

From Mission to Action

Management Series for Microfinance Institutions

Strategic Management Toolkit Overview



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

Rationale

Recent trends in microfinance - fast growth, change, stiff competition – have made achieving the mission more challenging than ever. Given these circumstances, MFIs need to reinforce their strategic management practices. More systematic planning and management of strategy will enhance their success. Thus effective strategic management should:

- **be inspired and guided by the mission**, the most vital aspect of any organization;
- **be on-going and integrated** into every level of the organization, informing and strengthening all management practices. A continuous assessment of the strategy's implementation, and use of the results, will help managers to prioritize and improve decision-making;
- **involve everyone**: according to strategy expert Michael Porter¹, strategy is the result of hundreds of “activities”. Therefore, an MFI's strategy cannot be left to only a few people at the top of an organization; it should be both understood and executed by all the employees;
- **facilitate change management**: because change is inevitable during pursuit of the mission, it is important to have a set of tools and practices to facilitate smooth transitions.

Project

With support from the Ford Foundation, MFC and its partners² have developed the **Strategic Management Toolkit** to help MFIs professionalize their strategic management processes and improve their double bottom line. The toolkit minimizes the risk of mission drift for those MFIs which grow fast, transform themselves into regulated institutions, and/or compete aggressively with other market players.

Toolkit

The **Strategic Management Toolkit** is based on the **Balanced Scorecard** methodology³, which has been adapted to incorporate the double bottom line objectives of microfinance. The toolkit includes:

- a **Handbook** that provides a step-by-step discussion of the strategic management process and the use of the Balanced Scorecard (BSC). It gives short descriptions of each step in the process, with references to additional training and reading resources. The handbook also includes **case studies** summarizing the experience of toolkit implementation in microfinance institutions;
- **Facilitator's Guides** offer step-by-step instructions for introducing the process to an MFI and carrying it out through a mix of workshops and internal teamwork.

Implementation

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. 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. MFIs should anticipate implementing the process over a 6-12 month period.

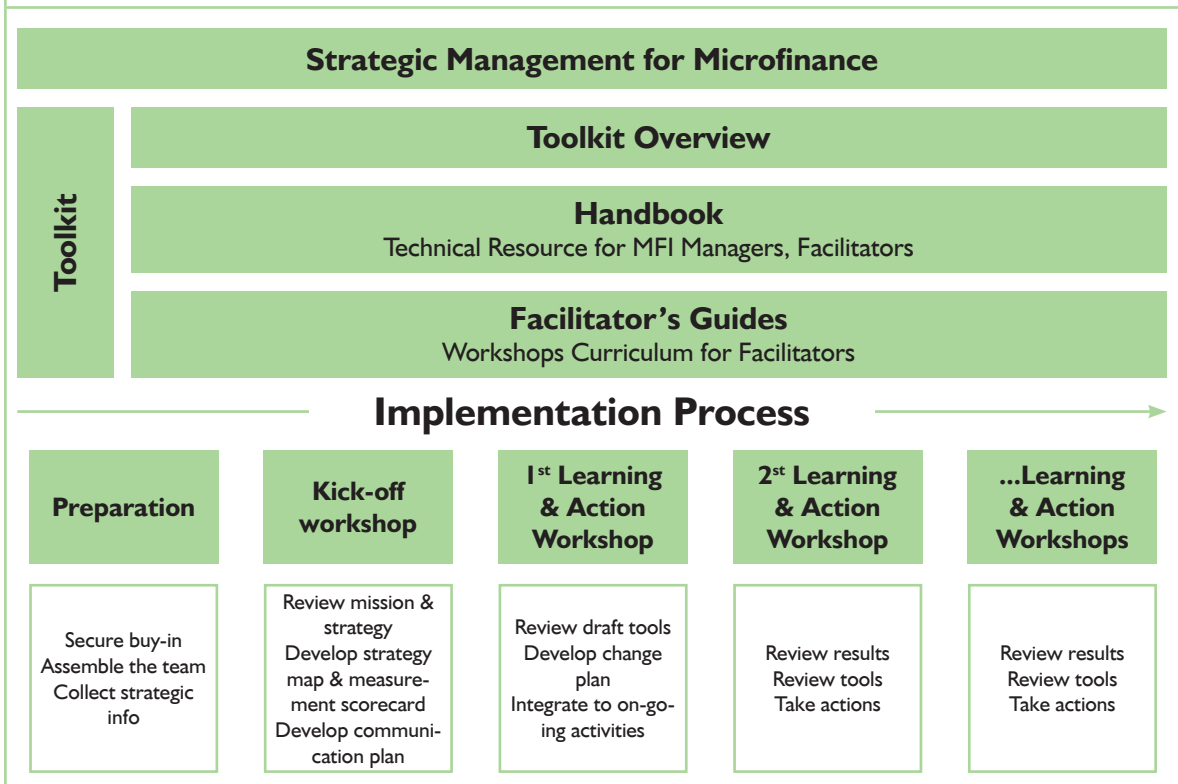
¹ Michael Porter, “What Is Strategy,” Harvard Business Review, November/December 1996.

² The project was managed by the MFC. *ImpAct* Consortium, Microfinance Opportunities, *MicroSave* and COPEME provided technical inputs and sat on the steering committee. The Toolkit was tested in 2005-06 by 4 MFIs in different parts of the world: MDF Kamurj (Armenia), Prizma (Bosnia and Herzegovina), NGO Manuela Ramos (Peru), and Genesis Empresarial (Guatemala). For more information go to www.mfc.org.pl.

³ The Balanced Scorecard is a strategic management and performance measurement tool devised by David Norton and Robert Kaplan of Harvard Business School.



Figure 1 Strategic Management Toolkit



The implementation is based on an approach which is:

- **practical:** focused on long-term oriented actions, communication and change management;
- **bottom-up and participatory:** organizationally driven, institutionalized, and owned by staff;
- **comprehensive:** covering the Balanced Scorecard and all functional areas in the institution;
- **scalable and flexible:** its degree of complexity can be adapted to all levels of organizational development.

Strategic Management Process

The Toolkit maps out the following steps:

Figure 2 Strategic management process



1. **Preparation:** the implementation team is assembled and strategic information collected.
2. **Deconstructing the mission:** the mission is analyzed to identify the institution's overall key directions: what changes should be influenced, what groups and scope of needs should be served and what financial goal is to be achieved.
3. **Diagnosing current position:** the institution's strengths and weaknesses are analyzed in the context of external trends, so as to decide which to build on.
4. **Making strategic choices and identifying key strategic issues:** strategic choices are made based on mission objectives and current market position. Issues key to the success of the strategy are recognized.
5. **Developing strategy map:** key strategic issues, as seen from different perspectives, are translated into strategic statements, then woven into a strategy map.
6. **Developing Balanced Scorecard measurement:** objectives are set for each strategic statement, indicators developed and targets determined.
7. **Developing change management plan:** the institution links current initiatives to the Balanced Scorecard and develops new ones.
8. **Implementing strategy as an on-going process:** during the implementation phase, the MFI learns through practice and periodically revisits steps of the process.

Tools

The most important tools in the toolkit, inspired by the Balanced Scorecard (BSC), are the strategy map, the measurement scorecard and the change management tools.

Strategy map: you cannot measure what you cannot describe

This map helps develop a coherent strategy and communicate it to different audiences. Making the strategy map involves visualizing the inter-relationships between strategic goals as they affect different institutional functions and areas. These constitute the five main "perspectives" on the map which describe the inputs necessary to achieve the desired results.

The strategy map enhances a manager's ability to develop and implement strategies through:

1. **Integration:** ensuring that the strategy addresses issues related to different organizational areas. It helps to combine different institutional perspectives and functions into one coherent strategy showing their inter-relationships. Very often different organizational functions are carried out independently, missing opportunities for synergy.

Figure 3 Strategy map



2. **Organizational alignment:** the strategy map helps to align both intangible capital (information, people, and culture) and key organizational processes with the results the organization wants to achieve. In this way, change in one area reinforces change in another, all contributing to the final results.
3. **Balance:** the map helps maintain balance between short and long-term results, as well as between financial and social goals. This ensures that short-term success is not achieved at the expense of lasting results, and that long-term vision does not paralyze current activities.
4. **Communication:** the map translates a multi-page strategic document into a one-page visual story. Such a short and comprehensive instrument is very helpful for communicating strategy to staff and other stakeholders.

Balanced Scorecard measurement: you value what you measure

The Balanced Scorecard helps to quantify the strategy, monitor its progress and learn from its implementation. The tool translates broader strategic goals into specific, measurable and time-bound objectives and links them with the performance measurement system. These measurements help monitor the fulfillment of each objective and, as a consequence, measure strategic progress.

The scorecard provides managers with the information on how an MFI and its units are progressing towards longer-term social and financial goals. It helps to identify strategically relevant objectives, and measures indicators, organizational inputs and related results. Consequently, the institution can function from day to day and make on-going decisions that are not only beneficial in the short term, but contribute to long lasting value creation.

Figure 4 The Balanced Scorecard

	Strategy Map	BSC Measurement System			Change Management Plan			
		Objective	Measure	Target	Initiative	Who	When	Budget
Social perspective	Social results	xxxxx	xxxxx xxxxx	xx%	xxxxx xxxxx	xxx	xxx	xxx\$ xxx\$
Financial perspective	Financial results	xxxxx	xxxxx xxxxx	xx%	xxxxx	xxx	xxx	xxx\$
Customer perspective	Customer and stakeholder value proposition	xxxxx	xxxxx xxxxx	xx%	xxxxx xxxxx	xxx	xxx	xxx\$ xxx\$
Internal perspective	Operations management	xxxxx	xxxxx xxxxx	xx%	xxxxx xxxxx xxxxx	xxx	xxx	xxx\$ xxx\$ xxx\$
	Customer management							
Learning and growth perspective	Innovation	xxxxx	xxxxx xxxxx	xx%	xxxxx xxxxx xxxxx	xxx	xxx	xxx\$ xxx\$ xxx\$
	Regulatory and social							
	Human capital							
	Information capital							
	Organizational capital							



Change management tools: you cannot manage what you cannot communicate

The change management tools offer MFIs a systematized framework for selecting, communicating and monitoring the implementation of key strategic initiatives. The change management plan is rooted in the balanced scorecard objectives and makes sure that everyday activities are motivated by the strategy. It consists of four components:

- a **high level action plan** that identifies key initiatives/projects that the MFI should pursue in order to reach its strategic objectives;
- **initiatives documentation** (project descriptions, plans and budgets) that helps to manage initiatives;
- a **communication plan** that identifies key audiences within an MFI, such as staff, management, board and external stakeholders. It also identifies key messages and communication tools to address their expectations, while building and maintaining buy-in throughout the process;
- a **capacity building plan** that identifies key gaps in skills and competences that need to be closed in order to implement the strategy effectively.

Benefits

Adhering to the mission in the context of fast growth or transformation

“It was perfect timing to start the process of implementing the tools just before the transformation. It helped us to make sure we were well prepared for this change and that our mission was secure.”

(Partner, Bosnia and Herzegovina)

The toolkit provides a basic and comprehensive framework allowing MFIs to better understand both their long-term social and shorter-term financial goals, as well as develop a balanced strategy towards the two. The scorecard sets out a mechanism for on-going progress tracking, strategic learning and improvement in a changing environment while staying in line with the organizational mission.

Balancing an MFI’s shorter and longer-term goals and addressing trade-offs

“Through linking our strategy to every day operations, it helped us to focus on what is really important, not only what is urgent.”

(Genesis Empresarial, Guatemala)

The Toolkit supports MFIs in their everyday choices aimed at long-term financial and social gains by clarifying their goals and what it will take to achieve them. Using the tools helps an MFI to balance financial versus social objectives on the one hand, and short-term versus long-term objectives on the other. This is possible because social and financial objectives, whether they be immediate or long lasting, are described in operational terms and linked to the budget.

Staying competitive through clear positioning in different markets

“Strategic planning helped us to identify (and describe in detail) our priority target group. Even if it is limited now, it is big enough to grow. At the same time, it is much more coherent now, which makes it easier to market our products better than the competition.”

(MDF Kamurj, Armenia)

The Toolkit helps MFIs to clarify and build their competitive advantage allowing them to differentiate themselves from the competition in both client and investor markets.



Engaging the staff to support fulfillment of the mission

“The toolkit helps to involve the staff and build their mutual understanding. It significantly helps the institution to work in the same direction.”
 (Genesis Empresarial, Guatemala)

The Toolkit helps to communicate the MFI’s mission, strategy and performance to the staff. Reducing the MFI’s strategy to a one page document that can easily be understood by all, enables staff to identify their contributions to overall strategy and institutional performance. This in turn builds their buy-in to the strategy and stimulates internal leadership at different levels of the organization.

Informing stakeholders about strategic progress to foster their long-term support

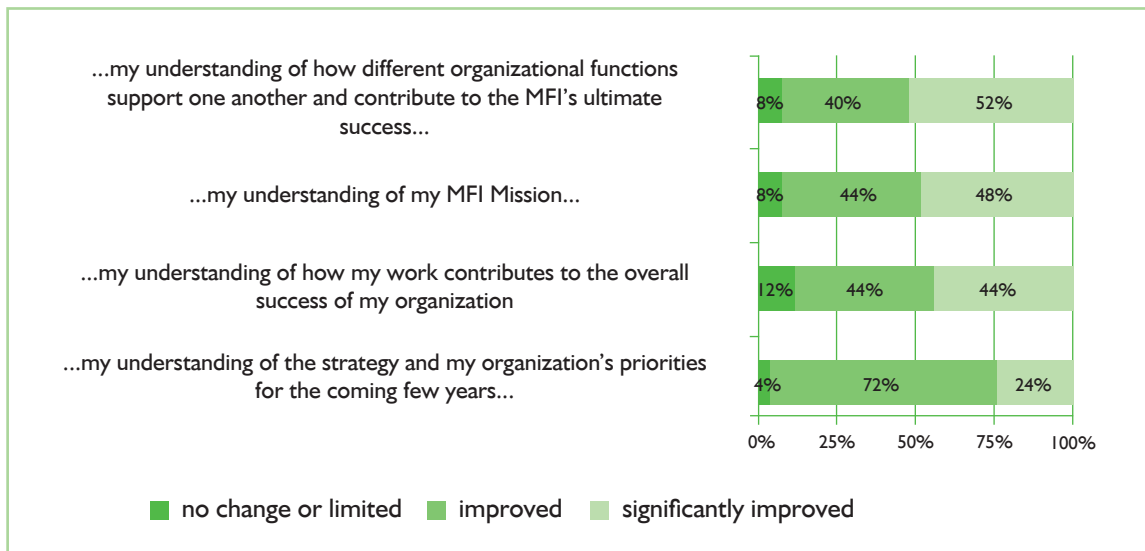
The Toolkit encourages transparent, on-going communication about long-term organizational vision, strategy, and progress towards the double bottom line.

Supporting development and professionalization of MFI management

Using the Toolkit, an MFI can achieve the next level of maturity and sophistication. It provides opportunities for managers and other staff to develop their strategy skills and knowledge, enhance their grasp of their institution’s strategy and strengthen their contribution to organizational performance.

Figure 5 Survey results from Toolkit Users

Since the first workshop when my MFI began the process of implementing the Toolkit, I have seen great improvement in:



Although sixty percent of staff from partner MFIs had previously participated in strategic planning exercises, they felt that the Toolkit covered a broader range of subjects and was, at the same time, more specific and clear. It focused both on actions and results; everything was concrete, measurable and applicable. The results received were compact, covering a wide range of institutional areas.



From Mission to Action Management Series

Figure 6 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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