*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Imp-Act

Practice Notes

**IMP**ROVING THE IMPACT OF MICROFINANCE ON POVERTY: **ACT**ION RESEARCH PROGRAMME ISSN: 1740-4711 • NUMBER ONE • 2003

# The Feedback Loop

*Responding to client needs*

**Imp-Act**

is a global action research programme designed to improve the quality of microfinance services and their impact on poverty. ***Imp-Act*** promotes credible and useful impact assessment systems that reflect and respond to client needs, as well as the priorities of microfinance organisations and their stakeholders. The programme is a collaboration between 31 MFOs in 20 countries and a team of academics from the UK universities of Bath and Sheffield, and the Institute of Development Studies, Sussex University.

***Imp-Act***
*Imp-Act* Secretariat,
Institute of Development Studies,
University of Sussex,
Brighton, BN1 9RE
*Telephone:* 01273 873733
*Fax:* 01273 621202/691647
*Email:* A.Brody@ids.ac.uk

## What is a Feedback Loop?

Microfinance organisations (MFOs) collect various types of information from their clients. However, it is often the case that this information is not used effectively to enable the MFO to better understand its clients and respond to their needs. The idea of the feedback loop is that this information is valuable and better use can and should be made of it. The key to improving impact on clients is to find ways of gathering and using information that will lead to improved products and services that are more responsive to clients' needs.

The feedback loop describes the stages that information moves through in an organisation from its initial generation to the implementation of changes in products and services. By following the different phases of the loop, an MFO is more likely to consider all the issues involved in decision-making and implementation, and make more effective use of data collected from clients. An examination of how an MFO uses its information can be carried out either by the MFO itself or by external assessors.

### For Practitioners

Many organisations collect data from clients. They need to ensure that this can be used to make changes in products, service or organisational structure.

### For External Assessors

The feedback loop offers a framework for assessing a microfinance organisation's information flow, responsiveness to clients and its overall effectiveness.

### How Can These Practice Notes Help You?

These notes are designed to help you review and improve your organisation's own systems of information flow and feedback, or to review these processes as an external assessor. The notes outline the steps of the feedback loop, and give advice on how to use it.

Experience of MFOs based in southern and east Africa and in Latin America is used to provide practical examples.

Some of the case studies highlight good practice in feeding back information; others show how following the steps of a feedback loop could improve an organisation's information flow and service delivery.

***Imp-Act***
**Practice Notes**
BASED ON RESEARCH CONDUCTED FOR
*MicroSave–Africa*
AND ***Imp-Act***

# The 8 Phases of the Feedback Loop

There are eight phases in a feedback loop. To effectively respond to client needs, each phase of the loop must be implemented in sequence (see diagram below). Briefly, the eight phases are:

### 1 Information collection

Data is gathered on a formal and informal basis.

### 2 Information consolidation

Raw data is turned into a usable form.

### 3 Analysis

Information is formally assessed in terms of client and institutional needs, and forms the basis for recommendations to satisfy those needs.

### 4 Reporting

The analysis is summarised in written and/or verbal form for ease of decision-making.

### 5 Decision-making

Decisions are made, based on data and recommendations from the reporting phase.

### 6 Delegation

After a decision is made, the person responsible for implementing it must be fully aware of all requirements.

### 7 Communication

All staff involved in implementing changes must be fully informed of all issues and procedures.

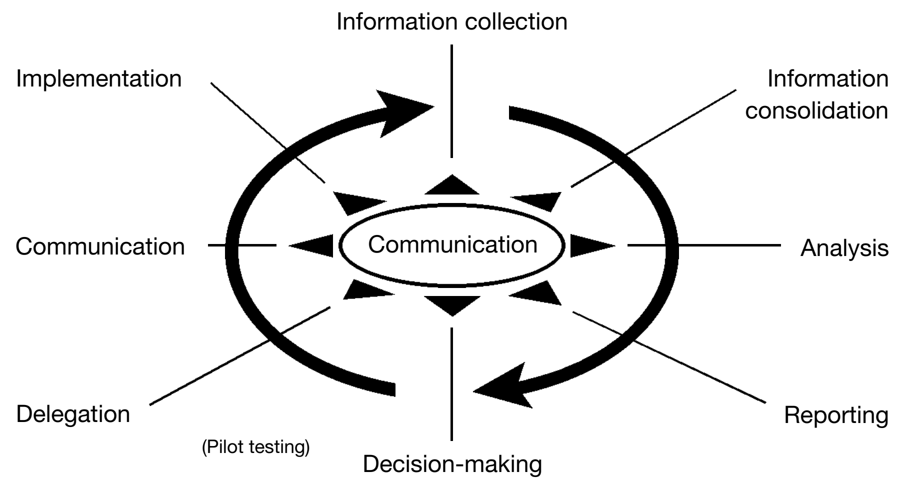
### 8 Implementation

Changes to products or services are pilot-tested and based on this a decision for implementation is made.

### 1 Information collection

Once the process has been completed, it is necessary to return to the information collection stage to gauge the level of client satisfaction and the effectiveness of the service provided for the MFO and for the clients.

**Feedback Loop Diagram**



## Why Follow the Eight Phases of the Feedback Loop?

Information is a valuable resource. If information is not used it is not worth collecting. To become responsive to clients, MFOs need to be continuously collecting, analysing and using information to improve products and services. Neither clients' needs nor the environment that MFOs are working in are static; indeed, many MFOs are facing increasing competition. For these reasons, it is important to use information effectively. However, there can be dangers to using information in an unstructured way – you may reach the wrong decisions! It is therefore important to think about the process of using information that will ensure that it is analysed well, understood and used effectively in decision-making.

### Information Flow

An institution that is client-focused will be constantly collecting information, analysing it, making decisions on the basis of it and implementing these decisions by pilot-testing adjustments to products as well as designing new ones. That is, it will be constantly moving around the feedback loop.

# Putting the Feedback Loop into Practice

## 1 Information collection

Most MFOs collect data both formally and informally using a variety of tools.

**Formal**

- Client entry forms
- Management information (loan amount, savings, repayment, business type, age, gender)
- Client exit surveys
- Suggestion boxes
- Loan appraisals
- Focus group discussions
- Case studies
- Questionnaires and surveys
- Client monitoring systems

**Informal**

Information is usually generated in informal meetings and through interactions between frontline staff and clients. MFOs often overlook this information because it is not collected or recorded in a systematic way.

Informal data can be a valuable source of data in itself, or can be used as background data for more formal information collection.

### *Getting Good Results*

**Think about *who* the information is for:** Who will use the information? This affects the data gathering and the feedback of information. For example, a donor may need different information to an Operations Manager or Credit Officer.

**Explain *what* the information is for:** The clients' answers will be affected by the way they understand the purpose of the data. Make sure you explain fully how the information will be used, and how it could help them (see Case Study 1).

**Be careful *how* you ask your questions:** The way the questions are asked and who asks them can have an effect on the reply. For example, the honesty of clients' reasons for leaving will depend on the circumstances under which the information is gathered. If clients are expected to tell the Credit Officer in front of the group why they are dropping out, they are unlikely to tell all the relevant facts.

Taking the time to learn about clients' backgrounds and lives may take time, but it will make them feel more comfortable answering your questions and will yield more effective results.

**Take notice of people's reasons for *not* joining:** Collect information from people who decided not to join the loan programme. If people need a loan, but freely choose not to take your products or services, their reasons can tell you a lot about what is important for them.

**Make sure frontline staff are listened to:** Staff members need to know that formal and informal information they collect will be taken into account and acted on. Without this, they will not be motivated to collect data.

**Find out why clients are leaving:** Exiting clients can give very useful information, but it is hard to obtain "honest" data from them. This information needs to be collected systematically where possible.

**Make sure clients get a response:** Clients need to know that they will get responses to their opinions and ideas from management. They may not be willing to provide information if they think it will only "go up", without any feedback to them.

**DON'T !!**

**Don't forget about suggestion boxes:** Suggestion boxes can be an extremely useful way to collect information from clients. However, if suggestion boxes are rarely opened or the suggestions are not read or responded to, clients will stop using them.

## 2 Information consolidation

Information in a raw form is not valuable in itself. To get the full value from the data you have collected, you must bring it together so that it can be shared and analysed. Without this consolidation phase, there is a danger that much of the information collected will not be taken into account. This is particularly true for informal data, which cannot simply be tabulated, but needs to be recorded in an accessible form, and digested.

### CASE STUDY 1

*In one organisation, a questionnaire on the back of loan applications is used to collect data from clients. A study showed that even though clients were told that the information they provided would not affect the loan approval decision, they still perceived a relationship. This resulted in clients giving misinformation, in order to support their loan application. For example, new borrowers under-reported income in an effort to appear poor enough to get a loan. Repeat borrowers over-reported to confirm the need for larger loans.*

### CASE STUDY 2

*In one organisation many clients had been demanding increased loan sizes. Following market research, a decision was made to implement this change without any analysis of potential institutional impact. Within a few months, it became clear that management should have analysed the impact of the change on cash flow more thoroughly because the institution was pushed into a liquidity crisis after donor funds were late in arriving.*

### Getting Good Results

**Use meetings to consolidate information:** Credit Officers' meetings and meetings that involve staff from different levels of the organisation are great for sharing and acting on information. If managers attend the meeting along with field staff and clients, issues can be discussed and action can be decided immediately.

**Assign one person as an information "focal point":** If the right member of staff is given the task of organising the material collected, there is more chance that the data will be used, instead of just sitting on a desk. The focal point may also be responsible for analysis and reporting.

**Make sure clients' comments and initiatives are included and respected:** Information provided by clients (both formal and informal) is valuable input for the design of effective services and products. If clients know you are listening to them and taking their views into account, they will feel valued.

**DON'T!!**

**Don't collect more information than you can consolidate:** It is a waste of time and resources if you collect information you cannot then use because of lack of time or limited capacity. If you cannot consolidate the information, either don't collect so much or improve your systems for consolidation.

## 3 Data analysis

Data needs to be analysed in order to decide how to proceed. Analysis can be conducted by internal or external research staff, by management, by frontline staff and clients, or by a combination. There should be two stages to this analysis:

**1. Customer analysis:** It is important to analyse the existing and potential impact of issues on clients. Information must be clearly assessed in terms of client needs and possible solutions.

**2. Institutional analysis:** How will decisions or changes affect the institution? The impact of issues must be assessed in terms of cash flow, profitability and institutional capacity.

### Getting Good Results

**Think about who will conduct the analysis:** Data analysis and final conclusions are affected by who does the analysis. If you want to make the feedback process truly participatory, frontline staff and clients should be involved. Involving external analysts who are unfamiliar with the organisational culture and aims may cause tensions.

**Always do a financial analysis if changes are expected to have a financial impact:** Case Study 2 provides an example of why an organisation must conduct a financial analysis in addition to listening to its customers.

## 4 Reporting

It is very important to follow a structured reporting procedure. Reporting is vital because it:

- Sets out information in clear and formal ways so that it can be communicated to staff and management, and can be presented for decision-making.
- Helps the thinking process so management and staff can be clear about the issues.
- Shows the steps which led to a particular decision, to help others understand how the decision was made.

### Getting Good Results

Keep the report as short as possible – not more than two pages, as busy managers don't have time to read more. In your report, include:

**1. A statement of the issue:** Explains the source of the information, what the issue is, and why it is important.

**2. The recommendation:** Explains the potential solution, such as a new product or service.

**3. Comments on the impact of the recommendation:** Discusses ways in which the changes would affect the organisation and clients, explaining possible benefits and problems.

**4. Implementation plan:** Outlines the next steps for the product. This may be prototype testing and/or pilot testing.

**Key Resources**

For more information and resources on data collection and analysis, see:

- http://www.microfinancegateway.org/impact/resources_method.htm
- MicroSave–Africa tool-kits/training on Focus group discussions and Participatory Rapid Appraisal, and Market Research for Microfinance (see http://www.microsave-africa.com/toolkits.asp?ID=14).

**DON'T!!**

**Don't leave Credit Officers out of the reporting stage:** Ensure that the report is also circulated to Credit Officers and/or discussed in their meetings. They have an important role to play in evaluating the proposed changes and how they can best be implemented (see Case Study 3).

## 5 Decision-making

If all the above phases in the feedback loop have been successfully followed, the decision-making process can take place. MFOs need to develop decision-making processes that are effective and able to represent clients' views, but are consistent with the overall mission of the organisation.

### *Getting Good Results*

**Think about who has the authority to make decisions:** This may depend on the type of decision being made. Ideally, field staff should be able to decide about issues directly relevant to them. However, they may need guidance in some more important decisions. The authority of staff to make decisions may also depend on their experience and position within an organisation. At the other end of the scale, managers and board members may make decisions about organisational policy, but these should not be applied from the "top down". Where possible, base decisions on information from frontline staff and clients.

**Make the most of decentralised decision-making:** In a decentralised organisation, considerable freedom is given to branch managers, field staff and even clients in decision-making. Some organisations are member-owned, and clients are represented on the Board. A decentralised organisation is usually better at responding to clients' needs, because it allows for fast implementation that is client-focused and flexible. However, the danger is that resulting operations will not be consistent throughout the organisation. Also, decisions may only reflect the views of those with the "loudest voices".

**Think about what it means to be participatory:** For an organisation to be truly participatory, staff and clients should have some involvement in decision-making, although there will be limits to their authority. Decisions should be made from the "bottom up" rather than from the "top down", where possible.

### CASE STUDY 3

*Detailed research was conducted by an MFO using academics from a local research institute. Management felt that information should be shared with field staff at meetings, but did not allow them access to written reports. Credit Officers argued that they did not feel free to speak frankly in these meetings and that they did not have a suitable forum for sharing or recording their views. They also felt that there were no proper mechanisms for conveying information on the implementation of new policies. Making the reports available to field staff or involving them in the reporting and decision-making processes would have lessened their feelings of marginalisation.*

### CASE STUDY 4

*Clients complained that interest rates on loans were too high. As a result, the board and management decided to decrease interest rates by 4 per cent per month, without any financial review or other analysis. Within a few months, the organisation was experiencing difficulties in covering institutional expenses, due to decreased interest income.*

**Be aware of possible limitations in a structured system:** Rigid methodologies and structures may lead to more consistent decision-making across an organisation that is easy to implement in an efficient, cost-effective way. However, rigid structures may prevent clients' views or needs from being represented. Organisations need to decide how much they want to involve staff and clients in decision-making, and if their existing structures are suitable. They may need to develop more flexible systems to enable more "bottom-up" collaboration.

**DON'T!!**

**Don't get stuck in the first half of the feedback loop:** Worries about having too little data can hold up processes of change. There is a danger of getting stuck in the information collection and analysis stages of the feedback loop, without taking any positive action. Decision-making is a step to move things forwards in the product development process. You may have enough information to develop a prototype that can be pilot-tested. Then the feedback loop can be applied again to assess the effectiveness of the piloted product or service. Remember – the feedback loop is a continual process that lets you make progress based on the information you have.

**Don't go straight from information collection to decision-making:** Sometimes organisations jump to decision-making, and fail to think through the possible consequences of their decisions. Without an analysis of organisational impact and a clear reporting stage, decisions may have a devastating effect on the organisation (see Case Study 4).

## 6 Delegation

After a decision has been made, someone from the organisation will need to be delegated to implement the plans. This is the key to the success of implementation as this person will be explaining and "selling" the changes in products and changes to clients.

### CASE STUDY 5

*In one organisation there was a decision to charge a fee covering the cost of collection visits for late payment, and implementation of this plan was delegated to branch staff. The message received was brief and apparently unclear because within the three branches three different mechanisms were developed for charging the fee. A clearer initial message would have ensured that each branch followed the same guidelines.*

### CASE STUDY 6

*In one organisation, frontline staff collaborate with managers to develop strategies for conveying the information to clients in a consistent way. For some activities they develop special, distinct manuals for frontline staff and for Branch Managers because they recognise that the requirements are different for each.*

#### *Getting Good Results*

**Make sure the person selected has appropriate skills:** As well as a knowledge of microfinance and the organisation, the person needs to be able to communicate effectively with clients and field staff.

**Make sure everyone has the same understanding of plans:** Management must communicate decisions and implementation plans clearly to all concerned, to avoid misinterpretation (see Case Study 5).

## 7 Communication

Good communication is vital to ensuring that both staff and clients understand and are prepared for the changes to be implemented.

#### *Getting Good Results*

**Provide staff training:** Staff members need training on the adjusted or new product, so that they can explain it to clients. The degree of information needed may range from a few instructions to extensive training.

**Introduce changes in a way that is easy to understand:** Different methods of communicating changes can be used, such as role-play or other training techniques. Write clear positive notes for different audiences on the anticipated changes and their possible impacts.

**Prepare a procedural document:** A manual or guidelines outlining implementation plans must be available to staff who are implementing the decision.

**Put together a marketing plan:** A marketing plan is needed to outline how the product will be explained and "sold" to clients (see Case Study 6).

## 8 Implementation

Changes may be fairly simple to apply. Alternatively they may be more far-reaching and therefore will probably involve a period of prototype development and/or pilot testing.

#### *Getting Good Results*

**Think about what you will need:** Changes may require resources such as computers or software, new staff or re-trained staff.

**Test products first:** Products and services may be pilot-tested on a small scale and their impact may then be tested using the information collected through the feedback loop.

**Keep clients informed:** Make sure clients receive feedback from their comments and suggestions, even if the decision is not to carry them forward. Without feedback, clients may feel that management do not really care what they think.

**Key Resources**

For more information on developing a market plan, and planning and implementing a pilot test, see:

- Section on 'toolkits' in the MicroSave–Africa website, available at: http://www.microsave-africa.com/toolkits.asp?ID=14.

## 1 Information collection

An effective feedback loop will return to the information collection stage, taking into account what has been learned in the previous stages of the loop.

## References

McCord, M, 2002, 'The Feedback Loop: A Process for Enhancing Responsiveness to Clients – Or, what do we do with all this client data?', Microsave Africa, Kenya

Cohen, M, and Wright, K, 2003, 'Managing Client Information: Feedback loop lessons from Latin America', *Imp-Act*

To access the above publications, and for further information please refer to:

http://www.Imp-Act.org;

http://www.microsave-africa.com;

http://www.microfinancegateway.org/impact

## Next Steps – Take Action

Review and improve your organisation's feedback loop – why not set up a small team of staff from all levels of the organisation to do this? Clients can also be included.

Choose a "burning issue", perhaps concerning service delivery. Undertake market research on this, and follow the feedback loop step-by-step until you implement a solution.