Promoting Client-focused Organization – Partner's Exit Monitoring System

Katarzyna Pawlak and Selma Jahic[1]   February 2004

This note describes work on the development of an exit-monitoring system undertaken jointly by Partner – the Bosnian Microfinance Institution (MFI)[2] , and the Microfinance Centre for Central and Eastern Europe and the New Independent States (MFC)[3] – a leading membership-based regional resource center - within the Ford Foundation sponsored *ImpAct* Programme[4]. The note describes the rationale for the system's design, final system description and characteristics, lessons learned from the pilot test as well as drivers and constraints to the system institutionalization.

Increased desertion is a widespread phenomenon in the region of Central and Eastern Europe and the New Independent States (CEE and the NIS)[5]. Partner has been faced with the issue of high desertion like many other organizations in the region. Thus, it has been the main focus of its action-research work under the *Imp-Act* Programme.

Reasons Behind Exit Monitoring System (EMS) Development

Partner puts much effort into addressing the dropout issue, as it believes it is particularly important in a market with intensified competition; in Bosnia and Herzegovina, there are more than 42 MFIs serving a population of 4 million. In such a market, loyal clients can help further improve efficiency – an area that becomes more and more important for sustaining growth in a saturated market. Working with loyal clients also reduces the risk of product diversification. It is these clients who are better known as the institution has been working with them for some time already. Additionally, these clients know the MFI and should therefore be more willing to experiment with new products if they are loyal and have been so far satisfied with their cooperation. This becomes especially important in the light of newly developed draft laws for Bosnia and Herzegovina that envisage the possibility of provisioning other services than enterprise credit by local MFIs. Last but not least, Partner wants to ensure that its target clientele benefits from long-term participation in a high-quality program.

The main challenges that Partner – like other institutions in the region - have been facing with regard to the dropout problem are:

- **difficulties defining a dropout** in a context of organizations focusing on the provision of business credit only[6]: Partner, like other institutions was relying on MIS information on exit rates and basic dropout segmentation by different client and loan characteristics. However, exit rates were not meaningful as Partner had difficulties interpreting them due to a lack of the

Research

dropout definition. Finding the right dropout definition - helpful in measuring Partner's effectiveness in retaining its clients as well as stimulating and evaluating different strategies undertaken to fight the dropout problem - was a challenge.

- **limited understanding of the phenomenon** due to a lack of experience and in-house skills in client-related research: Partner was not able to identify and understand "real" reasons for client exit. MIS data allowed for the measurement of magnitudes and to identify certain groups that tend to leave more often than others, however, it failed to provide understanding about the reasons for the phenomenon. A short, structured telephone survey that Partner undertook in the past provided some general yet superficial results that did not help Partner much in solving its problem. Partner was forced to look for other methods to better satisfy its information needs.

  To gain a better understanding on the dropout phenomenon, in April 2002 Partner conducted a series of focus groups using a discussion guide and participatory rapid appraisal (PRA) tools[7]. The research proved very useful in identifying a wide range of reasons behind dropout. It also helped to revise policies and procedures that met with the highest client dissatisfaction and prompted new product development. However, the research took a lot of effort and was very intense for both Partner and its clients. This is why it was not possible to use the method more frequently. In addition, it seemed that much more could have been achieved if focus group participants were homogenous not only in regard to demographic characteristics, but also in the reasons they left the program. Partner needed tools to better segment its exit client base to inform the sampling plan of qualitative research.

- **lack of managerial tools in place to address the problem:** a lack of definition and information on dropout hindered Partner from taking informed decisions to fight the problem and evaluate their effectiveness. Based on the above-described experience, Partner decided that it needed to find a way to provide the information on dropout on an ongoing basis through setting appropriate measurement mechanisms and exploring patterns and its underlying "real" reasons for client exit.

Exit Monitoring System Concept

To be able to respond to the dropout problem, Partner management and staff need timely and reliable information on exit clients. In particular:

- How many people leave Partner (**dropout magnitude**)?
- Who is leaving (**dropout profiles**)?
- Why do these clients leave (**exit reasons**)?
- What needs to be done to make exit clients return (**effective dropout management strategy**)?

Such information is needed to allow Partner to effectively act on the dropout problem both in a reactive and pro-active way.

To satisfy Partner's information needs in a cost-effective way there is a need to use different tools and methods together to be able to draw from the benefits of each and address their shortcomings by complementing one another. As a mix of tools, the exit monitoring system allows for the segmentation of exit clients, thus digging further into the information provided by exit rates as well as helps to identify priority areas and groups for further research or improvement programs. The system consists of the following components:

Figure 1: Exit Monitoring System Scheme

---
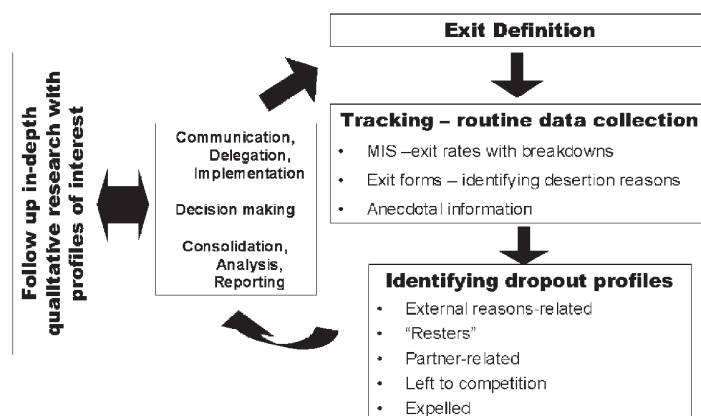
[7]The tools have been adapted from the MicroSave Africa "Participatory Rapid Appraisal for Microfinance Toolkit". For more information on the MicroSave tools see www.microsave-africa.com.

Routine Component with an objective to **measure** and provide **basic understanding** of dropout consisting of:

- Existing loan tracking system that provides ongoing information on client status (new, active, exit, retained client).
- Exit monitoring form that allows for the disaggregation of exit rates into more detailed exit profiles providing basic information on reasons for exit, further segmenting the client base and highlighting areas for more in-depth exploration and/or improvement program.
- Anecdotal information about clients, competition and environment shedding more light on the information coming from the MIS and forms.

Ad hoc Component with an objective to provide an **understanding** of specific areas of interests identified through routine component that includes:

- Follow up in-depth qualitative research using the mix or any of the following tools: in-depth interviews, projective techniques, focus groups and/or PRA tools on an ad-hoc basis.

Action Component that ensures a reactive and **pro-active approach to addressing the dropout issue** and which includes:

- An Inter-functional, inter-level research team headed by a Marketing Manager focusing on developing propositions of initiatives aiming at fighting dropout based on the information gathered from the system as well as other ideas of external origin.
- Decision-making meetings involving top management that enable the taking of action based on signals coming from the routine components, prompt follow-up or ad-hoc research and implementing results-driven decisions.
- Decision-making meetings at a regional level aimed at action taking at the front line and local level allowing for decision speed and response to specific local issues (in opposition to organization-wide specific issues – the responsibility of headquarters).

Different components of the systems enable Partner to provide the necessary minimum information of a different type and detail level. Thus, on one hand, reducing the information retrieval cost and on the other, still ensuring that critical information needs are satisfied in a timely manner and to the required extent. Of course, in order to obtain the required information, all the components need to work effectively together, otherwise they will provide partial information of limited use.

System Components

Exit Definition

To monitor the magnitude and dynamics of the phenomenon, a good definition of a dropout is a must. Otherwise, it will not be useful in stimulating and informing preventive and improving strategies or monitoring their effectiveness. The evaluation of institutional performance will also be limited in that case. To define a dropout, Partner reviewed definitions used by the others, analyzed its historical data on exit and return as well as sought the opinions of its staff.

A first glimpse into the MIS data confirmed a common sense assumption about "resting" phenomenon among microentrepreneurs. It showed that exit rates[8] decrease significantly along the increase in the number of days passed between the last payment on the previous loan and the follow-on loan. A considerable decrease was noticed after extending the "resting window" up to 180 days beyond which the exit rates leveled off.

Figure 2: "Resting" Phenomenon
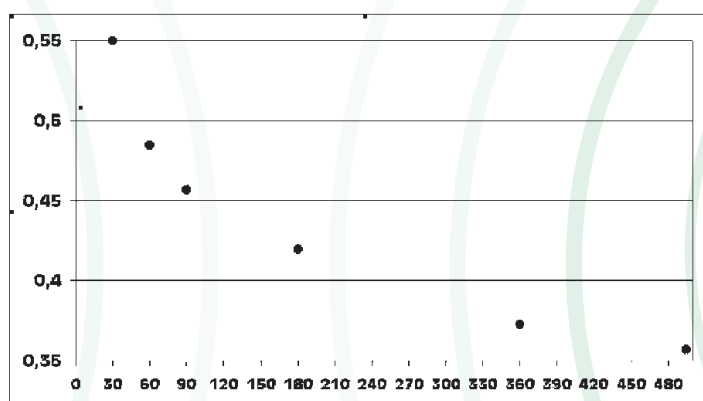
Exit rates drop significantly when the "resting window" is extended. (x axis – number of days; y axis – exit rates in %).

[8]Partner uses CGAP formula for calculating exit rates. A dropout/exiting client is defined as a client that didn't take a follow on loan within next x number of days. To calculate Exit(<# days) = number of dropouts/number of repaid loans in a given period adjusted for an average loan size. More information on various exit/retention rates can be found in "Talking about Performance Ratios" (Rich Rosenberg, MicroBanking Bulletin, issue April 2001).

More detailed analysis of the whole database on exit and returning patterns revealed that 75% of all who exited and returned, they did so no longer then within the period of 250 days, while 50% followed no longer than 150 days[9]. Obviously, the results differed for clients engaged in different businesses – the longest "resting period" was observed among husbandry clients, the shortest – in manufacturing and trade.

Having discussed the results with the staff, Partner came up with a definition describing **a dropout client as one who didn't come back to the program within one year after repaying the previous loan.** A one-year period was identified as a time span that reduces the likelihood of a client comeback, making him or her no longer viable for retrieval due to the highly competitive, dynamically changing Bosnian market where annual changes inside and outside the institution are significant enough to consider such a client as a new one.

As such a definition can be useful for reporting, further categorization of exiting clients is needed for operational purposes. Partner further classifies its exiting clients into:

- *Hard user* – client that comes back to the program after a relatively short period of "idle" time that is considered to be a standard "window" (as defined by Partner staff and confirmed by MIS data analysis) for clients who don't experience seasonality, i.e. in Partner's case it was decided that it may take up to two months (60 days) for a client to make a decision on a follow-on loan;
- *Potential hard-user* – a client who exits and has a chance to become a hard-user client (hasn't come back to the program, but less than 60 days have passed since his/her last loan repayment);
- *Rester* – client that comes back after some time and represents the group experiencing seasonality. It was concluded that a rester will be a client who renews his/her loan within 2-12 months after repaying the previous one;
- *Potential rester* – a client that exits and has a chance to become a rester (or dropout) client (hasn't come back to the program more than 60 but less than 360 days have passed since his/her last loan repayment).

Box 1: **Classification of Exiting Clients**

		client current status = returned	client current status = not returned
time since last repayment	Up to 60 days	Hard-user	Potential hard-user
	60 – 365 days	Rester	Potential rester
	More than 365 days	Dropout	Dropout

Such categorization of clients not only makes the exit monitoring more meaningful, but also helps Partner to work out different dropout management policies in relation to different exit client groups. Partner decided to direct its special routine dropout management efforts at the potential resters. This, in terms of retrieving the clients back to the program, helps to minimize necessary costs of additional work required to bring a client back. The dropout management strategy is directed at the group that should bring the highest payoff[10].

Exit Measurement over Time

Defining the dropout and discussion on the definition-related problems enabled Partner to make better use of its loan-tracking system. Its MIS provides standardized reports on dropout and retention rates using CGAP formula for a set number of days between loans (resting window) allowing for tracking dropout magnitudes over time.
As mentioned before, the MIS allows for segmentation based on the client and loan characteristics, which is helpful for analyzing the exit clients' structure and observe its evolution over time.

---

[9]The average number of days between loans for the entire database amounts to 190 days, the median equals 150 days, third quartile is 250 days. When the database is limited to the clients that returned within 365 days, the median amounts to 120 days and the third quartile for 192 days.
[10]According to the definitions, those that are potential hard users will come anyway and if not they will fall into the potential rester group that is under special supervision anyway; dropout clients are less likely to come back and are not viable for Partner, so there is no sense in including them into the standard dropout management policy.

Research

Box 2: Exit Rates (CGAP formula)

	Exit<60 days	Exit<180 days	Exit<365 days	Adjusted Exit
2002	60.1%	50.9%	N/a	47.1%
2001	56.6%	48.6%	44.83%	38.8%
2000	47.5%	41.1%	36.76%	25.1%

Year	Repaid	Retained Clients		Dropout Clients		Returning			Adjusted Retained		Adjusted Exit	
	# loans repaid	# retained	%	# not retained	%	2001	2002	2003 (I-V)	#	%	#	%
1	2	3	4 (3/2)	5 (2-3)	6 (5/2)	7	8	9	10 (5+7+8+9)	11 (10/2)	12 (2-11)	13 (12/2)
2000	3852	2036	52.86%	1816	47.14%	466	285	100	2887	74,95%	965	25.05%
2001	7099	3230	45.50%	3869	54.50%	0	831	287	4348	61,25%	2751	38.75%
2002	8112	3589	44.24%	4523	55.76%	0	0	704	4293	52,92%	3819	47.08%
2003 (I-V)	3072	1190	38.74%	1882	61,26%	-	-	-	-	-	-	-

However, the lack of automatic trend-analysis reports makes it very time consuming and limits the possibility of an ongoing use of the collected data. In particular, it creates difficulties analyzing such issues as:

- **Seasonality of dropouts.** The exit rates vary significantly throughout the year and their pattern of change corresponds to the seasonality of taking on loans by clients. To be able to monitor exit throughout the year, there is a need to adjust for this seasonality. The way to do it is to look at the calculated annual monthly exit rates[11] that help to exclude seasonal variations or compare the current moment with the corresponding one year ago. Such reports are, however, time consuming to prepare due to the lack of standardized, automatic MIS.

Figure 3: Seasonality of Dropout

Legend: Exit<180 (Oct 00 - Sep 01); Rolling Exit<180 (Oct 00 - Sept 01); Exit<180 (Oct01 - Sep02); Rolling Exit<180 (Oct01- Sept02)

- **Information on expelled and returning clients.** The MIS enables the breakdown of exit and retention rates by any client characteristics that are collected through the application form and other loan application documents and entered into the MIS (such as gender, age, marital status, place of living, business type, etc.), which provides more information on who exits and in what magnitude. However, there is still a lack of information on expelled and returning clients. Lack of information on expelled clients causes problems with the interpretation of exit rates as well as makes it difficult to draw samples for any ad-hoc research with exit clients. The lack of standardized reports on returning clients make it difficult to analyze just how effective the strategies to retrieve clients are.
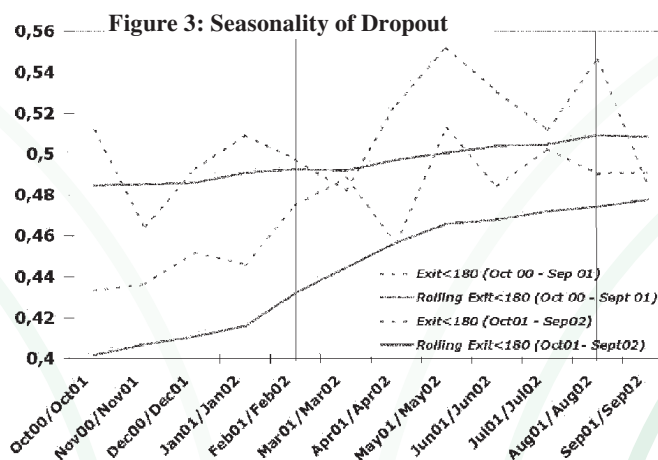
Partner is currently in the process of upgrading its MIS. Hopefully the new one will be able to provide management and staff with the necessary information in a timely manner with less effort required.

Further Segmentation and Basic Understanding From Monitoring Forms

To get a better understanding of the reasons certain groups of clients leave the program and to have a basis for predicting their behavior to act upon exit problem in more informed way, Partner introduced

---

[11]Figure 3 present monthly exit rates calculated using the CGAP formula for 180 days between loans (Exit <180). To exclude seasonal variations annual exit rates for subsequent months – e.g. for September 2002, Exit <180 (Sep 02)=Dropout(Oct01 to Sep02)/Repaid(Oct01 to Sep02) were calculated. Another way to smooth out seasonal variations is to calculate a rolling average of subsequent monthly exit rates.

exit-monitoring forms to be administered with exit clients at the moment they fall into the potential resters category[12] . The form is used to identify the reasons for client exit and in particular, to identify any factors related to Partner product, service, policies, operation or any other within Partner control that might have influenced a client's decision to leave the program. All in order to identify areas and priority groups where Partner can direct its further research efforts and/or improvement program aimed at increasing client retention.

The tool is a self-completion form with a set of structured questions with pre-coded answers related to client satisfaction, loyalty, reasons for exit, current ways of financing the business and other. Triangulation of various questions allows for the differentiation between the following exit profiles:

- **Expelled clients:** those forced out of the program due to repayment problems or loan misuse.
- **Resters:** those who currently finance their business on their own and would like to take a loan from Partner in the future; they are satisfied but left because of their business's seasonality[13].
- **External reasons- related:** those who left Partner due to reasons not related to Partner – they are satisfied and would come back if objective reasons changed. E.g. those that close the business due to family problems or migrated, found stable employment and closed the business – all satisfied with Partner services and willing to recommend them to others.
- **Left for Competition:** already left or planning to use any other source of credit (other service)
- **Other Partner related:** those who left due to different reasons but are dissatisfied.

Box 3: Exit Voluntary Profiles (pilot test results)

Reasons for exit	Main reason indicated by client	Cross checked with other reasons indicated by clients	Cross checked with loan influence	Final (cross-checked with client satisfaction)
External reasons	38.9%	41.1%	38.9%	1.1%
Resters	37.8%	35.6%	35.6%	16.1%
Left for competition	13.3%	14.4%	14.4%	14.9%
Partner-related	10.0%	8.9%	11.1%	67.8%
Total	90	90	90	87

To arrive at the final reasons for dropout, different questions are cross-checked. The main reason indicated by clients is cross-checked with other reasons provided to find any Partner-related causes for dropouts. Loan influence on the business is cross-checked with business-related exit reasons. The highest quartile of satisfaction index (calculated based on satisfaction from detailed aspects taking into account only the highest answers) is used to identify dissatisfied clients. Current business financing and intent to take a loan in the future are also analyzed to shed more light on the factors influencing a client's decision to exit.

Partner segments its clients based on satisfaction and loyalty indices as well as according to their profitability and target status. The exit profiles are further desegregated using these segment variables (the pilot test sample was too small to allow for segmentation analysis to be conducted) as well as other demographic data available from MIS.

Questions on satisfaction and loyalty are meant to allow further client segmentation along with the MIS data on the clients' target and profitability status.

A self-completion form is a tool that has proved useful and feasible to use on an ongoing basis[14]. The forms are distributed and collected by loan officers in closed envelopes. All exit clients falling into the defined category (becoming a potential rester group in the month of the data collection) take part in the monitoring to avoid problems with sampling.

---

[12]In the process of the system development, Partner has already experimented with interviewing clients just before their last installment payment to determine the clients' plans in terms of extending their cooperation with Partner. Such timing of interviews, however, proved not very useful in obtaining information about the clients' future financial behavior. For a long time, it was a challenge to define the right timing for the interviews. Only further categorization into different exit profiles and its use for dropout management strategy formulation allowed for decisions on the timing of interviews that would make more sense from an operational point of view.

[13]If there are many such people Partner in the future will be able to build a special loyalty building program for resters e.g. rewarding shorter resting periods.

[14]During the system development Partner has experimented with other tools - semi-structured interviews conducted over the phone as well as face-to-face interviews. In Partner's case, the semi-structured interviews failed to provide the required information. According to the loan officers' feedback, the method proved too impersonal, did not permit for close contact, and therefore reduced the quality and usefulness of the responses. On the other hand, the method was introduced just when Partner was starting with the internal research activities, the skills were freshly developed and the whole idea probably not yet institutionalized enough. Partner uses face-to-face surveys to measure satisfaction and loyalty of its clients. However, since exit monitoring involves all loan officers it was decided that the use of self-completion forms will be more convenient from the logistical point of view – loan officers will be able to distribute and collect forms from their own clients while still obtaining less-biased results.

In the pilot test phase, Partner used two self-completion forms – one to interview voluntary exits, and another - expelled clients. Both forms had the same core satisfaction and loyalty questions, but each of them additionally explored either dropout or delinquency issues.

In the rolled-out system, Partner uses the voluntary form only. It is administered semi-annually on a routine basis. The information on forced-out clients is tracked only in terms of its magnitude and explored more in-depth with other methods on an ad-hoc basis (e.g. if the problem of forced-out dropouts intensifies).

Box 4: Self-completion Forms – Implementation and Lessons Learned from the Pilot Test	
Process Steps	1. Preparation of forms and data input formats (Research Team and external TA) 2. Selection of the sample from the MIS (Research Team) 3. Verification of dropout list to identify expelled clients (Regional Offices) 4. Delivery of training to loan officers (Research Team) 5. Contacting clients and handing in the forms in envelopes (Loan Officers) 6. Completion of the forms and handing them back in closed envelops to loan officers (Clients) 7. Submitting filled out forms to the regional offices (Loan Officers) 8. Submission of all forms to the headquarters' Marketing Department (Regional Managers) 9. Data input (Research Team) 10. Data analysis (external TA – basic skills to be developed in Research Team)
Supervision & monitoring	Regional Managers supervised the entire process of data collection. The Research Team was available for clarifying all the problems that came up during the research, supervised some of the data collection in the field, and distributed some forms on their own.
Feedback on process and the tool itself	• Simple process, working well • Initiative considered to be additional work and burden for loan officers. Problems with the motivation of loan officer surfaced even though the preparatory training was conducted and objective; the reasons and benefits Partner may get from pursuing exit monitoring were explained • Some clients(especially expelled clients – few of them refused to fill out the forms) were found to be difficult to approach due to bad relationships with loan officers • The forms were found very easy to administer and fill out both by loan officers and clients • Clients didn't have any problems providing answers to the questions. • Clients had the freedom to express their opinions and some information probably would be very difficult to obtain using other techniques (focus groups). • The form covered all issues of interest • Short time to complete the form • The majority of clients were very satisfied that they were given a chance to provide their opinions on Partner's work
Lessons learned	• Support from the management team and training prior to actual research were the main success factors of the tool's implementation • More training prior to actual research • "other" category should be excluded from the pre-prepared list of answers since some clients indicated it without actually considering other options. • Involvement of representatives of the Management Team in data collection would help to interview very dissatisfied clients (especially expelled) and at the same time create an image of an institution that WHAT? "cares for the clients" • The tool not only provide information on reasons for exit but serves as a good promotional tool presenting it as a flexible institution that is ready to learn from its mistakes and which cares for clients

Research

Learning from Dropout through Ad-hoc Research

Partner plans to use the EMS for follow-up research to understand better the exit behavior of its priority clients. It is expected that the forms will help to better define research objectives and actually narrow them, further decreasing the cost of learning from dropouts. Developed detailed exit profiles will inform the qualitative sampling plan thus allowing for higher homogeneity (in terms of reasons for dropout and other segmentation variables). For example, Partner may decide to form a group of dissatisfied clients as its loyal core target group, i.e. rural women, to find out how to improve the services to serve them better and keep them in the program. This will allow Partner to optimize scarce resources both in terms of in-depth research costs (limited to selected groups of high interests) as well as new product development and/or refinement (through allocation of resources for the priority groups' needs in the first place). In light of Partner's previous experience with exploratory research on desertion, it would add much value to the research that has already proven useful.

Translating Learning into Action

To make sure that the information is acted on in a timely manner, Partner introduced a decision to make meetings a part of its everyday operations. The decision-making meetings were first held quarterly and focused on the discussion of research-related issues. The Marketing Director had an obligation to present progress on any research initiative undertaken by the Research Team at each meeting, and this topic had a permanent place on the decision-making meeting agenda. The presented findings were discussed and decisions made regarding the next steps for the research as well as the operational application of results. In time they also started to concern other issues and are held as needed. The meetings involve either all top and middle management or top management only depending on the type of decision to be made.

This year, Partner has introduced similar meetings at the regional level to systematize information sharing and decentralize decision making. Meetings are held at the end of each month and group all loan officers and a manager from a particular branch to discuss, among other issues, anecdotal client information from the field as well as to come up with local initiatives and propositions of organizational-level solutions for top management.

Besides management meetings, in February 2003 Partner set up a dropout working group (alongside other working groups that function in Partner like a "code-of-conduct", incentive-system group, MIS team, merger's team, etc). The group met regularly to develop proactive loyalty building strategies to reduce dropouts. After a year of functioning, as of January 2004 the tasks of the dropout working group were integrated into the research team's activities to integrate the actions. As the Research Team is responsible for develop propositions of certain initiatives or strategies, it was decided that there is no need for duplicating their efforts.

> ### Box 5: Action-oriented Dropout Working Group
>
> During the first dropout working group meeting in the beginning of 2003 a decision was made to organize a marketing action aimed at the clients who left the program in the past six months. Promotional materials including information on the recent changes to the policies and procedures, new products developed as well as an incentive package for repeat clients were developed. Loan officers were asked to contact their clients to inform them about recently introduced changes to the Partner program and invite them to come back. Loan officers recorded the names of the returning clients in their personal notes to evaluate the effectiveness of the initiative. It turned out that within one month 10% of the approached clients came back.
>
> The second dropout group meeting was held in July 2003 and resulted in a decision to look more closely at Partner's strict repayment policies and the influence they have on the loan officers' decisions to turn down follow-up applications from their good clients that experienced repayment problems during their last payments. An analysis of expelled exit forms revealed that there were only a few cases in which bad character was a cause for delinquency. At the same time, the situation on the market, problems with businesses liquidity, salaries and late pensions caused problems in complying with the very conservative approach to repayment that Partner had. The initiative to track expelled clients at the branch level was launched. Branch managers and loan officers kept track of good clients who were forced out in line with Partner's policy. As a consequence of this initiative, on Jan. 1, 2004 Partner revised its policy regarding delinquency and access to follow-on loans giving branch managers and loan officers greater authority in granting follow-on loans to clients late in certain circumstances.

EMS Uses

The system is meant to involve various Partner staff, integrate with other systems and processes already in place as well as help Partner management make more informed decisions. Apart from providing the information on exiting clients, the system has the potential to be useful in other areas of Partner's operations:

- Further develop learning and a client-oriented organizational culture and relation-building philosophy

Research

- Increase organizational flexibility and further facilitate the decentralization process
- Inform and verify the various strategies – such as targeting, loyalty building, promotional strategies, as well as business planning.
- Prompt new product development and refinement
- Provide a basis for segmentation (and future data mining) and thus inform the better allocation of resources focusing on priority areas and client groups
- Act as a proxy indicator for client dissatisfaction and negative impact
- Monitor client reaction to internal and external changes
- Act as a promotional tool itself and help Partner to create an image of a flexible, learning organization that cares for its clients

Hopefully, when Partner EMS becomes an integral and routine part of its everyday operations and begins to evolve, Partner will identify more and more areas and actually use the system for multiple purposes.

The System Institutionalization

Strategic and Operational Match

Partner's focus on expanding and increasing its market share in recent years has reflected on its performance and the way the organization has worked. Organizational centralization, cost reduction and standardization have helped the realization of the strategy. At the same time, Partner has been experiencing a problem of high dropouts -- probably also the consequence of an aggressive expansion plan. The operational targets, staff incentives and rigid policies and procedures have not helped stimulate long-term relationships with clients and keep their focus. Rather, they have maximized their performance in the short term through increased cost efficiency. High operational targets have also placed a great burden on operational staff, making them disinterested in any additional initiatives and especially turning away the operational focus from retaining clients.

The exit research, besides making the procedures and policies flexible and diversifying the products, has also helped make clear that the pursued strategy needs to have a clear reflection in the operations. As a consequence, the operational targets, incentives and processes have been aligned to be more stimulating for dropout reduction and long-term relationship building with clients. This has been done through increasing the weight of retention measure in the incentive system[15], reducing operational targets for front-line staff to the numbers of clients feasible to serve at a high-quality as well as through the introduction of the dropout management policy.

Transition to a More Client and Relationship-Oriented Organization

The drive for expansion and increased market share dictated by the strategy of Partner in the fast growing market has often moved Partner to the "sales-oriented" track. It has also caused confusion among especially lower-level staff about how the dropout work contributes to organizational performance goals and operational targets. Education of the staff in a form of internal training, peer involvement in the research team activities, results presentation and dropout management strategies introduced have helped Partner to stay on the path of a more client-oriented organization. Changes in policies, strategy and organization of process help clients in its transition, and taking into account the consequence with which Partner pursues its priority initiatives have further moved the organization toward a relational, client-oriented philosophy.

Embedding the System in the Product Delivery Process and Relation-Focused Organizational Culture

The post-sales management that Partner has introduced this year is going to focus on keeping front-line contact with clients after their last repayment – until they turn into a potential rester category. This should serve as the basis for developing individual and regional level strategies to build long-term relations and make sure exiting clients come back to Partner. Additionally, it will provide headquarters and the research team with anecdotal signals from the field and will further inform organizational-level strategies and initiatives. Embedding exit monitoring data collection into the post-sales management phase should further increase staff buy-in into the system idea and help make it more routine. Partner believes that a staff used to routine contacts with exit clients will use the tool not only as data collection instruments but will find it a useful vehicle to build relationships with clients.

---

[15]The individual bonus that rewards frontline staff for bringing back repeat clients to the program no matter how long they have been staying out of the program has been modified to increase the weight of the number of repeat borrowers in its calculation. This is simple system to be understood by loan officers and effective at stimulating individuals. To stimulate proactive actions directed at rester group at organizational and local levels and support newly introduced dropout management policy a team bonus linked to the retention rate is to be introduced.

Decentralization of Operations

The high centralization of the institution while enabling Partner fast expansion to new markets in recent years has caused a lot of problems in developing and institutionalizing an exit monitoring system and dropout reduction strategies. First of all, it has caused problems in fast decision making. Introduced a few years ago, decision-making meetings helped to ensure buy-in at the top and middle management level and proved useful for implementing organizational wide initiatives. However, they have failed to stimulate regional offices to make local decisions. This has especially turned out to be very cumbersome when the number of issues to consider and decide upon have been constantly growing due to the growth of the organization, increasing competition and more initiatives being undertaken by Partner causes the issues to pile up and decisions being made without a proper verification process.

Partner has quickly realized that centralization of decision making at the headquarter level has delayed the timely reaction to changes in local markets and made regional offices feel less responsible for adjusting to the changes on their own; this is why Partner has started to decentralize its operations. The idea of introducing regional level meetings similar to those at the headquarter level was a good step in this direction. The meetings do not only help to decentralizing dropout management strategy to regional levels, but they are also a good anecdotal information source that provides information input to the system as well as verifying the results from exit monitoring (along other sources of information monitored – on competition, environment, etc.).

Improving Internal Communications

In a fast-growing organization, a well-functioning internal communication system is very difficult to maintain and needs ongoing effort to improve it. Lack of feedback mechanisms make it difficult to capture anecdotal information from the field as well as provide field staff with a clear understanding on the organization's development. This may also cause difficulties in promoting the idea of client research and ensure timely feedback both ways. Partner also faced problems in the past in this area: in some cases the memos with the information on the study results sent to the regional offices got stuck in mailboxes and arrived at front line staff late or never. In other cases, bottom-up feedback had problems reaching the head office, which spurred frustration and staff demotivation. To increase internal communication, Partner employed an HR manager, introduced suggestion boxes for the staff as well as started to collect staff propositions on an ongoing basis and review them periodically at decision-making meetings. It has also engaged in the process of developing the intranet. All these initiatives are very important to further increase the effectiveness of the exit monitoring system maintenance and use.

Overcoming Challenges of the Functional Organizational Structure

When Partner got involved in client research a new unit was formed – marketing. Since then the marketing unit has been headed by one person – the Marketing Manager (formerly joining administrative and marketing work) who takes care of the marketing functions within Partner as well as coordinates the work of the research team. As the functional organizational structure stimulates each function or department manager to focus on its own piece of work and dissimulates sharing resources with other activities within the organization, this may cause problems getting various staff involved in areas outside their functional activities. This was also an initial problem of Partner when it started its research work.

To overcome this challenge and make research work better integrated with all other processes in Partner – the Research Team, which consisted of different functional and level staff was formed early on. The team has been successful in creating bonds among its members, bringing together the perspectives of different employees and slowly growing within Partner. This especially involved more and more different functional staff into the team like Operations Manager and HR Manager, which helped to "smuggle" the idea to other functional areas as well as streamline research, HR and operational activities. The gradual inclusion of regional managers has helped in the further promotion of the idea at a regional level. Also, the recent management work, which was focused on the organizational structure reengineering, is meant to further integrate various processes being put in place at Partner, thus allowing for greater integration of the exit-monitoring system and dropout management.

Different Levels and Functions Involvement

To make sure that the information is used effectively there is a need for involving different organizational levels, functions, positions in different phases of the information flow through assigning different roles and responsibilities. In Partner's case, all the organizational levels and functions have their roles to play in system maintenance, and in particular:

Box 6. System Design[16]

What?	Who collects?	How?	Who complies the data?	How?	Reporting?	How often?	When?
Anecdotal information on exit	Loan officers	Informal talks with clients that just became resters (after 2 months without a loan)	Regional managers	At monthly regional meetings in form of a standardized report (last working day of the month)	At regional level to other regional staff by Regional Managers	Monthly	Every month except April and September
			Research Team	At organizational level	At an organizational level to Management	Monthly	Every month except April and September
Reasons for dropout - information on structure of exits	Loan officers	Self-completion forms with resters (after 2 months without a loan)	Research Team	Basic statistics in Excel for organizational level	Propositions presented to management at organizational level (Research Team – Headquarters members) Results presented at regional level and discussed at monthly meeting with regional staff (Research Team – regional representatives)	Semi-annually	May September
In-depth understanding of reasons for dropout/problems experienced by dropout groups of interest	Research Team	Qualitative Research with identified segments of dropouts (FGDs, PRAs, III)	Research Team	Narrative findings in a form of presentation	Propositions presented to management at organizational level (Research Team – Headquarters members) Results presented at regional level and discussed at monthly meeting with regional staff (Research Team – regional representatives)	Semi-annually	June November
Information on exit magnitude and its dynamics overall and by segments (exit and retention rates)	MIS Officer/LTS Officer	Analysis of MIS data	MIS Officer/LTS Officer	Reports to Research Team and Management	Sent to Research Team and management Detailed Analysis presented to the management	Monthly Quarterly	Jan., April, July, Oct.

[16]Profitability was estimated based on average loan size, average loan term, effective interest rate and average total cost per client. Target group status was defined reflecting the institutional development focus on women and rural clients.

Central level
Management
- Set strategies based on the organizational goals, opportunities and challenges. These strategies are the basis for the system goals in terms of information collection priorities
- Use the information from the system to revise the effectiveness of their strategies
- Use the information from the system to revise strategies and make decisions about the initiatives that Partner needs to undertake
- Make decisions on allocation of resources to allow the system to function
- Make sure that other processes and systems are compatible with the information system (support activities undertaken under the system)
- Ensure that results are used and initiatives undertaken based on them implemented in a timely manner by responsible managers
- Make sure that all inefficiencies in the system's functioning are eliminated in a timely manner
- Make sure that the system is reviewed on an ongoing basis and provides reliable and high-quality information
- Supervise exit-reducing and relationship-building strategies at an organizational and regional level

Regional level
Middle Management
- Regional Managers supervise informal chats with exit clients and distribution and collection of forms twice a year
- Regional Managers hold monthly meetings to discuss anecdotal information from the field
- Regional Managers develop regional level strategies to fight exit as well as help frontline staff to build their individual relationships with clients
- Regional Managers aggregate information on exit from informal talks of frontline staff and other feedback
- Regional Managers pass the regional and frontline feedback to the central level
- Supervise implementation of exit reducing and relationship building strategies at a regional and frontline level

Frontline-level Staff
- Loan Officers develop individual strategies building relationships with clients from the moment of seeking information until a client becomes a dropout (after 12 months from last repayment)
- Loan Officers hold informal talks with exit clients turning to potential resters every month and twice a year distribute and collect self-completion forms
- Loan Officers feed information back from the field and their ideas for new initiatives to Regional Managers
- Feed the information back to clients about decisions made in the program
- Implement individual, regional and organizational-level strategies to reduce dropouts and build long-term relationships

Cross-level and cross-functional
Research Team
- Administer the system – makes sure that all elements are working well, and problems are spotted and solved timely
- Collect or supervise collection of data, input the data, analyze, come up with propositions to management and disseminate the results at different organizational levels
- Marketing Manager manages the Research Team, drafts operational plan, prepares and update job descriptions (together with HR manager), recruits new team members (together with HR manager), evaluates the team work, identifies capacity building needs and makes sure that they are being met in timely manner
- Regional Representatives of the Research Team (one representative for one branch) coordinate system implementation at the regional level, spot any inefficiencies, problems and inform headquarters about them; gather feedback and disseminate results

Further Institutionalization of the Research Team

To increase the members' commitment, motivation and efficiency, Marketing and HR Managers have been developing detailed job descriptions of the team members, putting Research Team activities into an annual operational plan, setting performance goals and developing a bonus for the team. This will allow them to help track the progress of the team as well as hold its members accountable. Additionally, greater authority has been granted to the team, which apart from speeding up decision making and further integrating marketing to other processes, should further increase the team's recognition in the organization and its work importance.

Research

ANNEX

I. INTRODUCTION
II. INSTRUCTIONS FOR RESPONDENTS
III. CORE QUESTIONS

1. How have your business activities been affected by the loan **last taken** from Partner?

**PLEASE MARK WITH
THE CIRCLE THE MOST
RELEVANT ANSWER.**

> **1.** Helped to start a business
> **2.** Helped to expand my/ the business
> **3.** Helped to keep my / the business going
> **4.** Decreased the scope of my / the business activity
> **5.** Influenced on my / the business closure
> **6.** Other - please specify what: ……………………..…………………………………………………

2. Now please think about products and services **offered by Partner.** What is your opinion on each characteristic of the loan(s) that you got from Partner presented in this table.

IN EACH VERSE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER.

WHEN ANSWERING PLEASE USE THAT SCALE:	1 - definitely bad	2 - rather bad	3 – neither good nor bad	4- rather good	5 – definitely good
A. **Office location (accessibility of the office location)**	1	2	3	4	5
B. **Working hours (convenience of working hours)**	1	2	3	4	5
C. **Loan officer's behavior (his/her politeness, being nice)**	1	2	3	4	5
D. **Reactions to your suggestions and complaints**	1	2	3	4	5
E. **Simplicity of procedures (how easy it is to comply with all the requirement to get a loan)**	1	2	3	4	5
F. **Loan size**	1	2	3	4	5
G. **Loan term (the time within which one can repay the loan)**	1	2	3	4	5
H. **Method of loan repayment (repayment through a bank)**	1	2	3	4	5
I. **Installment size (how well the amount of monthly repayments are adjusted to your needs and business capacity)**	1	2	3	4	5
J. **Repayment in even installments**	1	2	3	4	5
K. **Collateral, guarantee requirements**	1	2	3	4	5
L. **Processing time (how quickly one can get a loan, when one submits all the required documents)**	1	2	3	4	5
M. **Interest rate**	1	2	3	4	5
N. **Provision fee**	1	2	3	4	5
O. **Grace period (holidays in payment at the beginning of the loan)**	1	2	3	4	5

3. What is your overall opinion on your co-operation with Partner?

**PLEASE MARK WITH
THE CIRCLE THE MOST
RELEVANT ANSWER.**

Definitely bad	1
Rather bad	2
Neither good nor bad	3
Rather good	4
Definitely good	5

4. Please complete the sentence choosing ONE statement that describes you best: Using Partner loan …

PLEASE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER.

I was <u>not</u> able to satisfy <u>any</u> of my business needs for borrowing	1
I was able to satisfy <u>hardly</u> any of my business needs for borrowing	2
I was able to satisfy <u>only few</u> of my business needs for borrowing	3
I was able to satisfy <u>most</u> of my business needs for borrowing	4
I was able to satisfy <u>all</u> of my business needs for borrowing	5

5. What statement describes you best?

PLEASE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER.

I have just borrowed/ I am just about to borrow money from other institution (e.g. bank, other MKO, etc.)	1
I have just borrowed/ I am just about to borrow money from family or friends	2
I have just borrowed/ I am just about to borrow money from private lender	3
I am using my own resources, they are currently sufficient for running my business	4
I have no business any more	5

Here are given possible factors that might have influenced your decision of not taking next loan from Partner after repaying the previous one:	6. In this column please mark the **main** cause that influence your decision not to take next loan? **PLEASE MARK WITH THE CIRCLE ONLY ONE - <u>THE MOST</u> RELEVANT REASON.**	7. In this column please mark any **other, less important** cause(s) that influenced your decision not to take next loan? **PLEASE MARK WITH THE CIRCLE <u>ALL OTHER</u> RELEVANT REASONS**
A. Experienced business problems	1	1
B. Experienced personal problems	2	2
C. I have found a better source of credit	3	3
D. I am not satisfied with your staff	4	4
E. 5. I am not satisfied with your loan product	5	5
F. I am not satisfied with your procedures	6	6
G. My business doesn't need any additional	7	7
H. I I have no business any more	8	8
I. Other reasons – please specify what ?	……………………………………..	……………………………………..

8. Do you plan to take another loan from Partner within the next 10 months? Please indicate how likely it is that you will borrow from Partner again?

PLEASE MARK WITH THE CIRCLE THE MOST RELEVANT ANSWER.

Definitely no	1
Rather no	2
Rather yes	3
Definitely yes	4

9. Please choose the sentence, which describes you best:

**PLEASE MARK WITH
THE CIRCLE THE MOST
RELEVANT ANSWER.**

Partner is the only available source of credit for my business	1
Changing the source of credit (Partner) would demand too much effort from me	2
I got used to Partner and I like this institution. I see no need to look for another one	3
Partner is the best source of credit I can imagine	4
As a good client I am offered special terms by Partner	5
None of the above	6

10. Would you recommend in the future taking a loan from Partner to your colleagues, friends or any other people?

**PLEASE MARK WITH
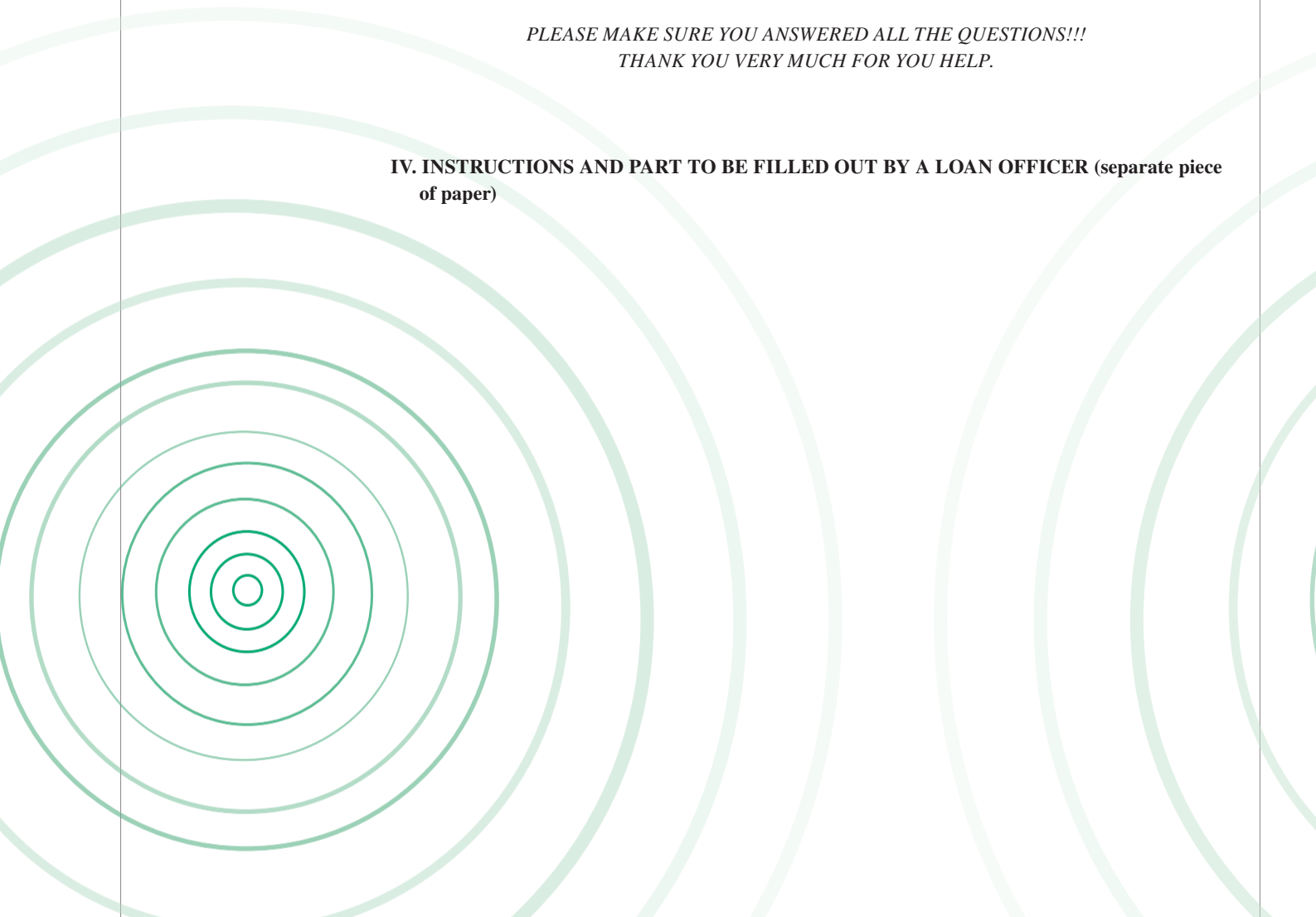THE CIRCLE THE MOST
RELEVANT ANSWER.**

Definitely no	1
Rather no	2
Rather yes	3
Definitely yes	4

11. If you could improve something about Partner what would it be?

………………………………………………………………………………………………

……………………………………………………………………………………………… .

PLEASE MAKE SURE YOU ANSWERED ALL THE QUESTIONS!!!
THANK YOU VERY MUCH FOR YOU HELP.

IV. INSTRUCTIONS AND PART TO BE FILLED OUT BY A LOAN OFFICER (separate piece of paper)