. Written **policies and procedures** shall be revised and changed in order to support SPM;



4. Informal ways of using SP information will be adjusted and **formalized** when the **systems in AI** are set in the best way to enable SPM. This will take set of actions interrelating internal systems, operations and HR;
5. Workshops with an accent on understanding and acceptance of **adding social value to AI work** will have the purpose to apply SP information use in everyday procedures and decision making;
6. AI will work on **developing and understanding of different stakeholders' needs and purposes** and will formalize them in order to support management and governing processes in the organization;
7. AI management will **develop incentives for staff and management to act transparently and in accordance with the internal values** that will be formally and systematically transmitted to all staff, clients, board and external parties.

Using the QAT to improve management of social performance

The QAT for social performance management is a low-cost tool that will be of benefit to any MFI committed to managing its social performance. It is unique in its focus on providing managers with a comprehensive and in-depth understanding of the effectiveness of the organisational processes contributing to the fulfilment of the social mission. By engaging stakeholders at all levels of the organisation the QAT provides a practical mechanism to promote focus on social performance within an MFI and achieve greater levels of understanding and buy-in.

"In AI case, this tool revealed many weak points in the systems and management processes and resulted in creating an institutional strategy with a holistic approach."
(AgrolInvest, Serbia, Montenegro)

The tool is fully integrated into agreed industry standards for social performance and provides the basis for external reporting, for example as the foundation for an external social rating.

Box 3 Gap analysis, sample questionnaire questions

Dimension one: intent and design					
I.1 Setting social performance objectives					Explanation:
1	Do you have a written mission statement that defines broad social goals in terms of a) who are your target clients b) how their needs will be met c) intended impacts?	Yes Yes Yes	No No No	Partially Partially Partially	
2	Does the mission of the MFI reflect the views of key stakeholders?	Yes	No	Partially	
3	Have you clearly defined the characteristics of your target clients (e.g. location, gender, poverty level, type of economic activity)?	Yes	No	Partially	
4	Do you have measurable targets for outreach?	Yes	No	Partially	
5	Do you have measurable objectives for service provision (e.g. quality, accessibility, usefulness, etc)?	Yes	No	Partially	
6	Have you clearly defined your desired outcomes in terms of changes as a result of the services?	Yes	No	Partially	
7	Do you seek to be a socially responsible organisation in relation to: a) gender aware policies b) client protection c) staff relations d) the communities in which you work d) environmental impacts?	Yes Yes Yes Yes Yes	No No No No No	Partially Partially Partially Partially Partially	



From Mission to Action Management Series

Figure 2 Tools Map



The **From Mission to Action Management Series for Microfinance Institutions** provides insights to balanced management practices. Its practical approach emphasizes hands-on engagement by MFIs and builds on what they already have and do in order to take manageable steps towards change. The Quality Audit Tool can be used to diagnose the current situation, while the Strategic Management Toolkit develops a roadmap to translate the mission into action effectively.

Quality Audit Tool for Managing Social Performance (QAT) assesses the quality of management systems. The QAT assesses the status and effectiveness of internal systems in relation to social performance management and identifies action areas where performance can be improved. It can be used as a rough and dirty self-assessment tool; it can be integrated into the organizational internal and external auditor's work or used by external parties to conduct an objective assessment of management processes for the purposes of social rating.

Strategic Management Toolkit offers a set of tools empowering management to achieve a balance between social and financial performance. Its participatory approach to strategic planning and management is based on the Balanced Scorecard – a set of tools that provide a menu of comprehensive, practical methods for staff at different levels to translate the organization's mission into daily operations. It makes a mission-driven strategy an ongoing process in which the organizational team responds to internal, external and environmental changes to make progress in one commonly agreed direction.

More information about the **From Mission to Action Management Series** is available at www.mfc.org.pl or microfinance@mfc.org.pl.



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