



Costs and Benefits of Process Mapping

Based on the Case Study of MI-BOSPO (Bosnia and Herzegovina)

July 2005

This case discusses how Process Mapping increases efficiencies within product policies. It is based on the experience of MI-BOSPO, a member of the Women's World Banking network of MFIs. The exercise in Process Mapping was undertaken with the help of Women's World Banking¹ under SEEP Practitioner Learning Program "Institutional Development Services."

- **Overview of market and institution**

The microfinance sector in Bosnia and Herzegovina (B&H) was launched after the war in former Yugoslavia. The World Bank supported this project. Most Bosnian microfinance institutions were established as governmental or international reconstruction projects. Those reconstruction projects, which responded to market demand (at the time, a limited number of work places created a widespread need for self-employment opportunities), gradually became specialized microfinance institutions targeting microentrepreneurs.

The sector developed dynamically, and currently it is one of the most competitive in the region of Central and Eastern Europe and the New Independent States. There are over 40 registered microfinance institutions, with 10 big players. At the end of 2003, these leading institutions were serving almost 82,000 clients living predominantly in urban areas. The portfolio of these institutions stood at approximately 82 million EURO.

Having many microfinance players in the market increases competitive pressure on microfinance institutions. An average MFI competes with 10 other players (mainly non-governmental microfinance institutions and commercial banks)².

¹ Women's World Banking is a network that reaches poor women by providing and organizing support to its member organizations, which in turn offer direct services to these women. In practical terms this means creating the possibility for a low income woman to build her business and assets, improve her living conditions, keep her family well-fed and healthy, educate her children, develop respect at home and in her community, and secure a political voice. WWB's Global Team, operating out of offices located in New York, supports affiliates and associates in succeeding as microfinance institutions (MFIs) and change agents, by providing tailored, integrated services in four areas: technical services, Financial Products and Services, Policy Change Activities, and Linkages and Learning Services.

² Source of data: MFC Annual Microfinance Industry Mapping 2005

The population of Bosnia and Herzegovina is 4.1 million. The unemployment rate is 42% (16% according to the National Bureau of Statistics) and has remained at this level since 2002. The inflation rate is stable (1.0% in 2005). GDP *per capita* and gross domestic product have increased. Real GDP growth rate is currently higher than in previous years.

Table 1: Domestic economic indicators – Bosnia and Herzegovina

Domestic economic indicators	2005	2004	2003	2002
GDP <i>per capita</i> (EURO)	1,550	1,490	1,480	1,450
Gross domestic product	6.80	6.50	6.22	5.97
GDP growth rate real (%)	4.0	5.0	3.5	3.8
Inflation (%)	1.0	0.5	1.0	0.3
Unemployment (%)	42.0	43.0	44.0	42.0

According to CGAP data, the informal sector plays a prominent role in the Bosnian economy, employing approximately 320.000 people³.

MI-BOSPO started its microlending activities in 1996 within the humanitarian organization BOSPO and became registered in December 2000 when the Law on Microcredit Organization was adopted.

MI-BOSPO's mission is to provide financial services to entrepreneurial women for the development of their businesses. The institution believes that economic empowerment of a woman strengthens her role in her family and therefore in society. This is the reason why from the beginning of its operations MI-BOSPO has remained loyal to its chosen clientele: female microentrepreneurs.

The clients grew together with the institution, and along with the development of their businesses their loan amounts have increased. MI-BOSPO continuously tries tailoring its products to the needs of its clientele.

To gain a competitive advantage, MI-BOSPO expanded its service, which at the beginning was limited to the solidarity group methodology and individual lending. Recently, it has also entered rural areas with a new agricultural credit product.

By December 2004 MI-BOSPO was serving 9,206 clients (all of them women) with an average loan balance per borrower of USD 1,018. Gross loan portfolio stood at USD 9,370,844. When analyzing the portfolio share by product, the major products are individual loan (40% of portfolio) and the solidarity group loan (56%). Operational self-sufficiency stood at 131.56% (December 2003

³ Source:

http://www.cgap.org/regsup/docs/pro_Bosnia.pdf#search='Bosnia%20and%20Herzegovina:%20Country%20Indicators'

148.49%). Operations are conducted through the network of eight offices across the northern region of Bosnia.

Table 2: Outreach and financial Indicators – MI-BOSPO

Outreach and Financial Indicators	31/12/04	31/12/03	31/12/02	31/12/01	31/12/00	31/12/99
Number of personnel	45	39	37	26	22	12
Number of Active Borrowers	9,206	7,160	5,498	4,460	3,616	2,831
Average Loan Balance per Borrower (in US\$)	1,018	994	798	592	505	419
Gross Loan Portfolio (in US\$)	9,370,844	7,118,483	4,389,159	2,639,497	1,825,850	1,185,000
Total Assets (in US\$)	11,365,973	8,502,637	5,341,011	3,281,543	1,958,614	1,441,763
Total Equity (in US\$)	4,304,093	3,283,521	2,151,650	830,654	329,620	340,348

- The rationale for implementing a system

As mentioned earlier, the Bosnian market is very competitive with numerous players serving poorer clients. Microfinance institutions are lowering prices and imitating products of the competitors. Few have managed to differentiate in the market.

MI-BOSPO was a medium-size institution; it had a high cost of capital and reached limited economies of scale. Therefore, it was impossible for the institution to significantly decrease interest rates to compete with other players. In this situation MI-BOSPO needed to look for other opportunities to differentiate.

The institution analyzed its strengths and weaknesses and concluded that it was possible to base its reputation on fast loans. However, to achieve this MI-BOSPO needed to increase efficiency of processes. Improving loan process in theory would also positively influence quality of service while cutting unnecessary costs, as well as contribute to reducing the price to the national level.

- Description of Process Mapping

The project was initiated under SEEP's Practitioner Learning Program "Institutional Development Services" after the successful submission of MI-BOSPO's proposal. The process was conducted in close collaboration with Women's World Banking consultants.

Efficiency improvement activities started in 2004 and as of July 2005 their implementation was still in process. MI-BOSPO selected Process Mapping as a tool, because it gives the opportunity to identify and improve inefficiencies in existing processes in a cost-effective way. The changes based on the Process Mapping were intended to be institutionalized.

One of initial activities was assembling a team. MI-BOSPO decided to involve the whole management (eight middle and top managers) in the Process Mapping exercise. Thanks to this, there were people on the team who had decisive power. This in turn fostered the timely introduction of

changes. The cross- departmental team brought different perspectives so that evaluations of the situation were more in-depth.

Process of Applying the Process Mapping tool

MI- BOSPO underwent the following steps:

1) Choosing Processes

Taking into account the composition of portfolio, the team decided to map processes related to two main products in terms of their share in loan portfolio: individual loans and group loans⁴. Further, loan processes were also split into analyses of new and repeated clients.

The evaluation aimed to identify efficiency levels within the following processes:

- (i) Providing individual loans to new clients.
- (ii) Providing individual loans to repeat clients.
- (iii) Providing group loans to new clients.
- (iv) Providing group loans to repeat clients.

2) Defining Objectives

A Terms of Reference was created as part of the SEEP PLP project at the beginning of activities. It involved the following objectives:

- Training staff so they would be able to analyse and improve internal processes on an ongoing basis.
- Identifying efficiencies within the processes.
- Training two staff members on decision-mapping frameworks.
- Reviewing Process Mapping learning in light of the competitive environment.

3) Preparation

To set the climate for Process Mapping activities, external consultants from Women World Banking conducted training attended by the Process Mapping team.

The training equipped the staff with knowledge about the Process Mapping tool so they could analyze internal processes on an ongoing basis. Moreover, a detailed work plan was drafted so that the staff was aware of the amount of work required.

The information on project objectives and the process was communicated within the institution. Consequently, the staff more readily accepted the process.

4) Diagnosis of the situation (“As If” and “Should Be” Maps)

According to an MI-BOSPO informant, this step was “ *the most intensive part of the project.*”

To map processes it was necessary to visit branches and conduct individual interviews with branch managers and loan officers. This group, being close to the field and having regular contacts with clients, qualified as the best source of critical opinions on the processes.

Interviews also gave a clearer picture of their common level of understanding of the processes.

In addition to analyzing loan processes, two Process Mapping team members were trained in decision-mapping frameworks. The necessity of analyzing decision-making processes arose from a subsequent phase that highlighted the need for decentralization.

The analysis of the maps was first discussed within small task forces, then with the credit manager and finally within a larger group. Discussing the information first with the credit manager allowed

⁴ MI-BOSPO portfolio by product is presented in annex 3

time for reaction and prevented the situation of the new process being perceived as an attack on previously created procedures.

During this phase, the teams also created “should be and could be” maps. Due to having ‘should be’ maps already prepared, a ‘discussion’ meeting was used as a ‘decision’ meeting. Basically one step in the process was cut.

5) Decision making

After identifying solutions, the MI-BOSPO team met again and discussed what needed to be done. They decided to focus on short-term fixes and medium- to long-term recommendations, which required further research and analysis.

6) Implementation

This phase was considered tricky, because as people returned to their regular activities the level of enthusiasm decreased. Therefore, one person responsible for monitoring the implementation was appointed.

Tips for conducting Process Mapping

According to MI-BOSPO’s experience, there are a number of issues that need to be addressed.

First, it is useful to have **someone from outside the institution** bring his or her perspective. Because WWB consultants were familiar with MI-BOSPO, they helped to recognize gaps and identify potential efficiency. Cooperation with them also affected the staff, who felt more motivated to maintain a high level of objectiveness. External consultants also contributed to increasing the project’s efficiency. Their participation allowed not only increased knowledge, but also saved time: *“We would conduct the process without WWB consultants, but it would take much more time.”*

The other key to success is **a strong internal and committed team**. Involving representatives from different departments allows for different perspectives. To foster the process, team members need to keep their minds open about changes and to think outside the box. This makes it more likely staff will create innovative solutions that address inefficiencies. To assemble a strong team, the institution needs to set the selection criteria. But this is only the starting point and is not enough to maintain commitment to the process.

Much attention should be placed on **planning the process**. Good planning helps to avoid overloading work and increases staff resilience to changes and innovation.

A well-selected team results in **winning over agents of change** who are able to convince the rest of the staff of the necessity of remedial actions.

MI-BOSPO has found it crucial **to build a positive approach** within the entire staff at the beginning of the process, so employees do not perceive change as an unnecessary burden. To gain staff commitment, it is indispensable to **communicate objectives clearly** in order to relate them to the organization and individuals. This clarifies people’s responsibilities and benefits so that they remain open-minded and not fearful of change. Moreover, decisions should be applied based on results to demonstrate the usefulness of the process. To break resistance toward the process it is also necessary to discuss these results with the people responsible for developing the procedures (credit

department), as well as with anybody directly or indirectly affected by the process or changes it brings. Staff not reassured may see improvement actions as undermining their previous work.

Another important issue is **to examine improvement actions from a broad perspective**. MI-BOSPO did not focus on identifying opportunities for risk management⁵. However, the impact of Process Mapping on risk management systems should be considered to avoid system mishaps. The objectives set at the dawn of the process should also consider the external environment (competition and clients).

Last, but not least, one of MI-BOSPO's most important lessons was **phasing the assignment**. For MI-BOSPO and WWB consultants it became clear during the analysis phase that discussing the issues, making and processing the recommendations, and developing an action plan may be too much for an institution to go through all at once. Thus it is worth thinking about phasing such an assignment into two parts, or focusing on a smaller number of processes to map, so that the activities involved are well matched with the capacity.

- **Costs of Process Mapping**

MI-BOSPO did not track Process Mapping costs. However, one may get some idea about costs through an analysis of staff time devoted to the activity, the scale of additional costs, and immeasurable opportunity costs.

In terms of **staff time**, the training and mapping of the processes in MI-BOSPO took two weeks and engaged eight MI-BOSPO and two WWB consultants. In addition, a number of field visits were conducted to interview both clients and loan officers. Extra costs included translation as well as field expenses (transportation).

Implementing all the innovations entails a high risk for the institution. Moreover, activities conducted may be perceived as a waste of time.

In the case of MI-BOSPO, the process was time consuming. People who took part in the Process Mapping project already had full workloads, so any additional work required extra effort. Fortunately, MI-BOSPO staff did not perceive the process as an unnecessary burden. This attitude resulted from the fact that the institution built commitment to the process by applying such tools as planning, phasing and setting and internalizing objectives. Otherwise, intangible opportunity costs could have outweighed tangible time and logistics costs.

- **Benefits of Process Mapping**

Like any business tool, Process Mapping may result in knowledge that supports other business decisions. To judge whether the process was successful or not, an institution needs to analyse the impact of business decisions on identified objectives. This chapter discusses knowledge gained and decisions taken and then analyzes their influence on the institution.

Knowledge gained and business decisions taken

⁵ It resulted from a fact that a solid control system had been developed before and potential risks of fraud and cash handling had been eliminated.

Process Mapping “gives opportunities to learn and fully understand the process you map.” It equipped MI-BOSPO’s staff with knowledge not only about the tool itself, but also about institutional performance. It also provided an opportunity to understand how processes are interpreted by people within the institution and “to clarify and standardize the way each step should be carried out.”

When looking for inefficiency in institutional performance, the MI-BOSPO team managed to identify:

- Short-term fixes.
- Long-term recommendations.

Short-term fixes may be defined as small changes in procedures or policies that are easy to implement, taking into account resources needed. In MI-BOSPO, short-term fixes were intended to produce immediate changes addressing the following areas:

- Increasing the efficiency of marketing processes and the gathering of information about the competition and clients.
- Increasing the efficiency of work planning and basic loan processes.

MI-BOSPO’s team categorized the inefficiencies into three groups related to the lending process: application, approval and disbursement. This categorization made it easier to assess the importance of inefficiencies from the point of view of objectives. Non-value activities were analyzed and then eliminated, combined or run in parallel??? This last sentence is confusing...

The table below presents some of the short-term fixes identified by MI-BOSPO’s staff.

Table 3: Short-term fixes

Objective	Short-term fixes
Increasing efficiency of marketing processes and gathering information about the competition and clients	<ul style="list-style-type: none"> - Improve MI-BOSPO’s ability to track clients (both approved and rejected) through MIS. As a result MI-BOSPO should gain a better understanding of the efficiency of marketing efforts and loan process. - Compare MI-BOSPO’s loan processing time against other group lenders to identify whether it may become a competitive advantage.
Increasing the efficiency of work planning and basic loan processes	<ul style="list-style-type: none"> - Review credit officer’s weekly planning schedule to understand how much time is devoted to different activities and to determine why field visit dates are not taking place in a timely fashion. - Determine the number and nature of special-case approvals that take place in a month to understand their reasons (one of the hypothesis was that these could result from credit officer’s heavy work loads). - Re-train credit officers to be more proactive in contacting the client before loan terms end. - Inform the client of any documentation needed for loan approval. Consequently, all documentation is available for loan renewal. - Diversification of skills: continue training credit officers responsible for solidarity group lending to complete individual loan applications, and vice versa. As a result, a loan officer involved in any methodology should provide equal quality.

Short-term fixes were dealt with almost immediately by the credit manager.

Contrary to short-term fixes, **medium- and long-term recommendations** usually require more resources and need to be incorporated into a broader strategy. MI-BOSPO decided to focus on two areas:

- **Decentralization** of credit approval process; by July 2005 the process had almost been completed.
- At present **a customer loyalty program is being developed that aims to retain** existing clients and discourage them from choosing the competition. Also, six focus groups with dropout clients were conducted to learn what clients value in credit products. One of the findings was that clients were not familiar with incentives for repeat borrowers (e.g., decreases in interest rates in repeated cycles). Therefore, the new client loyalty program will include information about incentives for repeat borrowers and the best way these should be promoted by credit officers.

As a result of the process mapping activity, credit committees have been scheduled and loan documentation modified. All the changes have been documented in a new credit manual.

Process Mapping may also be used as a training tool for all branch managers in the latter half of 2005. This task has been made easier because all the materials have been translated into Bosnian.

Enhancing institutional culture

Process Mapping generated some intermediate benefits in some elements of institutional culture.

Due to the Process Mapping, constant learning processes were fostered. The tool “*provides excellent insight into the operations of an organization*” and allows immediate responses to the gaps. The institution managed to shape its operations to the external environment and internal capacities, which is crucial in highly competitive surroundings.

Optimizing product processes in accordance with clients’ needs raised the level of client focus. MI-BOSPO had been a client-oriented institution before the project commenced. However, learning that the needs of clients may also drive internal processes not only launched new products, but also made staff more client-centric.

The Process Mapping added value to team-building processes within the institution. Every participant of the process mapping team had expertise to bring to the table and share with others. It fostered leadership among managers and prepared them to be future champions of any further innovation.

The Process Mapping exercise resulted in enhancing an efficient flow of communication. Involving a limited number of individuals into the team made for an efficient transfer of knowledge.

Standardizing the processes brought value both to the institution and the staff. First, avoiding misunderstandings increased the transparency level, which enhanced MI-BOSPO’s image among

clients. Second, it made the daily work easier. That is why there has been greater acceptance among the staff toward innovation as they have noticed personal benefits drawing from it.

Summing up, the process has a prominent role in preparing the ground for **future innovations**.

- **Conclusions**

Process Mapping “*provided MI-BOSPO with the opportunity to diagnose its operations with a substantial amount of detail.*” Its results led to the identification of inefficiencies that were translated into short term-fixes and strategic implications, which augmented the efficiency of loan procedures and marketing tools (such as gathering market information and forming a client loyalty system).

Increasing efficiency in marketing tools may retain the loyalty of clients, foster marketing communication and make work easier for staff. Improving the credit process may result in cost-saving opportunities both for clients and for the institution. In addition to cutting costs on daily activities, it may also lead to differentiating market image and ensuring market growth.

According to anecdotal information process mapping also brought the following benefits:

- More loans disbursed.
- Portfolio growth.
- Decreased financial costs.

However, taking into account the fact that not all changes have been fully implemented it is hard to judge the more tangible benefits of the exercise (e.g., an increase in the number of clients, a decrease in operational expenses, etc.). These will be observed in a long-term perspective.

Annex#1 Bibliography of available background material

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- Strategic Marketing for Microfinance Institutions, www.MicroSave.net

Annex#2 Analysis framework

Steps in the Process	Description	Costs	Benefits / Lessons Learnt
Identifying operational gaps	n/a		
Choose processes	<p>Taking into account the composition of the portfolio it was decided to map processes related to two main products: individual loans and group loans. Furthermore, loan processes were also split, and analysed separately for new and repeat clients.</p> <p>Thus, the diagnosis aimed at the identification of inefficiency level within:</p> <ul style="list-style-type: none"> - Providing individual loans to new clients. - Providing individual loans to repeat clients. - Providing group loans to new clients. 	<p>No data. Altogether, the exercise took two weeks of eight MI-BOSPO staff and two WWB consultants.</p> <p>Additionally, some field visits were conducted to interview clients and loan officers.</p> <p>Other costs included translation and field expenses.</p> <p>The process was time-consuming.</p>	<p>The processes mapped were core to MI-BOSPO's business of lending. It provided a detailed understanding on current activities concerning solidarity and individual loans.</p>

Steps in the Process	Description	Costs	Benefits / Lessons Learnt
	<ul style="list-style-type: none"> - Providing group loans to repeat clients; <p>Processes were initially identified by the MI-BOSPO's team. This was discussed with WWB and a collaborative process led to the final decision on which processes were to be mapped.</p>		
Assemble the team	<p>MI-BOSPO made the decision to involve the whole management in the process mapping exercise. It wanted to have all people who do have 'a say' in any process in the organization to give their perspective on the process modification. One challenge was the time commitment to the process as well as the need to complete the daily activities associated with each position.</p>		<p>Bringing in expertise from different areas within the organization resulted in rich discussion on the findings, implications and next steps.</p>
Define objectives	<p>Terms of Reference were created as a part of SEEP PLP's project at the beginning of activities. It involved the following objectives:</p> <ul style="list-style-type: none"> - Training staff so they would be able to analyse and improve internal processes on an ongoing basis. - Identifying inefficiencies within the 		<p>It is important to be clear about objectives because it shows issues that will come up during the process mapping exercise.</p> <p>It is also important, if possible, to have a person who will always return the group back to the primary objective of the exercise.</p>

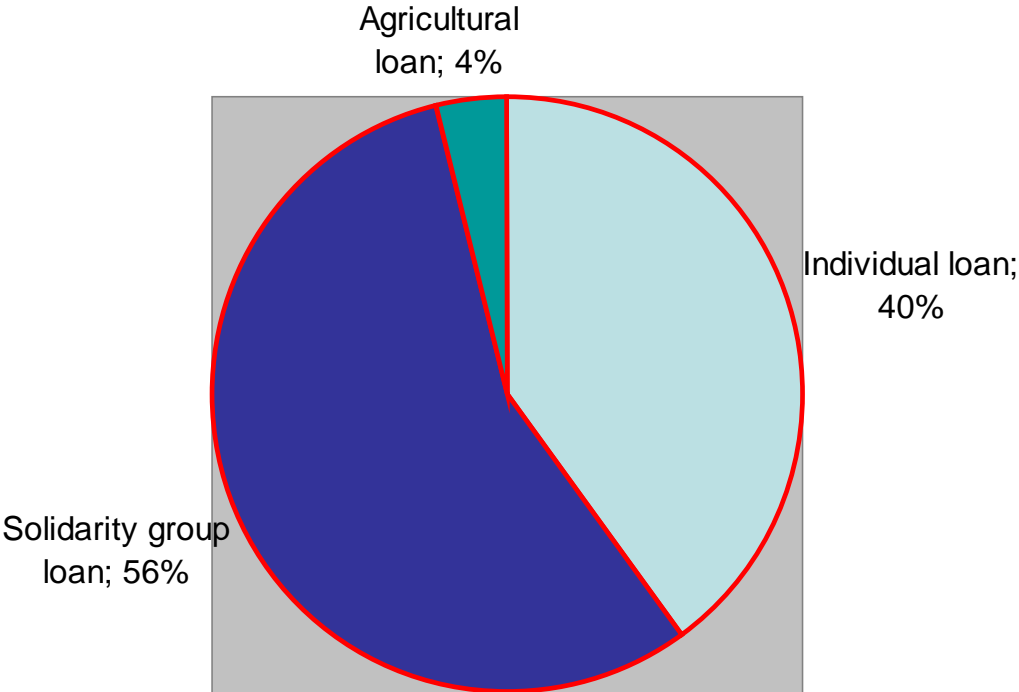
Steps in the Process	Description	Costs	Benefits / Lessons Learnt
	<p>processes.</p> <ul style="list-style-type: none"> - Training two staff members on decision mapping frameworks. - Reviewing process mapping learning in light of the competitive environment. 		
Preparation	<p>To set the climate for process mapping activities, external consultants from Women World Banking conducted a training attended by the Process Mapping team. Moreover, a detailed work plan was drafted so that the staff was aware of the amount of work required from them. Information about project objectives and the process was disseminated within the institution. Consequently, the staff was persuaded to accept the process.</p>		<p>The training equipped the staff with knowledge about the Process Mapping tool so that they were able to analyse internal processes on an ongoing basis.</p>
Gather data: prepare and analyze “As If” maps	<p>This was the most intensive phase of the project.</p> <p>To map processes it was necessary to visit branches and conduct individual interviews with branch managers and loan officers. This group, being close to the field and having regular contacts with clients,</p>		<p>Bringing the information first to the credit manager before the larger group gave him or her time to react in a manner that was not defensive. It also provided an opportunity for clarification and discussion. When the larger team met, the credit manager was not caught by surprise and</p>

Steps in the Process	Description	Costs	Benefits / Lessons Learnt
	<p>was the best source of critical opinions on the processes.</p> <p>Interviews also gave a clearer picture of what the level of common understanding of processes was.</p> <p>Additionally, in analysing loan processes, two members of the Process Mapping Team were trained in the decision mapping frameworks. The necessity to analyze decision making processes grew from the subsequent phase which showed the need for decentralization.</p> <p>The analysis of the maps first took place within small teams, then with the credit manager and finally with the larger group.</p>		<p>actually endorsed many of the recommendations.</p>
<p>Prepare “Should Be” maps</p>	<p>Preparation of ‘Should be’ maps and ‘Could be’ maps go hand in hand with the previous step, which identifies and analyses the processes. Each team that had to identify and analyse the process also had to propose and recommend ‘should and could be’ maps.</p> <p>Drawing ‘should be’ maps is not an easy task especially when you are looking at processes that</p>		<p>Due to having ‘should be’ maps already prepared, a ‘discussion’ meeting could also be used as a ‘decision’ meeting. Basically one step in the process was cut.</p>

Steps in the Process	Description	Costs	Benefits / Lessons Learnt
	<p>have existed in the organization from years before. People face difficulties in getting out of the box and in thinking differently.</p> <p>Also, once you get to the point to produce a 'should be' map, it is not an easy task to get a bigger group to see it in the same way. Again, it is challenging for the person who created the previous process and it is necessary to make sure that this person feels comfortable with the findings and recommendations before they are presented in a large group.</p>		
Prepare "Could Be" maps	See above		
Share Finding with the management	See above		
Implementation	<p>Implementation can be difficult because the moment the discussion finishes, people go back to their regular, everyday jobs and old, well-known procedures.</p> <p>You have to have one person responsible for making sure that the findings and decisions are really implemented.</p>		
Other	n/a		

Annex#3 MI-BOSPO Portfolio by Product

Figure 1: MI-BOSPO portfolio by product⁶



⁶ Source: Planet Rating (2004), MI-BOSPO Bosnia and Herzegovina,