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From Process Analysis to Organizational Redesign: A Case Study of MI-BOSPO's Experience with Process Mapping

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The SEEP Practitioner Learning Program (PLP) in Improving Efficiency—Maximizing Human and Physical Resources, *Case Study 2, From Process Analysis to Organizational Redesign: A Case Study of MI-BOSPO's Experience with Process Mapping*

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The Practitioner Learning Program Improving Efficiency—Maximizing Human and Physical Resources Case Study no. 2

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Preface

The Practitioner Learning Program (PLP) is a SEEP Network initiative that explores key challenges facing the microenterprise field. The SEEP PLP, a competitively run grants program, engages participants in a collaborative learning process to share and document findings and lessons learned, as well as to identify effective, replicable microenterprise practices and innovations to benefit the industry as a whole. The SEEP PLP is funded by the office of Microenterprise Development of the United States Agency for International Development (USAID). For more information on this and other SEEP PLP initiatives, see The SEEP Network website: www.seepnetwork.org.

The SEEP PLP in "Improving Efficiency—Maximizing Human and Physical Resources" was conducted from 2004 through 2006 and examined strategies, tools, and technologies that microfinance institutions (MFIs) use to maximize human and physical resources. There was a particular focus on low-technology solutions to increase staff productivity, decrease personnel or administrative costs, and increase outreach and client retention.

The "Improving Efficiency" PLP has produced a series of ten Learning Products—as well as an overview outlining the PLP process and its results—to share with the microfinance and microenterprise field that are explained in more detail below. All of these publications are available on-line at http://www.seepnetwork.org/.

Most of the participating institutions began with a rigorous analysis of their core processes, including credit delivery, accounting, and management information systems. Process mapping proved a crucial tool in shedding light on organizational bottlenecks and inefficiencies. Three Learning Products produced from this PLP are devoted to process mapping: case studies of Pro Mujer Nicaragua and of MI BOSPO, which used the tool to make significant changes to their core operations, and a technical note that compiles interviews with MFI managers who used process mapping in their efforts to boost efficiency.

Based on their institutional assessments, most of the MFIs identified a similar set of interrelated issues they need to address in order for them to become more efficient. Decentralization emerged as an overriding theme, especially the exploration of what kinds of institutional structures and systems would support a shift in decision-making authority for credit operations to branch offices. "Decentralization of Microfinance Institutions: A Guide for Decision Making" addresses these issues in depth.

Closely related to the topic of decentralization was the need to train branch managers. Many of the participating MFIs' branch managers had been senior loan officers and did not have many of the skills and perspectives needed to manage staff and operations. Two of our Learning Products are comprehensive training programs that address areas that were identified as key for branch management training: human resource management and financial management. The training manual on human resource management was developed by the PLP in conjunction with MEDA and is entitled "Branch Management Training for MFIs: Developing Staff Management Skills." The financial management training manual is "Principles and Practices of Financial Management." Based on an identified need for training materials in other topics, several of our other Learning Products have accompanying PowerPoint presentations that summarize key information in a format conducive to training.

Several other topics related to enhancing efficiency emerged during the course of this PLP. One topic was the importance of cultivating client loyalty. Loyal clients provide repeat business, contributing to both lower expenses and higher income. The second technical note, "Building Client Loyalty," explores this issue in detail. Another recurring issue was staff incentives and the dangers of implementing a system before it is thoroughly analyzed. The third technical note, "Pitfalls and Unintended Outcomes: Advice on Designing and Implementing Staff Incentive Systems," explores these issues. Another valuable tool that emerged from this PLP was a framework for mapping key operational tasks and areas of responsibility. This is explored in the fourth technical note, "Division of Responsibilities Framework: A Tool to Strengthen Operations Management of Microfinance Institutions."

PLP colleagues from India faced an inverse set of challenges to those posed to most of the other participating institutions—how to capture information from an extremely decentralized network of savers and borrowers in self-help groups and centralize it in order to create accurate, timely, consolidated financial reports. The solution they developed and implemented is explained in the learning paper, "Promoting Quality Bookkeeping in Self-Help Groups: The Mahakalasm Management Information System."

The ten Learning Products reflect both the range of institutions and issues explored during this PLP and the consensus that emerged regarding what is needed to efficiently utilize human and physical resources while remaining responsive to client needs. The participating institutions found the PLP to be a rich learning experience and we hope the lessons learned that are distilled in this series of Learning Products prove to be of value to the field as a whole.

Tony Sheldon, PLP facilitator and Learning Products editor

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Section 1. Introduction

A business process can be defined as a structured, measured set of activities designed to produce a specific output for a particular customer or market.[1] The optimization of business processes is central to the functioning of any organization. Yet, in the case of microfinance institutions (MFIs), they are often not a major focus of performance improvement efforts. Most organizations are structured around particular functions such as credit, finance, and administration, each with its own system of performance measures and internal hierarchy.

Process mapping can be integral to achieving major performance improvements for microfinance institutions. With support from The SEEP Network's Practitioner Learning Program, the case of MI-BOSPO provides an important example of the wide-scale and transformative changes that can be prompted from careful diagnosis of process related problems.

Nevertheless, an organization's most important business processes are frequently cross-functional and cross-organizational, involving tasks performed by individuals from various departments at different levels within the organization. Thus, an evaluation of an MFI's processes will almost always bring into question issues of organizational design including reporting relationships, allocation of responsibilities, and levels of authority. An institution seeking to make improvements in performance through process analysis may be confronted with some very profound questions. Can business processes be significantly enhanced within the institution's existing hierarchy? Are current levels of authority appropriate to ensure optimal execution of these processes? Do organizational structures facilitate or inhibit favorable process outcomes?

"Process mapping was the start of everything." **–Nejira Nalic, MI-BOSPO Executive Director**

MI-BOSPO, a Bosnian MFI established in 1996, is an example of an MFI that has dealt with many of these critical questions. A drive to differentiate itself in an increasingly competitive microfinance market motivated the institution to take a close look at its internal processes. As with most MFIs, MI-BOSPO's most important processes are associated with credit delivery. The organization initially focused on optimizing these core processes through process mapping, an analytical tool used to diagnose process-related problems. Yet, what was originally conceived as an effort to improve service delivery resulted in a much broader organizational transformation with major implications for both the design of process and overall organizational structure.

In 2004 MI-BOSPO applied to and was accepted into the SEEP Practitioner Learning Program (PLP) in "Improving Efficiency—Maximizing Human and Physical Resources" sponsored by The SEEP Network.[2] This SEEP Practitioner Learning Program (PLP) was specifically designed to investigate and promote practices resulting in significant efficiency gains for MFIs, long considered a central challenge of the microfinance sector. One of the most important analytical tools applied by the participating programs, including MI-BOSPO, was process mapping.

A process map is a visual representation of a process that illustrates what activities are performed, where, by whom, in what sequence and over what period of time. Process maps look beyond functional activities, such as marketing or finance, to reveal an organization's core processes and discover how their different parts work together to serve customers. Process maps allow an MFI to document, improve, streamline, and redesign the way it works. [3]

Depending on an institution's needs and capacities, the overall scale of a process mapping project may vary. In some cases, very specific objectives may limit analysis to only a select number of activities. Solutions to problems may be found through incremental changes to processes, such as the re-ordering of tasks or elimination of redundant steps.

1. "Organizational Structure in Process-based Organizations" Vanhaverbeke, Wim and Torremans, Huub, Institute of Business Organization and Strategy Research, 1998

2. The SEEP Practitioner Learning Program (PLP) is a competitive grants program funded by the Microenterprise Development Division of the U.S. Agency for International Development (USAID).

3. "A Toolkit for Process Mapping for MFIs," MicroSave, 2004, Nairobi, Kenya, available on-line at www.microsave.org.

Under other circumstances, process analysis may lead the organization to consider larger scale initiatives linked to broad strategic goals. MI-BOSPO represents such a case.

"Process mapping was the start of everything," MI-BOSPO's executive director, Nejira Nalic, states. The analysis and decisions that followed the organization's process mapping activities led to important transformations within the institution. Ultimately changes would include not only process improvements but also a near total redesign of its lending operations through increased delegation of authority, modification in reporting relationships, and important changes in responsibilities of managers. From process mapping to organizational redesign, MI-BOSPO planned and implemented a highly successful campaign to improve performance.

This case study documents the experience of MI-BOSPO from January 2004 to December 2005, the time frame within which its process mapping activities and many of these consequential changes took place.

Section 2. Background

Institutional Summary

MI-BOSPO is the oldest MFI in Bosnia and Herzegovina. It began operations in 1996 as a multi-service NGO serving the needs of displaced people, primarily women, following a period of armed conflict in the country. In December 2000 credit operations were separated from the NGO and legally constituted as a microcredit organization under Bosnia and Herzegovina law. MI-BOSPO was the first organization financed within a pilot phase of the World Bank Local Initiative Project (LIP) and has been an affiliate of Women's World Banking since 1999. MI-BOSPO is headquartered in Tuzla and serves clients both in the Federation of Bosnia and Herzegovina and in the Republic of Serpska through a network of twelve offices.[4] As of December 2005, MI-BOSPO served over 15,000 clients with an outstanding portfolio of US$ 15.6 million.

MI-BOSPO provides loans exclusively to women, using both individual and solidarity group lending methodologies. Clients are characterized as low income women entrepreneurs with limited experience operating income generating activities, as well as women who have developed micro or small business (including some agricultural activities) or are active in family businesses. Loan amounts for solidarity group members are between US$300 and US$900 for initial loans and increase up to approximately US$1,875 for subsequent loans with repayment terms between twelve and eighteen months. Most loan amounts for individual loans for micro or small enterprises range between US$2,000 and US$3,000 with repayment terms from 15 to 24 months. Individual loans for agricultural activities average US$2,000 with repayment terms up to 24 months. Depending on the loan type and size, MI-BOSPO employs a variety of collateral requirements, including solidarity guarantees, co-signers, guarantors, and physical collateral.

4. Depending on portfolio size, field offices are categorized as full-scale branch offices or smaller satellite offices.

Table 1. Institutional Summary[5]

Legal structure	Microcredit Organization (legally recognized entity under Bosnian and Herzegovina law, non-governmental, non-profit, no shareholding structure, legally restricted from mobilizing savings deposits)
Core products	–Solidarity group loans –Individual loans for micro and small enterprise –Individual loans for agricultural activities
Start of operations	1996
Gross value loans outstanding	US$15,591,664
Total assets	US$ 17,362,158
Number of loans outstanding	15,661
Number of staff	55
Number of field offices	12

Country Summary

The microfinance market in Bosnia and Herzegovina has become increasingly competitive. It is considered one of the most developed in the region of Central and Eastern Europe and the Newly Independent States. Increased supply has affected customer demand in important ways, putting a downward pressure on interest rates. MFIs are continually challenged to find new ways to stay competitive through improved service and flexible product offerings while reducing costs in order to keep prices low.

Most MFIs were launched with financial and technical support from international NGOs and the World Bank, some as early as 1996. As of December 2005, there were 55 MFIs officially registered in the country. Ten organizations hold the majority of the outstanding portfolio. MI-BOSPO ranks fourth in the country in portfolio size.

Table 2. Country Summary[6]

Population (2004)	3.9 million
Gross National Income (GNI) per capita (2004)	US $2,040
Population below the poverty line	25%
Annual rate of inflation	3%
GDP per capita average annual growth rate (1990–2004)	11.7%
Adult literacy rate (2000–2004)	95%
GDP composition by sector	Agriculture 14.2% Industry 30.8% Services 55%

5. SEEP PLP Progress Report, December 2005.

6. UNICEF Country Statistics, http://www.unicef.org/infobycountry/bosniaherzegovina_statistics.html
The World Factbook, CIA US Gov., http://www.cia.gov/cia/publications/factbook/geos/nu.html

Section 3. A Close Look at Processes

Documenting Core Processes

The need to design or redesign a process may be prompted by a variety of circumstances. For MFIs, these may include the provision of a new or substantially modified product or service, noticeable changes in the competitive landscape, evolving customer demands, or instances when the current performance of the institution is deemed insufficient.[7]

In the case of MI-BOSPO, process analysis was motivated primarily by market requirements, specifically the need to better differentiate itself amidst intense competition while at the same time reducing operational costs. Eight years of steady growth, low levels of portfolio risk, and improving efficiency had created a profitable institution. Nevertheless, service delivery methods needed to evolve if MI-BOSPO was to advance its leadership position in the microfinance sector.

The initial meeting of the SEEP PLP in "Improving Efficiency" in January 2004 explored the many benefits that could result from process mapping, including improvements in cost structure and in service quality, delivery, and speed. Competitive advantages created by highly efficient and integrated processes are far more sustainable than those arising from discrete activities, individual products, or "core" competencies.[8] Faced with an increasingly competitive market, MI-BOSPO managers recognized the potential impact of applying process mapping in their own institution.

In March 2004, following the SEEP PLP meeting and in close collaboration with technical experts from Women's World Banking (WWB), a cross-functional team of MI-BOSPO managers began the very important exercise of documenting the institution's core processes. These included the following:

- Loans to new clients using the individual lending methodology
- Loans to new clients using the solidarity lending methodology
- Loans to repeat clients using individual lending methodology
- Loans to repeat clients using solidarity lending methodology

The primary activities to be analyzed within the loan processes included application and renewal, approval, and disbursement of funds. The process mapping exercise was broken down in two parts, training of MI-BOSPO staff and field research. The two day training included an introduction to the rationale for process mapping, an explanation of key definitions and analytical techniques, and a review of the basic components of Visio software, a Microsoft Office product used for creating process diagrams.

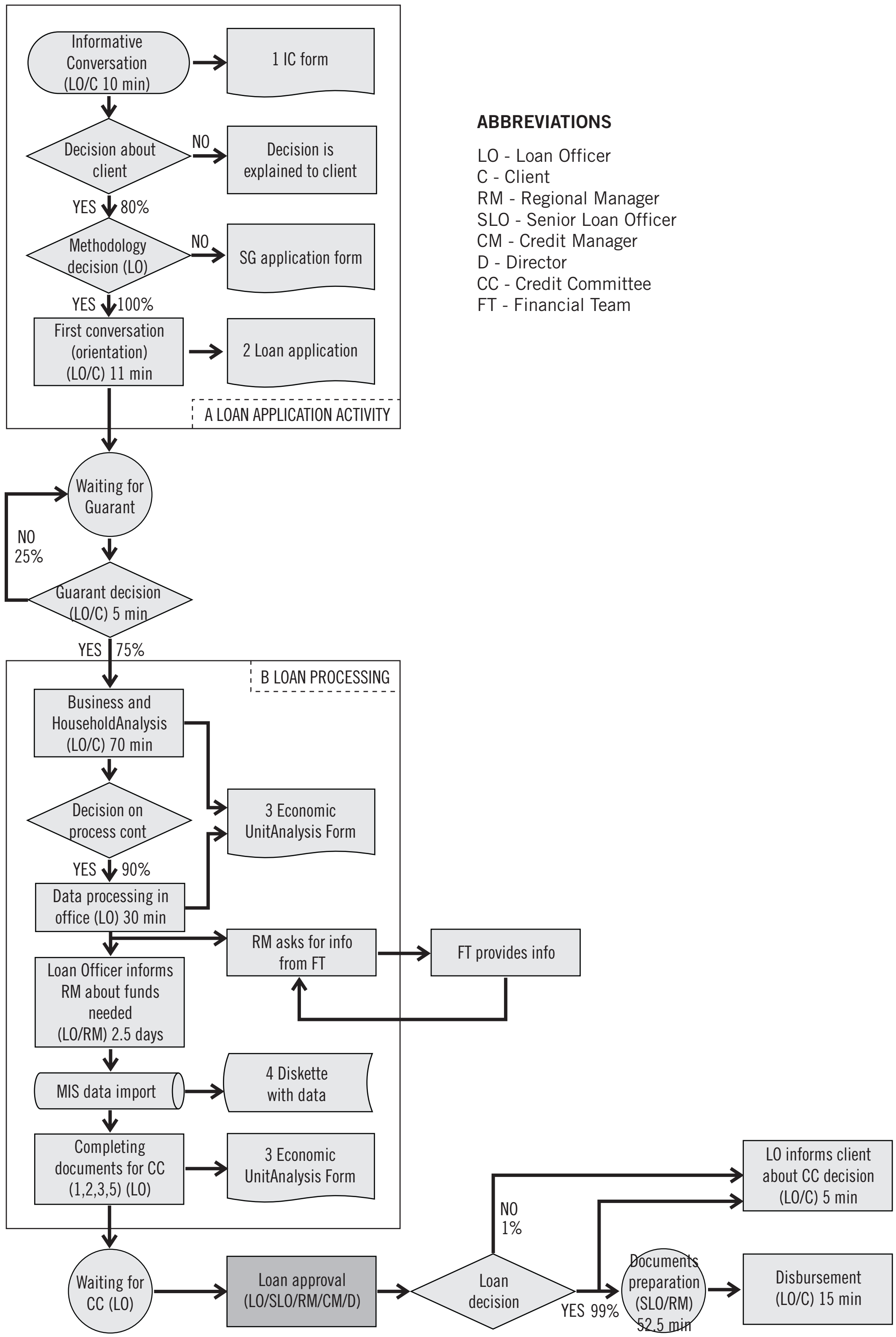
Documentation of core processes took approximately five days. Full responsibility for these tasks was assumed by MI-BOSPO staff. In order to ensure the greatest degree of accuracy, process steps were confirmed through interviews with at least three different staff members as well as through direct observation in the field.

The following illustration is an example of a process map for loan applications for new clients using the individual lending methodology that was created during this phase of the project. The process map presents key steps, decision points, estimated frequency of "yes/no" decisions, waiting times within the process, use of forms, and points of data entry into the management information system (MIS). Also presented is an Activity Table listing specific activities, times (minutes and days), and symbols used in the mapping exercise.

7. "Introduction to Process Mapping", WWB training materials, March 2004.

8. "Introduction to Process Mapping" Women's World Banking presentation, Tuzla, Bosnia and Herzegovina, March 2004.

Figure 1. Loan Processing Procedure for New Client—Individual Lending Methodology and Activity Table



ABBREVIATIONS

LO - Loan Officer
C - Client
RM - Regional Manager
SLO - Senior Loan Officer
CM - Credit Manager
D - Director
CC - Credit Committee
FT - Financial Team

Activity Table

Process title: Loan Processing Procedure for New Client in Individual Lending
Date: March 18, 2004
Produced by: Alma Bijedi and Safet Husi

	Activity	Beginning/ End	Pro- cess	Deci- sion	Wait	Form	MIS	Process time for Loan Officer in minutes (m) and days (d)	Process time for a client in minutes (m) and days (d)
1	Informative talk	X	X	X		X		10m	1 d
2	First talk		X			X		11m	0 d
3	Client fixes guarantees				X			4d	0 d
4	Guarantees check		X	X		X		5m	4 d
5	Field visit arrangement		X					2d	0 d
6	Data collection in the field		X			X		70m	2 d
7	Data processing		X	X		X		30m	0 d
8	Preparation for Credit Committee				X	X	X	2.5d	0 d
9	Credit Committe		X	X		X	X	8m	0 d
10	Production and checking of necessary documentation			X	X	X	X	52.5m	0 d
11	Inform client about credit com- mittee result		X					5m	2. 5 d
12	Waiting for disbursement				X			2d	1 d
13	Disbursement		X			X		15m	1 d
Activities (total)		1	9	5	4	9	3		
Time (total):								Processing: 206.5m Traveling: 160m Total: 366.5m *(6.1 hours)*	11.5 d

In addition to the mapping exercise, managers utilized a list of questions to support their analysis. Questions focused primarily on the identification of potential bottlenecks responsible for slowing process times, the identification of redundant or unnecessary steps, and the consideration of the value added to the customer and to the institution of specific activities.

The box on page 7 provides a summary of the questions included in MI-BOSPO's activity analysis.

Box 1. Activity Analysis Questionnaire

1. How long does the activity take?
2. Is this step repeated anywhere else in the process? If so, is this because of the process design or because of errors in execution?
3. Does this activity add value for the customer? If so, what is it?
4. Does this activity add value for the institution? If so, what is it?
5. Are there performance indicators for this activity? If so, what are they?
6. Is there an error rate for this activity? If so, what is it?
7. Does the person executing this activity have the information needed to perform this function adequately? Can any other person in the process conduct the same activity?
8. Are there incentives (financial or non-financial) pertaining to this individual conducting this activity? What are they?
9. Can this activity be: Eliminated? Combined with another activity? Sped up through the use of technology? Run in parallel?

Source: Women's World Banking training materials, "Introduction to Process Mapping," March 2004. *

* Women's World Banking (WWB) developed process mapping training materials to support MI-BOSPO's operations in Bosnia and Herzegovina. WWB later incorporated these training materials into a joint publication with MicroSave that resulted in a Process Mapping Toolkit. This publication can be found on the Microsave's website at www.microsave.org.

Analysis of Problems

Following field research the MI-BOSPO team met again as a group to review process descriptions and to share principal findings. One of the most immediate revelations for the team was the value of sharing perspectives across functional departments. Different interpretations that grew out of different experiences and areas of expertise led to productive discussions. The process maps made workflows across functional areas literally visible. Following their analysis, individuals could more readily see the interdependent relationships that existed across the organization, as well as the shared responsibility in achieving desirable process outcomes such as faster loan disbursement.

> "*Some things we were doing simply because we had always done them that way. If you asked people why they were doing it that way, they often could not tell you…*"
>
> **–Alma Bijedic, MI-BOSPO Human Resource Manager**

Open minds on the part of the MI-BOSPO staff were absolutely essential to this analysis. Personnel had to be willing to examine not only *what* was being done, *when* and by *whom,* but even more importantly, they had to be willing to consider the question of *why* things were being done in the way they were. In some instances, particularly in the case of solidarity group lending, policies and procedures had not been closely reviewed since the establishment of MI-BOSPO's lending operations nearly a decade earlier. According to Alma Bijedic, Human Resource Manager, "Some things we were doing simply because we had always done them that way. If you asked people why they were doing it that way, they often could not tell you."

Ultimately MI-BOSPO staff arrived at a categorization of problems associated with the three principal phases of the lending process: application (and renewal for repeat clients), approval, and disbursement. Process mapping requires that durations be estimated for each major step. Analysis revealed that customer waiting time was among the most critical problems facing MI-BOSPO. In fact, apart from the information provided by the process mapping exercise, the institution had no systematic means to track the time associated with the disbursal of loans from beginning to end. Initial points of contact with customers were not monitored, nor were the times associated with key activities such as gathering information necessary to complete application forms.

Loan processes for new and repeat loans were nearly identical. Managers estimated loan disbursal for new loans and repeat loans was approximately the same, taking as long as fifteen days in many cases. Waiting time for customers was a result primarily of limited and infrequent credit committee meetings where review and approval of all loans took place. In the case of solidarity group loans, approvals occurred only two times a month.[9]

Loan officers often dedicated an entire day to credit committee activities with a significant amount of loan officer time spent traveling to the central office where meetings were held. In addition, contact with the customer during the loan cycle was sometimes inconsistent and infrequent. Customers were not always sufficiently informed of loan application procedures for renewals. Clients were required to gather extensive information related to collateral, further delaying disbursement of funds. Finally, in some cases, data entry processes included redundant information that slowed information collection.

The disbursement of funds was also problematic. As per institutional policy, requests for funds from the credit department to the finance department had to be done in person by the Credit Manager. Request forms were lengthy and complex. At the same time, the finance department was burdened with the cumbersome and time consuming activities of managing bank accounts that required frequent visits to bank branches in order to complete the disbursal process. Despite growing demand, disbursements often took place only five or six times a month.

The table below presents a summary of the most important problems identified as a result of MI-BOSPO's initial process mapping exercise.

Table 3. Problem Identification

Areas of Analysis	Problems Identified
Application/Renewal	• Excessive wait time associated with client gathering collateral information. • Loan officers did not always follow-up on initial customer contacts. • Loan officers did not always follow up or assist in gathering of collateral information for loan applications. • Customers not sufficiently informed of application procedures. • Contact with customer during loan cycle inconsistent and sometimes infrequent. • No systematic process for initial customer intake. • Time and steps associated with solidarity group formation not systematically monitored.
Approval	• Infrequency of credit committee meetings. • Frequency of urgent approval requests. • Significant amount of loan officers' time dedicated to travel from branch office to central office for credit committee meetings. • Data input in application forms time consuming; repetition of information.
Disbursement	• Length and complexity of funds request form. • Requirement for funds request form to be submitted in person by Credit Manager. • Time consumed by central office staff in travel to bank required for funds disbursement. • Infrequency of scheduled disbursements.

Opportunities for Improvement: Short-Term Fixes

When identifying proposed solutions to inefficiencies in institutional performance, the MI-BOSPO team identified both "short term fixes" and "long term recommendations". Short term fixes were defined as immediate actions that were easy to implement and required relatively few additional resources. In some cases these actions represented incremental changes to processes, in others a need for additional information and field research.

Short term fixes were identified and implemented over a period of several months responding to some, but not all, of MI-BOSPO's identified problems. Corrective actions associated with application and renewal focused mainly on the day-to-day activities of loan officers. Increased customer contact before, during, and after loan cycles was written into new procedures. At the same time, the institution committed itself to finding a better means to track customer information, specifically times associated with major steps in the loan disbursement process from the point of initial contact to the receipt of loan funds by the customer. Understanding the importance of pre-credit activities, MI-BOS-

9. MI-BOSPO employs a cash flow analysis for solidarity group lending that differs from more traditional solidarity group lending methodology, thus making the role of credit committees especially important in loan approval.

PO also identified the need to research in more detail the group formation for solidarity loans including the time and steps associated with this phase of the lending process as well as the performance of competitors.

In the area of loan approvals, incremental improvements were made to some processes through the simplification of forms, simplification of data entry procedures, and changes to the planned frequency of activities. For example, the frequency of credit committee meetings was increased and loan guarantee forms were shortened in order to improve customers' ability to adequately complete loan applications. In some cases, the requirement of client signatures was also eliminated. MI-BOSPO planned to research new laws pertaining to collateral requirements to verify if institutional policy could be further adjusted.

Finally, in the area of loan disbursements, MI-BOSPO identified a need to increase frequency through better coordination with local banks while at the same time improving its own capacities in liquidity management.

The following table provides a summary of the actions defined as "short-term fixes."

Table 4. Short-Term Fixes

Areas of Analysis	Immediate Actions
Application/Renewal	• Simplify loan guarantee forms. Review new law on guarantees to explore possible changes in policy. • Have loan officer review guarantees during field visit as opposed to having clients bring guarantee information to field office. • Train loan officers to be more proactive in contacting clients before end of loan term about renewals. • Inform clients of documentation needed for loan approval to speed process of renewals. • Continue training of loan officers in loan application procedures. • Develop client tracking capabilities within MIS from initial point of contact through loan approval. • Review solidarity group formation process to identify potential inefficiencies. • Review loan officer weekly planning schedule. Determine reason why field visits are not taking place in a timely fashion. Review caseload of solidarity group loan officers.
Approval	• Schedule more frequent credit committee meetings. • Determine the number and nature of special case (urgent) approvals that take place in a month. • Abolish client signature on loan analysis form up to US $1,800 • Adjust priority fields in MIS for loan applications to eliminate redundant information and speed up data entry.
Disbursement	• Upgrade cash flow management capabilities in Finance Department to allow for more frequent disbursements. • Negotiate with banks to make funds available same day as requested.

Opportunities for Improvement: Long-Term Recommendations

Despite the identification of short-term fixes, MI-BOSPO managers concluded that the institution was still faced with some confounding problems associated with the length of loan processes, as well as overall customer satisfaction. It was believed these issues could not be easily resolved through incremental changes to existing policies and procedures. Instead, these concerns were addressed through what MI-BOSPO referred to internally as "long term recommendations," requiring much more intensive planning prior to implementation.

Long-term recommendations were categorized into two broad areas for action: 1) the redefinition of MI-BOSPO's value proposition to the customer (defined as the unique value an organization offers its customers through its operations) and 2) the decentralization of lending operations. [10]

Customer focus was the first priority. Managers believed that intensive market research would provide MI-BOSPO with information essential to reform lending operations from the point of view of customers. MI-BOSPO needed

10. Definition for "value proposition" adapted from The Balanced Scorecard Institute, http://www.balancedscorecard.org/.

to know with much greater certainty why customers come to the institution, what they are looking for, and why they leave. They needed to understand the relative value placed on speed, price, service and flexibility from the customer's perspective. They also required information from their competition to reasonably evaluate demand. Recognizing the time needed to gather this kind of data, conducting intensive market research was considered a longer term recommendation that needed to be pursued prior to making additional changes.

At the same time, MI-BOSPO managers seriously questioned the effectiveness of making significant process changes within the existing organizational structure. Process mapping brought to light fundamental questions concerning reporting relationships, allocation of responsibilities, and levels of authority. For the most part it was believed the organization's current structure did not adequately support favorable process outcomes, such as overall faster service. Decentralization implied broad-based changes to lending operations, a strategy that needed to be thoroughly explored.

Section 4. Defining Change

Remembering the Customer

For processes to be adequately designed, it is essential an institution has an understandable and widely accepted value system. In other words, a process in and of itself is generally not good or bad. It is considered useful, effective, or important depending on how well it reflects and embodies the values of the institution.

> *"Process mapping got us back to who we were…"* **–Nejira Nalic, MI-BOSPO Executive Director**

To be able to answer the question "Does the process add value to the customer?" the organization has to have a clear understanding of customer priorities. To answer the question "Does the process add value to the institution?" there needs to be an equally strong consensus surrounding organizational objectives.

In the case of MI-BOSPO, managers concluded they could not always answer these questions. It was therefore important for them, prior to making major changes to internal processes, to step back and revisit the organization's value proposition. In the words of Nejira Nalic, MI-BOSPO's Executive Director, "Process mapping got us back to who we were."

Process mapping brought to the forefront the issue of customer values, making an explicit connection between internal processes and customer satisfaction. While MI-BOSPO had long considered itself a customer-oriented institution, customer requirements did not always drive internal processes. MI-BOSPO had originated with a customer-focused mission to serve women entrepreneurs and help them to develop their businesses, gain economic power, and attain a better position in family and society. Process mapping revealed the very deep and meaningful connection between the design and structure of the institution and its ability to fulfill its mission.

In August 2004 MI-BOSPO completed an important strategic planning process, incorporating many of the principal lessons learned from process mapping. Market research was an essential input to the planning process. In addition to gathering customer feedback, MI-BOSPO studied industry benchmarks of key efficiency indicators, such as client retention and time to disburse new loans, which were useful in establishing internal performance standards.

MI-BOSPO's new strategy focused on consolidating and expanding the organization's leadership position through intensive marketing, improved service, and a greater overall investment in customer loyalty. Convinced there was still room for growth despite competition, the new strategy meant MI-BOSPO would concentrate its efforts primarily in existing geographic markets where it felt it could "fight for" its market share in familiar territory and ultimately sustain a loyal base of customers. The creation of a marketing department was approved to ensure customer feedback mechanisms were institutionalized. *"Loans in 48 hours"* became MI-BOSPO's new motto, representing a renewed commitment to customer service.

Organizational Design

MI-BOSPO's strategic planning process also concentrated on the decentralization of lending operations, a very important topic that originated during the process mapping exercise. Factors such as levels of authority, reporting relationships, and allocation of responsibilities were all carefully considered in light of MI-BOSPO's new strategic objectives.

"Decentralization means getting closer to the customer." **–Safet Husic, MI-BOSPO Branch Manager**

"Decentralization means getting closer to the customer," described Safet Husic, one of MI-BOSPO's branch managers. In practice, decentralization meant moving day-to-day authority for credit operations to field staff with the objective of ensuring both faster service and increased responsiveness to the customer. This was done through the elimination of regional manager positions in MI-BOSPO's central office and the creation of branch manager positions in field offices with direct responsibility over loan officers. Field offices with larger portfolios were designated as "branch offices" while geographic areas with smaller portfolio were serviced by "satellite offices" under the direct supervision of a nearby branch. The newly created branch manager position was vested with the decision making power to approve nearly all loan applications and renewals, with the exception of the very small percentage of loans exceeding US$4,375.

This change in organizational design and authority eliminated the need for staff to travel to MI-BOSPO's central office as part of the routine lending process. Credit committees now take place in the field offices, allowing for more frequent approvals, and requests for funds are faxed from the branch to the head office. As a result, the allocation of field staff time has been dramatically altered with a far greater percentage of time now available for customer service activities.

The charts on page 12 illustrate the changes in organization structure related to MI-BOSPO's lending operations.

In addition to changes in authority levels, one of the most important implications of the new organizational design was the notable change in reporting relationships, or spans of control. Under the previous structure, regional managers were tasked with supervising as many as fifteen loan officers. Because loan officers were located in field offices, while the regional manager was based in MI-BOSPO's central office, personal contact was generally infrequent and brief.

The new decentralized structure put managers in the field with direct responsibility over approximately eight loan officers, increasing managerial oversight. Managers report a dramatic improvement in their ability to adequately supervise, train and support their staff. Because of the closer geographic proximity and the reduced number of direct reports, daily contact is almost assured.

The new position of branch manager also had important implications for the allocation of responsibilities. In many ways, the new branch manager position resembled that of the former regional manager but with greater focus on the performance of smaller teams of individuals within a more restricted geographical area. Responsibilities include portfolio management, planning, human resource management, marketing and customer service, internal control, and reporting and evaluation. Table 5 presents a brief description of these responsibilities.

Figure 2. Changes in the Organizational Structure-Lending Operations

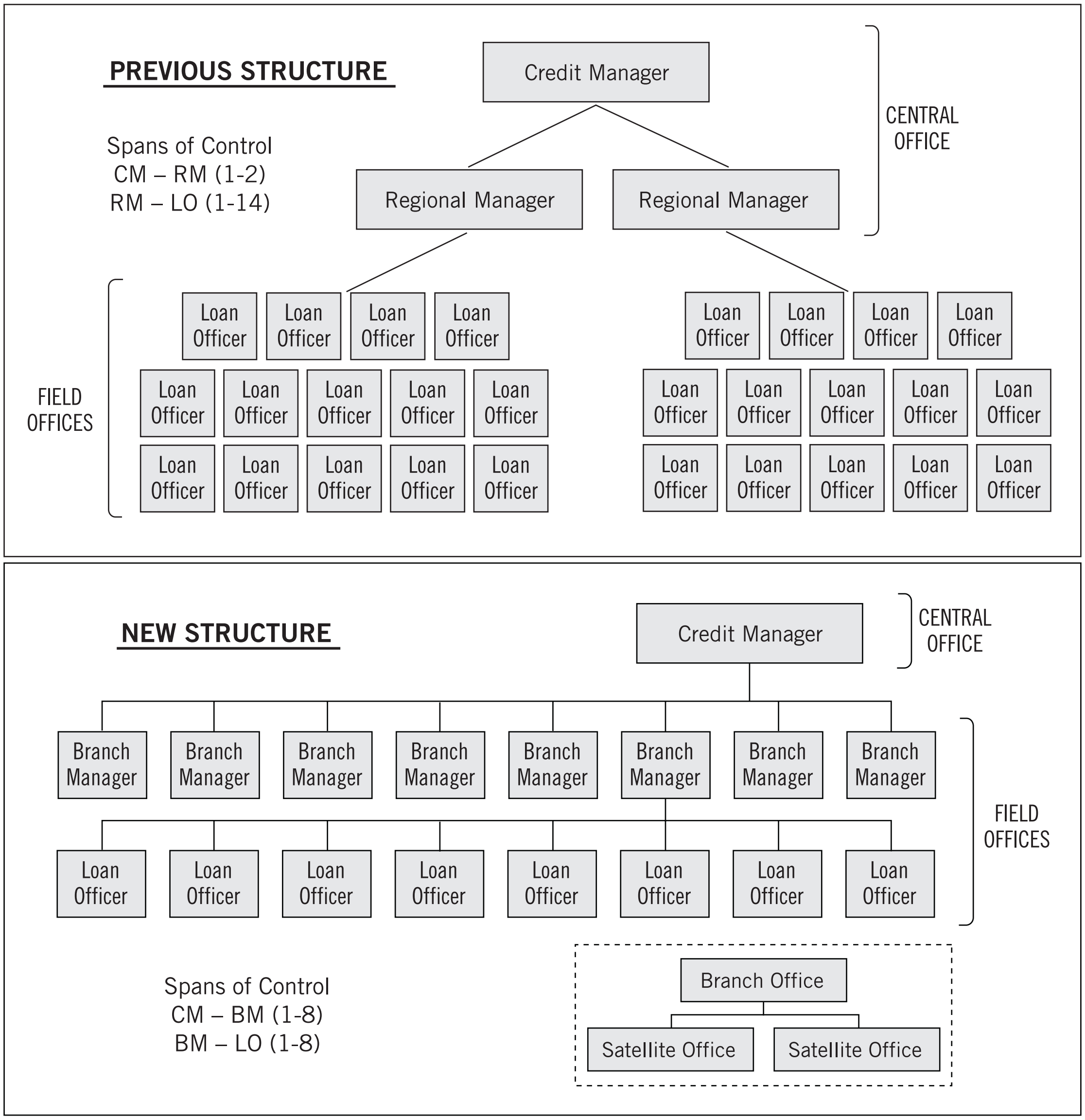


Table 5. Job Description for Branch Manager

Results

MI-BOSPO implemented these structural and process changes from October 2004 through February 2005. Positive results were evident within the first quarter of 2005 and trends in performance indicators remained positive through the end of 2005.

The time to disburse both new loans and repeat loans was reduced significantly. By the end of 2005, many field offices reported two and three-day disbursements on a regular basis. From December 2004 to December 2005, disbursement time for new solidarity group loans was reduced on average by six days, from fifteen days to nine days. New loans for individual lending were reduced by three days, from thirteen days to ten days on average during the same time period. Repeat loans for solidarity groups were reduced by five days, from twelve to seven days. Repeat loans for individual lending were similarly reduced by four days, from fourteen days to ten days by the end of 2005.

MI-BOSPO's operational cost ratio showed improvement with a reduction from 18% to approximately 15% despite an overall increase in operating expenses of approximately 39%. At the same time, loan officer case load increased.

Portfolio Management
• Chair credit committees for loan amounts less than US$4,375.
• Chair arrears committees and follow-up on most severely delinquent cases.

Planning
• Prepare portfolio projections for given area of responsibility, including projections by loan officer and product, to be submitted to Credit Manager.
• Prepare branch budget.
• Propose expansion strategies for region.

Human Resource Management
• Conduct performance evaluation and monitoring of all staff within branch.
• Manage regular staff meetings.
• Participate in recruitment and training process of the branch office staff.
• Identify and report training needs of branch office staff to Credit Manager.

Marketing and Customer Service
• Develop and implement branch marketing plan.
• Evaluate results of marketing activities; propose improvements in marketing techniques and methods.
• Solicit customer feedback through regular contact with current and prospective customers.

Internal Controls
• Ensure that all staff follows institutional policies and procedures.
• Review customer files.
• Conduct visits to customers.

Reporting and Evaluation
• Prepare monthly performance reports for the branch.
• Provide regular feedback to the Credit Manager about competition.

Loans per loan officer for solidarity lending increased from 450 to 457 while individual lending increased from 162 to 285. Portfolio values per loan officer for solidarity loans decreased slightly by approximately 9%. Portfolio values per loan officer for individual loans increased by 40%.

In addition to overall improvements in customer service and operational efficiency, MI-BOSPO was able to manage steady growth over the same period. Growth was sustained through both significant investments in new staff, including fourteen new loan officers during the first quarter of 2005, as well as increased customer satisfaction that led to a greater percentage of repeat loans and an increased number of referrals of new customers. The value of loans outstanding increased 69% during the course of the year, a noteworthy gain over the growth rate of 34% from the previous year. As a result, MIBOSPO became the fourth largest MFI in the country at the close of 2005.[11]

Importantly, MI-BOSPO proved capable of managing significant internal change and steady growth while sustaining superior portfolio quality. Portfolio at risk measured 0.4% after 30 days ending the year 2004. By the end of 2005, portfolio at risk was as low as 0.2%. Managers report consistent growth, improved customer satisfaction, and increased contact with loan officers as key factors.

Ultimately improved performance indicators impacted MI-BOSPO's bottom line. Profitability indicators showed notable progress during 2005. The institution's adjusted return on assets more than doubled during the period, from 2.5% to 4.8% ending 2005. During the same time period, adjusted return on equity increased from 6.5% to 14.8%.

11. World Bank Local Initiatives Project (LIP II), Microfinance Indicator Report December 2005

Table 6. Days to Disburse New and Repeat Loans

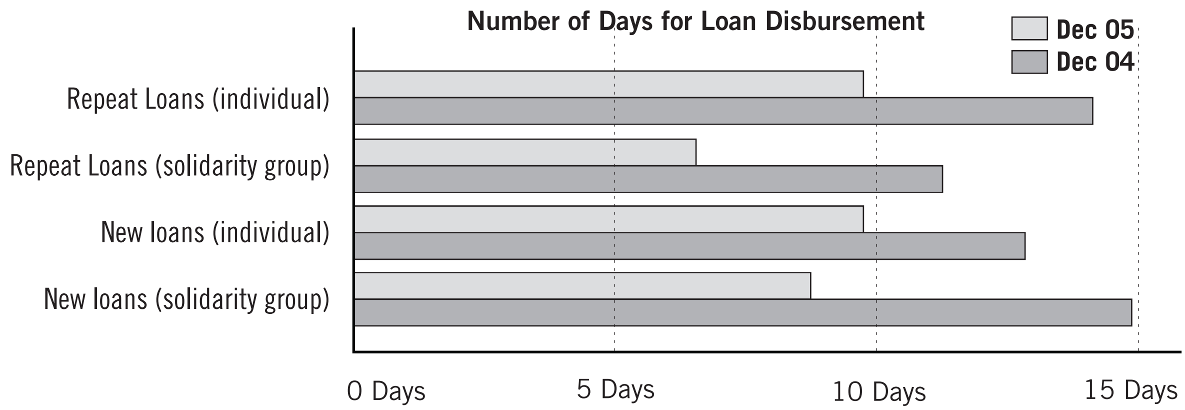


Table 7. Summary of Performance Indicators

	December 2004	March 2005	June 2005	September 2005	December 2005
Portfolio Value (US $)	$9,212,362	$10,515,737	$12,177,962	$14,149,676	$15,591,664
Portfolio at Risk (>30 days)	0.4%	0.4%	0.3%	0.2%	0.2%
Operational Cost Ratio	18%	15%	15.3%	14.9%	14.8%
Adjusted Return on Assets	2.5%	3.7%	3.9%	4.5%	4.8%
Adjusted Return on Equity	6.5%	9.8%	11.2%	13.3%	14.8%

Section 5. Ensuring Success

The successful implementation of MI-BOSPO's organizational transformation was a result of a combination of factors. Well defined process and structural changes that originated from process mapping were crucial. Armed with an understanding of inputs, outputs, and interrelationships of processes, the organization was able to focus on the activities that were truly at the heart of the business.

However, in addition to these changes, MI-BOSPO recognized the need to create an enabling environment within the organization, an environment in which technological and human capacities were sufficient to ensure that broad-based improvements could be successfully sustained. Specifically, MI-BOSPO invested in improving information flows and technology, upgrading skills of branch level personnel, and in the overall motivation of its staff.

Information Flows and Technology

One of the principal lessons of process mapping was the need to have readily accessible information. For example, are branch managers and loan officers consistently following the organization's lending policies and procedures? Are standards for the time to complete critical steps in the loan processes being met? And most important, are customers satisfied? MI-BOSPO managers needed a reliable flow of information to be able to effectively monitor and control these important aspects of operations, especially under conditions of decentralized authority. This meant knowing what information to gather and having the technical capability to capture and report on this information on a regular basis.

Identifying and monitoring critical points of contact with the customer became a new priority. Prior to the initial process mapping exercise, MI-BOSPO had no systematic means to effectively monitor their customers' experience with the institution. New information flows were thus focused on gathering information relating to both the quantity and quality of MI-BOSPO's interactions with customers. For example, the dates of initial inquiry, application, receipt of guarantee information, approval, and loan disbursement were all incorporated into MI-BOSPO's database. This kind of information allowed senior managers to carefully monitor the execution of processes in field offices without the need for daily supervision.

At the same time, the institution more carefully monitored specific activities that needed to take place at these critical points of contact. For example, new customer intake processes were developed with information requirements concerning the customer's profile, needs, and qualifications that further fortified MI-BOSPO's database of information. The institution also established new points of contact with customers during and after the loan cycle. A new customer satisfaction survey process was developed to track customer satisfaction with questions on service quality, loan officer behavior, and the willingness of the customer to refer others to the institution. MI-BOSPO also designed and implemented a systematic process of exit interviews for customers leaving the institution.

Central to the institution's ability to track and monitor this information was the installation of an information network, referred to as a Virtual Private Network (VPN). The VPN electronically linked MI-BOSPO's field offices with the central office, allowing for online connection in real time. Prior to the installation of the network, information from field offices had to be emailed or sent on a disk with someone traveling to the central office and then manually input. Information then needed to be communicated back to the branch office through a similar process. Information flows were slow and restricting. With the new network, MI-BOSPO can now input information into the institution's data base from any one of its field offices, while at the same time ensuring ongoing access to information critical to maintaining adequate control over operations.

Staff Capacity Building

One of the most important investments in time and resources made by MI-BOSPO during the redesign of the organization was in staff capacity building. Changes in levels of authority and the allocation of responsibilities meant, in many cases, the development of new skills for managers. Accountability to new performance standards and strategic goals could not be realistically anticipated without a deliberate effort to build human capacity within the organization.

MI-BOSPO designed and delivered, with support from SEEP PLP resource persons and WWB staff, a structured management training program for branch managers. Topics included process mapping, operational management, marketing, loan analysis, human resource management, and financial management. Training was provided over a period of several months during the last two quarters of 2005 and the first quarter of 2006.

At the same time, new policies and procedures manuals were developed to better communicate changes to staff. Process maps played an important role in training and orientation by providing an easily understandable means to illustrate tasks, sequences of activities, responsibilities, and cross-functional coordination.

Box 2. Training Topics for Branch Managers

- Process Mapping
- Operational Management
- Marketing
- Loan Analysis
- Human Resource Management
- Financial Management Training

Motivation of Staff

Organizational changes on the scale implemented by MI-BOSPO are challenging for many reasons. Analysis of problems can be time consuming and difficult, proposed changes may require significant financial investments, and overall management capacity may be put under strain. However, the greatest challenge to overcome in many instances is resistance to change. Resistance may be revealed overtly through verbal complaints and disagreements and more subtly though non-compliance. If not managed properly, resistance in any number of forms can sabotage even the most carefully designed change initiatives.

MI-BOSPO was exceptionally conscientious in managing the overall change process. As a result, staff remained motivated. For the most part, individuals understood the reasons for change and shared responsibility for ensuring successful outcomes. Several factors can be cited as instrumental in maintaining this level of motivation, starting with the use of cross functional teams in the initial process mapping exercise. Process mapping activities served to strengthen team building within the institution. Every participant of the team had a unique expertise to bring to the table and share with others. The process fostered leadership among managers and helped them to become champions of further innovation. The use of cross functional teams continued to be an important part of MI-BOSPO's planning and implementation.

Process maps in and of themselves also served as important communication tools. Maps present work flows in a visual manner. Sequences of activities, control points, levels of responsibilities, and ordering of tasks are all more easily understandable. The use of process maps allowed MI-BOSPO staff to more readily see how key elements of their work impacted other parts of the organization, opening channels of communication within and across departments.

Another critical factor ensuring adequate motivation was the formal designation of a project leader acting as a "change champion" within the organization. MI-BOSPO's human resource manager took on the responsibility of coordinating meetings, ensuring important items were on meeting agendas, assigning individual tasks, and following up on the execution of tasks related to the analysis, planning, and implementation of major organizational changes. With clear support from the executive director, MI-BOSPO's change champion was able to ensure the institution maintained the momentum it needed to carry out such deep analysis and far-reaching change.

Improved customer relations also provided important inspiration to staff. Improved marketing mechanisms and redesigned processes increased customer contact. As a result, staff gained a more meaningful understanding of market demands. Motivated by a personal commitment to their customers as well as a desire to be competitive, changes were ushered in enthusiastically with contributions from individuals at all levels of the organization.

Formal incentives also played an important role in maintaining staff motivation. Organizational changes explicitly included an increase in opportunities for upward mobility at different levels of the organization. Loan officer positions were stratified to include entry level positions, mid-level positions, and senior loan officer positions with different compensation packages. At the same time, the development of branch manager positions created a new level of mid-level management that previously did not exist, creating a career path for loan officers into a management position. Continued expansion of operations will increase opportunities within the organization for loans officers and others.

Finally, positive results served to motivate staff. Within a very short time frame, MI-BOSPO staff was able to see the fruits of their labor. Customer satisfaction improved, loan portfolios grew, and the institution reached higher levels of efficiency than had been experienced previously. In many cases, performance goals had to be revised to increasingly challenging levels. Early and ongoing success with process mapping and, more important, with the far-reaching organizational changes that grew out of it made staff feel confident and proud about the direction in which the institution is moving.

Box 3. Summary of Factors for Successful Change Management

- Use of cross functional teams
- Improved communication tools
- Active involvement of a "change champion"
- Inspiration from customers
- Formal incentives
- Experiencing positive results

Conclusion

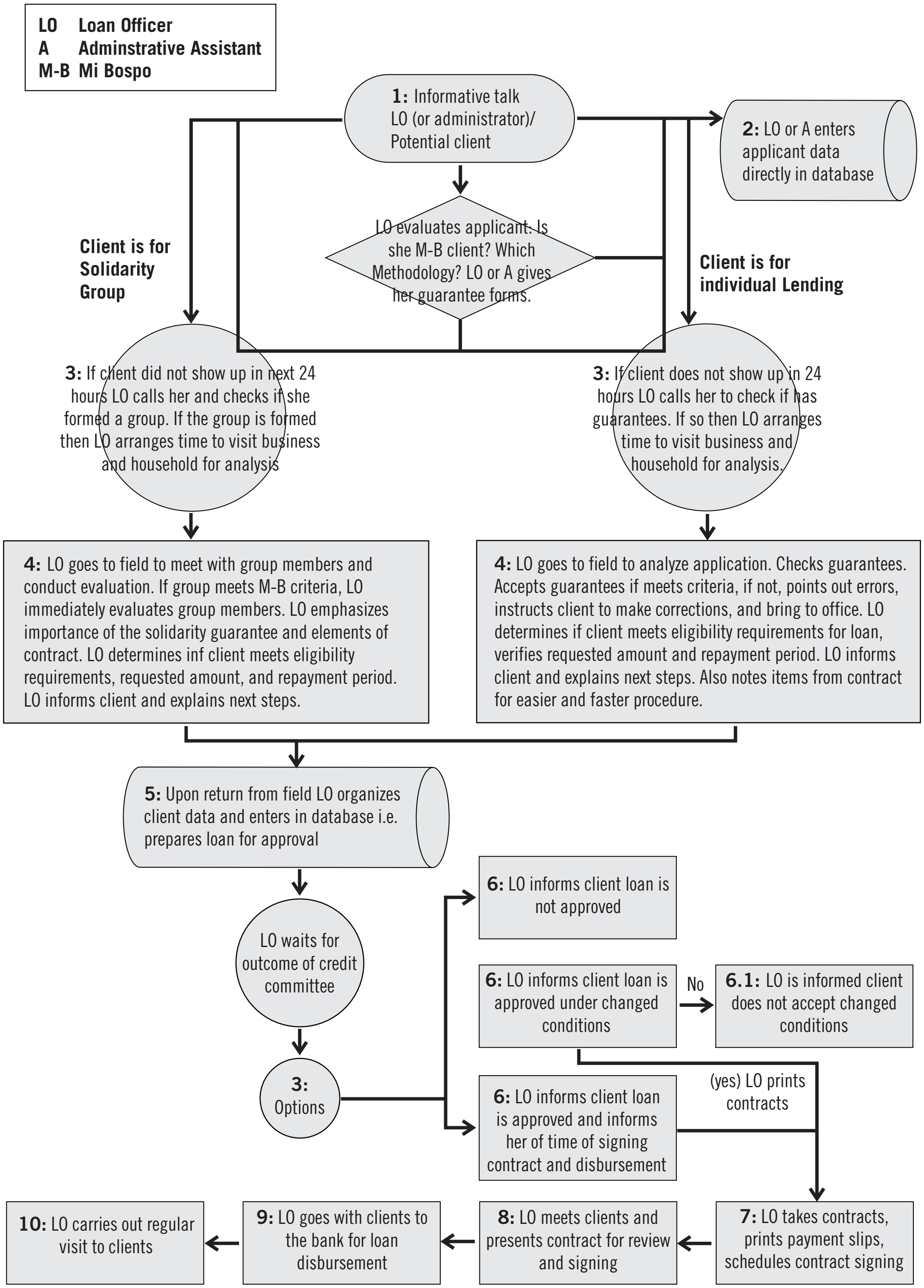
Microfinance institutions have a tremendous amount to gain from applying process mapping as a means to diagnose performance issues. Whether they are motivated by internal requirements to lower costs, by increased competition, or both, the long term sustainability of most MFIs depends on making major gains in efficiency. Efficiency improvements such as those experienced by MI-BOSPO favorably impact the institution as well as its customers.
The scale of analysis will vary depending on the needs and capacities of each institution. MI-BOSPO represents a case in which the scope of improvement opportunities revealed by process mapping was quite broad. These ranged from relatively incremental changes to existing processes, such as the re-ordering of activities or the modification of forms, to much more complex changes in organizational structure.

Nevertheless, regardless of the overall scale of an MFI's process analysis, the most important impact of process mapping is often the least tangible of all. Through the initial experience of process mapping and the planning and implementation activities that followed, MI-BOSPO managers gained a new perspective on their operations.

People in a process-focused organization like MI-BOSPO continue to perform their discrete daily and weekly tasks; however they think in terms of processes. They gain what can be referred to as a "process perspective." They understand the effects of their own activities on other staff and on their customers; they evidence ownership rather than compliance; they take responsibility for outcomes; they do what the situation requires rather than just what their supervisor has instructed. The overall results of a process approach to work, as the MI-BOSPO case confirms, are the twin underpinnings of growth and organizational success: lower costs and increased customer satisfaction.[12]

12. "The Process Approach", Hammer and Company, 2006.

Figure 3. New Client Loan Application Process—Revised Process



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ABOUT SEEP:
SEEP is an international network of institutional and individual members committed to reducing poverty through the power of enterprise. Its over 70 institutional members are active in 139 countries and reach over 25 million microentrepreneurs and their families. SEEP promotes professional standards of practice in microfinance and enterprise development, conducts capacity building activities for its members and other practitioners, creates and disseminates publications for application in the field, and serves as a center for collaboration on a broad range of sector-related issues.

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