



CASE STUDY //

# Leadership and Organizational Culture in Customer Centricity

# What's the role of leadership and organizational culture in customer centricity?

What lies behind a successful customer-centric organization? Certainly, understanding customers and designing responsive services is key. But customer centricity is much more. It requires that a concern for customers be a part of an organization's DNA and thus reflected in every dimension – staff recruitment, training, performance management, risk management, governance, etc. It's about the “hard” systems as well as the “soft” processes and organizational culture. Intentionality in leadership is required to achieve it.

This case study looks at the process by which customer centricity has evolved and has been shaped over time within one organization: AMK, a Cambodian microfinance institution (MFI). For many organizations, there's a crucial role for leadership in transforming into a customer-centric organization and the change management process that it entails. AMK is a rare example of an organization that has been customer-centric from its inception, with a concern for customers at the heart of its foundation and evolution over the past 14 years. While it is continually evolving, the experience of AMK helps to decode the DNA of a customer-centric organization. This case study focuses on the role of leadership and upper management in building and sustaining customer-centric culture and practice.

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# Customer centricity drives success in a competitive market

AMK is one of the leading institutions in the highly competitive Cambodian microfinance market, delivering credit, savings, insurance, and other financial services to low-income (mostly rural) Cambodians. The past 14 years have seen a transformation in access to financial services in the country, from almost nonexistent in 2003 to 42 percent of adults having a microfinance account (and 17 percent using banks) in 2015.<sup>1</sup> During this period Cambodia has been one of the fastest growing microfinance markets in the world, with portfolio growth rates averaging 45 percent – peaking at over 90 percent in 2007 and slowing down to 10 percent for one year following the global financial crisis.<sup>2</sup> The sector now boasts 71 microfinance institutions lending over \$4 billion to some 2 million microcredit borrowers from a population of 16 million.<sup>3</sup>

Over this period AMK has successfully built a business that reaches over 90 percent of Cambodian villages, serving over half a million customers through a staff of almost 2,400 – plus 2,300 agents. AMK broke even financially after two years and profits have increased year-on-year to reach \$6.5 million in 2016; return on equity is 21 percent.<sup>4</sup> At the root of this success is a clarity of purpose and a deep, evolving connection with the needs of low-income rural Cambodians.

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1. This case study is based on primary research conducted with AMK in February 2017, as well as content reprinted with permission from *The Business of Doing Good*, Practical Action Publishing, 2015.

2. Finscope Cambodia, 2015.

3. Source: MIX Market, CMA.

4. AMK targets a return of 18 to 20 percent, deemed to be the optimal balance between generating sufficient profit for reinvestment and returns to investors and fair pricing for customers. The CEO's performance bonus is partly based on hitting this "sweet spot." Historically, this rate is lower than the returns of 30 to 40 percent achieved by some MFIs. In 2016, rates for other leading MFIs ranged from 10 to 37 percent.

Figure 1. AMK Operational Highlights<sup>5</sup>

	2013	2014	2015	2016
<b>Number of villages (% of villages in Cambodia)</b>	11,358 (81%)	12,075 (86%)	12,394 (88%)	12,513 (89%)
<b>Number of branches and sub-branches</b>	128	139	146	151
<b>Active loan customers</b>	322,828	329,760	326,121	327,713
<b>Active deposit customers</b>	58,642	95,281	136,933	225,110
<b>Active microinsurance customers</b>	0	9,886	127,057	182,309
<b>Number of money transfers (&lt; \$300)</b>	84,367	145,601	569,802	736,217
<b>Loan portfolio (million \$)</b>	\$77.8	\$94.6	\$125.9	\$148.4
<b>Deposit balance (million \$)</b>	\$18.3	\$38.7	\$64.0	\$86.7
<b>Net profit (after tax, million \$)</b>	\$3.3	\$4.0	\$5.0	\$6.6
<b>Return on assets (%)</b>	3.6%	3.6%	3.7%	3.6%
<b>Return on equity (%)</b>	18.0%	18.3%	19.2%	20.9%
<b>Average loan size/GNI per capita (%)</b>	35.0%	38.7%	47.0%	54.6%
<b>Women borrowers as percentage of total</b>	85.3%	83.2%	82.1%	81.5%
<b>Rural borrowers as percentage of total</b>	97.0%	97.0%	93.7%	96.7%

Two aspects of AMK's focus on customers stand out. The first has been AMK's success in reaching a high volume of financially excluded people by reaching deep into rural areas while its competitors stayed close to urban centers. Through this strategy AMK reached people often excluded by other financial service providers, with a particular focus on poorer, rural women. In 2016, 37 percent of new group loan customers lived below the national poverty line compared to 14 percent nationally, and 82 percent of those customers were women.<sup>6</sup>

5. Source: AMK website, performance highlights, and annual reports.

6. Poverty data from AMK's survey using the Progress Out of Poverty Index. These figures show that despite the increases in average loan size, AMK continues to reach poor customers. The notable increases in average loan size reflect an increasingly diverse portfolio as AMK expands into more urban areas and with the growth of customer capacity. However, outreach to poorer customers has been maintained.

Second, AMK is remarkable in the range of products and services it offers, many of which were first and sometimes unique in the market. AMK’s core products include loans, deposits, money transfers, and insurance (in partnership with a commercial insurance company), as well as value-added services such as bill payment (see Figure 2). A focus on customers has driven this evolution and helped AMK stay true to its mission and remain a leader in a competitive market. Rather than adopting best practices, AMK developed a deep understanding of its current and potential customers.

**Figure 2. AMK Deposit and Loan Products**

Product: Group (village bank) loan products	End of term: for group members with seasonal cash flow	Installment: for group members with regular cash flow	Credit line: for group members with seasonal cash flow who have completed one cycle (or 12 months)
Product: Individual loans for new and existing customers	Business expansion: to expand existing business	Seasonal: to invest or buy inputs for agricultural production	Credit line: revolving funds for agricultural purposes
	Home improvement	Motor	Easy loan: for urban dwellers
	Agri-equipment	Utilities	General: for general expenses and consumption
Product: Emergency loans	Group and individual customers, available within four hours		
Product: Deposit products	Easy savings: daily savings	Lucky savings: higher interest for minimum balance	Fixed deposit
	Future account: regular deposits	Smart kid: save for child’s future	Happy old age: savings for retirement

## Four AMK products stand out in relation to their responsiveness to customers:

1. A credit line loan offers customers flexibility in drawing down a loan and in repayment, spreading risk over a two-year rather than a one-year agricultural season. This better matches the loan-to-customer cash flow, reduces interest payments since money is only borrowed when needed, and reduces risk for customers. The product was developed after research challenged assumptions about customer cash flow and led to three group loan products being offered: end of term, installment, and credit line. Despite concerns about the risk created by this flexibility, the credit line product has proven over more than a decade to perform as well as, if not better than, the other credit products.
2. An emergency loan product is highly valued by customers although it represents only around 1.2 percent of loans by volume and a small fraction of the AMK loan portfolio. These loans are available within four hours for clearly defined health and family emergencies. The emergency loan was developed in response to staff feedback and remains unique in the marketplace (see Box 1).<sup>7</sup>
3. An accident and health microinsurance product was launched in 2015 for loan customers. With a premium of \$6 per year, by the end of 2016, 55 percent of loan customers had active policies. The insurance complements the emergency loan and offers protection against one of the key risks that drive people back into poverty – eroding their assets and the ability to generate income.
4. Like many of its competitors AMK was granted a deposit-taking licence in 2010. Uniquely, AMK focused on mobilizing savings from its core target of low-income rural Cambodians rather than middle class urban dwellers. To achieve this, an agent network has been established with a vision to provide access to the full range of AMK products and services.

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7. This product has been in place since 2005. Since the introduction of microinsurance there appears to have been a significant decline in the use of the emergency loan product, highlighting the overlapping purpose of these products. In 2016, 85 percent of customers taking an emergency loan did not have microinsurance.



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### **Box 1: One customer's experience of the AMK emergency loan product**

"Five years ago I was heavily pregnant with my second child. The sun had not yet risen when I realized that I was bleeding heavily. I remember how my heart sank when the village midwife told me that I needed to go to the provincial hospital for an emergency cesarean section. Welcoming a baby into this world is supposed to be a happy event, but without the \$50 I needed for the operation, I feared for the worst. I knew they wouldn't even let me enter the hospital, let alone see a doctor. What could I do? As the contractions became more regular, all I could hear was the midwife's warning in my mind: "You'll lose your baby and your little girl might lose her mother, too." My family couldn't help me with the money, but fortunately the neighbor, who had heard the commotion, came to the door. She was the president of our village bank and reminded me that I could get an emergency loan from AMK. I had been in the group for more than six months so I could apply. She lent me her phone and even dialed the numbers because my hands were shaking so much. When I talked to the client officer, I couldn't believe what he was saying to me. I could have the loan. I didn't need to travel to the branch, I didn't even need to fill out any papers. He just said: "Go to the hospital now. I'll meet you there with the money. The paperwork can wait." And so I did. I still remember that somehow that day the distance between my village and the hospital in town had doubled – every bump on that long road caused me pain. I was in agony – but I was also full of hope and amazement at what had just happened. I wasn't going to lose my baby after all. It seemed like a dream. But sure enough, an hour later, I met the client officer on the steps of the hospital. He told me that he had already paid the money and that they were waiting for me inside. And do you know? The client officer came back the next day to visit me and my beautiful new son. He was as proud as any uncle – and his eyes just shone when I told him that I decided to name him 'AMK'." – Samnang, AMK client

Beyond these customer-responsive products is AMK's commitment to achieving parity of service for all its customers. Many MFIs achieve impressive outreach and offer a range of products and services, but all too often priority is given to higher income and urban customers with only a very limited range of products made available to rural customers. AMK's strategy is to provide a "one-stop" service, offering all customers the full range of products and giving customers the choice of accessing them through the channel(s) they find most convenient: field officer, branch, agent, and/or ATM.

# What drives AMK's customer centricity?

AMK is interesting in the way in which its ownership, governance, and organizational culture drive customer centricity. As AMK transformed from a charity program in 2003, long-term involvement by the international charity Concern Worldwide was a critical factor in setting and maintaining AMK's mission-driven focus on customers. In its early years, there was tangible anxiety on the Concern-dominated board that becoming a for-profit organization would lead to dilution of that social mission, and it was not until 2012 that Concern ceased to be the company's majority shareholder. Divestment came only after a long process to find investors that aligned with AMK's purpose and strategy. Stability of vision and direction at the board level have created clear parameters for the four CEOs who have led the organization throughout the past 14 years.

This case study examines the leadership, culture, and processes that drive AMK's customer-centric approach. There are six themes. The first four explore drivers of customer centricity, each highlighting the role of leadership in putting in place specific elements that create a customer-centric culture. The final two explore the challenges created by a new business model that uses agents as well as staff to deliver services to customers, and the tension between a desired holistic responsiveness to customers and the need for focus and specialization.

## **I. CHALLENGING ASSUMPTIONS ABOUT CUSTOMERS.**

AMK has invested in an in-house research department to understand current and potential customers and uses this data to innovate. To go beyond data to become customer-centric, it is essential that the information generated is valued. AMK achieves this through board-level recognition, with a committee of the board (the social performance committee) dedicated to guiding customer research, interpreting research findings, and considering the customer perspective in forthcoming board decisions. Committee meetings are attended by most of the management team and board.

## **2. TRANSLATING INTENTION INTO PRACTICE.**

An understanding of customers is core to strategy, governance, and management. At a leadership level the mission and values of the organization are regularly promoted, and this provides clarity, motivation, and guidance toward a focus on customers at the heart of the business. Formal systems reinforce it, with staff recruitment and training including strong elements relating to mission, values, and customer centricity. Informal systems such as discussing mission and values at staff meetings reinforce the formal systems.

## **3. LEARNING FROM THE FRONT LINE.**

AMK's tools for understanding and learning from customers go beyond formal research into a wider culture of learning, reflection, and discussion. AMK values the perspectives coming from the day-to-day engagement of staff with customers and has actively sought to create a culture where staff understands why they do what they do, talks to customers, and reflects on their practice. To facilitate this, it has been necessary to take steps to enable and encourage staff to engage with other staff members (including superiors) and share their insights.

## **4. STARTING WITH CUSTOMERS, NOT RISK.**

Also key to AMK's customer-centric approach has been a willingness to balance risk with a drive for improved outreach and customer value. The starting point is the customer perspective, and innovation focuses on how to overcome the risks in responding to this.

## **5. THE CHALLENGES OF AGENT BANKING.**

The roles of leadership and culture in customer centricity are highlighted by AMK's introduction of the agent channel, with 2,300 agents dispersed throughout the country. These agents deliver the full range of AMK services to existing and new customers but are not staff and are not part of the existing organizational culture and incentives. Agents are both internal customers and a key channel for AMK's services. This brings new challenges to culture and leadership in relation to onboarding, managing internal customer relationships, and ensuring that these external customers experience the same quality of service as those delivered by AMK employees.

## **6. STRUCTURING AN ORGANIZATION TO RESPOND TO CUSTOMERS.**

As AMK has diversified and grown, the need for increasing product specialization has led to a restructuring of management and operations along product lines. This creates tension with the vision of a one-stop shop for customers with, for example, credit officers focusing only on credit and microinsurance. AMK is grappling with how to combine a specialist product focus with the need to promote an integrated approach for cross-selling and cross-functional teams.

*These six themes are explored in more detail in the following pages.*



AMK Strategic Intent  
(Strategic Plan 2015-2020)

“Through a strong understanding of the client’s need, **AMK aims ‘to be a one stop responsible financial service provider’** by offering multiple products and services. Every product will be created based on the need to serve different demands of the client.”

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# 1. Challenging assumptions about customers

## CHALLENGE

Organizations and the people within them often make assumptions about their customers – who they are, what they need, and how they use products and services. The challenge for AMK is to go beyond these assumptions, ensure a deep understanding of customers, and then develop effective products, services, and channels and create the business model to respond.

## AMK'S APPROACH

### *Investing in customer research and feedback*

Recognition by the board and management of the importance of understanding customers has been the bedrock of AMK. There is a strong emphasis at the board level on making evidenced-based decisions. From the outset AMK invested in a research department which conducts an annual survey, as well as ad hoc research (e.g., market studies, customer feedback through the call center) to generate a detailed picture of its customers' financial lives – not just how they earn income but what those income streams look like over the course of the year in terms of typical windfalls and crunch points. This research turned common stereotypes of rural Cambodians on their head – namely by highlighting that customers had quite mixed economic baskets rather than purely relying on agricultural income. By understanding the opportunities and constraints customers face, AMK was able to identify weaknesses in its offering and create a product line that is targeted, flexible, and, more importantly, differentiated. This not only works for customers but gives AMK a crucial competitive advantage.

In addition to formal research, AMK uses customer feedback collected through channels such as customer surveys, the call center, customer-agent performance reports, and mystery shopping, as well as informal feedback from front-line staff.

### *Using customer research and feedback*

AMK takes a deliberate approach to ensuring that the understanding about customers generated by its research feeds into product design and adjustment. To ensure that research is effectively used and is central to evolving strategy, a key innovation was the creation of a “customer-focused” committee at the board level – the social performance committee. The committee’s purpose is to shape the direction of AMK’s research and ensure its quality, and then help “translate” results for the rest of the board. It also helps bring the customer perspective into board decision-making. In effect, the committee serves to institutionalize conversation about customers. Its effectiveness is evidenced by attendance. In theory, these gatherings are meant to involve only the committee members, the head of research, and the CEO. But in practice, more often than not the entire management team (and board members, too) attends, because they value the different perspective on AMK’s work present in the discussions and the opportunity to critically reflect on what AMK is doing, why, and, more importantly, whether it is delivering benefits for its customers and the organization.

As AMK’s research questions have moved away from trying to understand the profile and needs of customers toward trying to understand what is happening in their lives as a result of its work, there has been a greater need for interconnectivity between research and operations. For example, data is collected on key performance indicators defined in eight strategic areas: breadth of outreach, depth of outreach, adequacy of products, improved livelihood outcomes for customers, transparency and responsible pricing, responsibility to staff, customer protection, and sector leadership and social responsibility.

## **RESULTS**

The results of this strategy are demonstrated through multiple innovations in developing new products and services or adjusting existing products to the evolving needs of its customers. A notable recent innovation is an AMK health insurance product that provides a level of affordable health insurance rarely seen in Cambodia or internationally. The annual customer survey showed that more than 50 percent of customers surveyed reported significant health expenditure. Additional research followed up and highlighted that people were often selling jewelry, assets, and land to meet health expenses. The clear negative impact of health shocks led AMK to prioritize the development of a health insurance product delivered in partnership with the insurance company, Forte. Customers pay \$6 per year for \$2,600 in coverage, which covers hospitalization, over-the-counter treatments, and prescription medicine. More than 60 percent of customers now purchase the health insurance.

## 2. Translating intention into practice

### CHALLENGE

AMK is and always has been a strongly mission-driven organization. At the heart of this mission is a concern with customers: a clarity about who AMK targets, the value AMK seeks to bring to customers, and the role of staff in delivering a quality of service that enables it to happen. The organization's strategic direction consistently has been driven by these concerns, leading to a product mix, delivery channels, and processes that are unique in the marketplace.

The challenge then is how to enable staff to translate this intent into practice; to embed this purpose and these values into staff training, management, and organizational culture. While products and services may be designed in a way that responds to customer wants and needs, the way in which they are delivered is critical. The key task for AMK has been how to ensure that staff throughout the organization (and more recently, its agent network) have a clear understanding of the organization's purpose and strategy in relation to customer centricity and to align their actions to it.

### AMK'S APPROACH

AMK's customer-centric organizational culture has developed through the formal processes of recruiting, training, and managing staff; through procedures that shape the way staff works and interacts (such as the decision to pay the same per diem to all staff); and through informal "ways of doing things" such as a culture of direct communication and openness. Leadership plays a key role in prioritizing and developing this focus, and much was set in place by the first CEO and the first board when the organization evolved from a charity program in 2003. Clearly, leaders are important - individuals with vision and passion that can set a strategic direction and motivate everyone toward that far horizon. But AMK's story is not one of a charismatic person leading from the front, rather of a cultural identity that is a consistent entity, no matter who comes and goes. Certainly, each CEO

brings their own unique strengths, weaknesses, and style to the table – and yet having had four CEOs in its short 14-year history, throughout which time the organizational culture and focus remain intact, speaks volumes about AMK’s cultural resilience to change.

### *The foundations – satisfied staff*

AMK’s mission is clearly a motivator and a sense of pride for AMK staff. Chheang Taing, the Chief Finance Officer, commented: “It is my pride to be working with AMK. I came from a bank where the mission is to be the leading commercial bank, which is less motivational. What has impressed me the most is going to the field after only a couple of weeks working for AMK – when I was with that bank I never went to see the clients. I see that AMK is completely different, that we are serving our clients, and I am very impressed by this.”

AMK’s leadership also recognizes the importance of treating staff well if they are expected to treat their customers well. The work of operational staff is difficult, often involving arduous travel and serving a high number of customers. Getting the right people with the right skills and retaining them in a competitive marketplace is also critical. In interviews with operational staff, while it is clear they are drawn to AMK because of its mission and purpose, that is almost always mentioned after salary and benefits.

For this reason, AMK has put a lot of time and energy into thinking about how best to look after its staff, defining an “internal customer” (staff and agents) as well as an external customer. This is unusual given the Cambodian context of relatively poor labor rights and often exploitative conditions for lower-level organizational staff. AMK’s commitment is reflected in salary structure, which is competitive at lower levels and, interestingly, less competitive for senior posts. Benefits also play a key role here, with employees quite vocal that in their opinion AMK’s benefits are better than those of its competitors. In fact, when the head of human resources came on board in 2012, she was surprised to learn that AMK’s benefits were also better than those of the large international NGO that she had just left. AMK’s medical insurance, for example, covers all costs for staff members and their families. Accident insurance is also a standard feature of the benefits package – as are paid holidays, weekends off, overtime pay, and an annual “13th month”/Khmer New Year bonus paycheck.

### *Onboarding staff*

The formal processes of staff recruitment, training, and performance management are an important way in which AMK creates a culture of customer centricity. AMK's emphasis on staff training dates from its inception as a business. Its first strategic plan highlights staff skills and morale as a potential management risk – and identifies on-the-job training as critical. This starts with hiring the right people. AMK hires people with the skills for the job, of course, but also looks for the right fit with organizational culture and then provides training. For field staff in particular, AMK focuses much more on a potential candidate's motivation, attitude, and trainability than the skills they bring to the job. In fact, many staff members join as their first job out of high school or college. Says Peaing Pisak, Head of Human Resources, *“For client officers...prior experience is not a requirement. Then we give them two full months of training – some in the classroom and some ‘on the job.’ Within this, we observe their commitment and their willingness to work in remote rural areas, to work with poor people, and to work in an honest manner.”* In short, through conversation and observation by field-based management on the job, AMK sizes up a potential new employee's ability to slot into its culture.

Once hired, all new staff members receive a formal induction that highlights AMK's mission, values, and customer-centric approach (see Figure 3). They also receive training to perform their role. Credit officers, for example, are expected to be empathetic and effectively communicate with customers. To help the organization learn and improve they are also expected to give feedback on their work to their line managers. Training, therefore, includes how to speak with line managers in a direct manner using simple, clear communication.

### **Figure 3: Guiding Principles (from an AMK Human Resources staff training presentation)**

- AMK provides microfinance services to poor people in Cambodia that are grounded in sound financial discipline at all levels
- AMK is committed to openness and transparency in all areas of management and operations
- AMK is committed to developing processes and services and to adopting behaviors and standards that ensure optimum social performance, including client protection
- AMK is a learning organization where appropriate exchange and sharing of information contributes to staff development, training, and improvements in policies and systems



“For client officers, prior experience is not a requirement. **Then we give them two full months of training – some in the classroom and some ‘on the job.’** Within this, we observe their commitment and their willingness to work in remote rural areas, to work with poor people, and to work in an honest manner.”

– Peaing Pisak, Head of Human Resources, AMK

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AMK recognizes that to build understanding and empathy within the organizational culture requires more than a few training sessions. Ongoing mentoring and learning from role models is another key aspect of the process, with an emphasis on coaching. Importantly, senior staff still plays a large role in mentoring junior staff, and all department heads at AMK are trained on the “soft skills” involved in giving and receiving feedback from their staff. This intra-level interaction is an important way of connecting junior staff with the big picture of what AMK is doing and why, and gives them insight into management’s priorities – meaning that staff isn’t just learning what they need to do, but why.

Training and mentoring seek to build staff empathy with customers and an understanding of the purpose behind what they do. AMK’s performance management systems and incentives aim to support putting this into practice, as well as high levels of productivity. For example, AMK sought to incentivize staff to work with harder-to-reach customers. The “extra mile” in this case is literal, with credit officers often needing to travel 200 to 300 kilometers daily by motorbike, often involving treacherous terrain. Recognizing the challenges associated with the job, AMK’s performance evaluation system includes adjustments for the potential of the area where a client officer works, and does not create negative incentives for working in areas that are more difficult than others.

### *Reinforcement of purpose, learning, and communication*

AMK is a strongly mission-driven organization and the needs of customers are regularly highlighted by the leadership team and managers. Key staff meetings start with a discussion about mission, customer needs, and the importance of customer service. An important structure in this process is the Open House Forum, an annual full-day meeting held in every branch and attended by representatives from the management team. These meetings are structured around the desire to reinforce the organization’s purpose and values, to bring staff closer together, and to share insights on what’s working and not working within AMK. In 2016, for example, the Open House meetings agenda included discussion of:

- Mission of AMK
- Value of health and accident insurance to customers
- Customer-centric strengths: door-step service, friendly staff, diversity of products and services, emergency loans and loan write-off policy, great customer service, nationwide network
- Vision for the future and strategy to be the one-stop financial service provider known to be reliable, trustworthy, and easy to access – and employer of choice

## RESULTS

The results of this strategy are hard to quantify as they relate to the culture and practices of the organization. One indication is AMK's relatively low levels of staff turnover (11 percent in 2011), mostly at the level of credit officers and tellers,<sup>8</sup> and high levels of staff satisfaction. Results from the annual staff satisfaction survey in 2015 reveal that 96 percent of employees are positive about the overall company strategy and values. More than 70 percent are very happy with HR policies and the working environment. More importantly, though, is how investment in staff translates into customer service and customer satisfaction. AMK conducts an annual customer satisfaction survey and uses detailed segmentation to identify and respond to specific customer groups. Overall, AMK has historically had customer retention rates higher than those of its competitors.<sup>9</sup>

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8. Although low by international standards, these rates are average for the microfinance sector in Cambodia.

9. Retention rate of 82 percent in 2012 compared with an average of 62 percent from a sample of 13 MFIs that partner with Oikocredit.

## 3. Learning from the front line

### CHALLENGE

In many organizations, front-line staff has little influence on organizational learning and in product and strategy development. The front line, however, engages with customers daily, can see and reflect on the customer experience, and can be a channel for feedback. The challenge for AMK has been to create the structures and incentives for staff to play this role and to create a learning organization culture where there is dialogue with customers; where customers feel empowered to engage with staff; where there are effective channels for feedback; and where staff feels encouraged and safe to give feedback that may be critical at times.

### AMK'S APPROACH

While the research department has generated important findings that have led to significant strategic decisions, many of the adjustments to how AMK works are a direct result of feedback and ideas generated by staff. The loan write-off policy in Box 2 is an example.

#### Box 2. Getting blood from a snail

A well-known Khmer proverb discusses the impossibility of extracting blood from a snail. This old adage becomes relevant in the story of a customer who died, a credit officer who accidentally stumbled upon the funeral, an irate local politician, and an interesting institutional response. In 2005, unknown to AMK, a customer that had taken out an individual loan suddenly died. In the course of his routine loan collection rounds the credit officer visited the village and happened upon the funeral, already underway. To his credit, upon realizing what was happening, he made the correct decision not to collect the repayment installment, and instead paid his respects to the family and offered to contribute toward the cost of the ceremony. However, a guest of some political standing, misinterpreting his presence, became irate, accusing AMK of “trying to collect blood from a snail.” The guest took the story to the local media, framing AMK as a predatory organization and demanding loan forgiveness. This was an important lightbulb moment for AMK in terms of understanding the needs of its customers. In response, it introduced a general policy of loan write-off in the case of the death of a customer to avoid putting the customer’s family in harm’s way.

AMK's management team has, through formal and informal processes, created a culture of learning, reflection, and discussion where the perspectives coming from the day-to-day engagement of staff and customers is valued.

Kea Borann, CEO of AMK, puts the business value of AMK's learning culture into sharp relief: "Employees are the ones actually spending time with the clients every day, and so they know best what the client really needs. If we motivate staff to be fully engaged with their jobs and with AMK, they are able to innovate on processes and products and provide learnings that can help management, and that's a very powerful tool....We have a staff of nearly 2,500 people. If everyone has just one good idea each year – even if we only use 10 percent of them in the end – then this is really useful for improving the way we are working."

***Breaking down the barriers of hierarchy to encourage communication***

Often the hierarchical structure of an organization means that junior staff does not raise questions that challenge their managers or the way things are done. The staff ensures that they deliver as per their training and procedures, and do not ask questions. AMK has sought to break down this cultural barrier to free up channels of communication, actively encourage staff to reflect and learn, and to feed back what they see and hear from customers.

A newer member of the AMK management team reflects: "Overall, the team works closely together and we support one another. But if I suggest an idea to change a policy, sometimes they will fight back – saying 'we used to do that a long time ago (and it didn't work)'. On the flip side, the strong culture of questioning and reflection means that as new voices come to the table – new managers, for example, as AMK expands – the cultural disposition to consider new ideas is already in place.

A key part of AMK's customer-centric culture comes through actively challenging barriers created by hierarchy, and thereby allowing for effective communication between staff at all levels. This challenges the rigid hierarchy common to many Cambodian organizations – instilling instead a "family" feel, where staff are equally valued no matter their job title. Regardless of their position, all staff wear the same informal company shirt, so it's impossible to pick out the "boss of the office." They also refer to each other not with honorific titles denoting rank, but as "brother" and "sister." Not only do staff feel equal, and equally valued, they are encouraged to reflect critically on



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their work and share their ideas about how to do it better. Along these lines, in 2011 AMK introduced 360-degree performance evaluations where staff evaluate the performance of their subordinates and their line managers. This method extends to the governance level as well, with management giving “performance feedback” to the board. Supporting all of this, AMK has created an infrastructure to gather staff feedback: through Open House fora, staff satisfaction surveys, feedback boxes, and a whistle-blower policy that allows staff to raise serious concerns. They also train senior staff on how to give and receive feedback to ensure that there are no bottlenecks in lines of communication between different levels of the organization.

### *Creating structures for dialogue and reflection*

To facilitate conversation and sharing of experience and learning, AMK has developed a strategy that uses a range of channels for communication. Most basic are the branch “morning catch-ups,” which tend to be operationally focused and where credit and other product teams meet separately. Monthly branch meetings involve all staff and provide an opportunity for a more integrated exchange between branch staff. The Open House, as previously discussed, serves to keep staff focused on AMK’s purpose and up to speed with developments in the organization, and is also a forum for staff to air concerns and suggestions. They used to take place twice annually but in the last year have been reduced to once annually since numerous WhatsApp groups have been established within AMK, allowing staff to communicate on multiple themes within existing teams and in groups that cross teams and hierarchy. AMK has an oral culture (many staff are not comfortable writing in English) and WhatsApp allows for voice messaging. Formal groups include the management executive committee, heads of departments, branch managers, credit officers, non-credit staff, and project teams, e.g., the agent quality reinforcement project. Other groups are set up by branches or departments or on an ad-hoc basis. These groups are bound by a policy that sets out a code of conduct.

## **RESULTS**

The positive results of this approach are seen in AMK’s responsiveness to customers and innovation. These include examples of specific innovations that have arisen from staff feedback, such as the previously discussed loan write-off in case of death, as well as more iterative processes such as the evolution of the agent banking model where the experience of front-line staff was critical to gathering feedback on what was or was not working in the system.

## 4. Starting with customers, not risk

### CHALLENGE

Very often, ideas for customer-centric responses are blocked at an early stage by concerns about risk. The challenge for customer centricity is not necessarily for the organization to increase its risk appetite, but to be able to innovate and manage risk so that it can effectively respond to the needs and opportunities highlighted by taking a customer-centric approach.

### AMK'S APPROACH

Most organizations start with risk, and this constrains what they do. AMK starts with customer need, then identifies risk and tries to work around it. AMK leadership has established a culture that starts with the desired actions from a customer perspective and then looks at how to minimize the risk that these actions would create. This openness to taking action that might be perceived as risky relates back to the previous discussion on learning. The customer-centric culture creates a context in which risky ideas are not discouraged and where people are allowed to make mistakes. Thus, staff are freed to focus on customer needs and to then work to find viable solutions.

The tone is set by the board and the risk committee that prioritizes the customer focus and determines the risk appetite. As Kea Borann puts it, *“Yes, we need a risk function to ensure that AMK does not take too much risk without knowing it, but our priority is to offer our services to our customers. So we start with the customers and then look at how to reduce risk.”* The focus then is to understand what modifications or controls are needed to respond to an identified customer need. The AMK culture is not to say, “we can’t do this because of risk.” Often there is disagreement and debate as different perspectives are aired, but this is healthy discussion facilitated by a culture of openness – necessary to achieve the best option.

**Several examples illustrate this approach:**

#### *Customer PIN numbers:*

AMK focuses on rural low-income customers. Many of these individuals are illiterate, and the need for a PIN number to access agent banking or an ATM presents a major barrier. Customers lose their PIN and can’t access the service or give their PIN to an agent or others, thus compromising security. AMK is seeking to develop

alternative security measures that are more simple for customer to use, including, for example, random call center calls to verify transactions and SMS alerts for deposits and withdrawals.

***KYC requirements:***

The need to secure know your customer (KYC) information from (often illiterate) customers can be a barrier to access for some. AMK prioritizes enrolling new customers and, where necessary, collects customer information over time. Two layers of KYC have been introduced to make the process more convenient for customers: Agents in rural areas can perform a simple first layer KYC, which allows customers to make deposit transactions; at this stage, there is no requirement for physical documentation. In addition, full KYC can be performed at a later stage when all required documents (a copy of an ID and a photo) are sent over to the branch.

***Credit line product:***

In Cambodia, historically most loans given for rice cultivation have been in the form of a balloon payment, with capital repayable after one year. In-depth research demonstrated the value of flexibility to customers in drawing down and repaying loans, and spreading risk over two years rather than one. From a risk perspective the product was worrying; indeed, there was resistance from credit officers, operational managers, and at the board level. Would customers borrow too much? Would they pay back at all? What does it mean for the institution's own cash flow if customers are drawing down different amounts at different times and repaying when it suits them? AMK introduced the product cautiously, as an incentive for well-performing customers, with the board restricting eligibility based on a customer's third successful loan cycle. To manage the risk, AMK relied on its in-depth knowledge of, and connection to, its customers. After several years of experience with the product, AMK realized that credit line drawdowns were greatly predictable, effectively following the agricultural cycle, so the fear that the loan would cause liquidity problems was unfounded. Moreover, tracking data revealed that repayment rates for the credit line product were actually higher than repayment rates for the supposedly "safer" installment loan products, especially during the global financial crisis. Management also realized that customer satisfaction with the credit line product exceeded other products and coupled with higher exit rates in early cycles on other products, so decided to extend credit line eligibility to second-cycle customers.

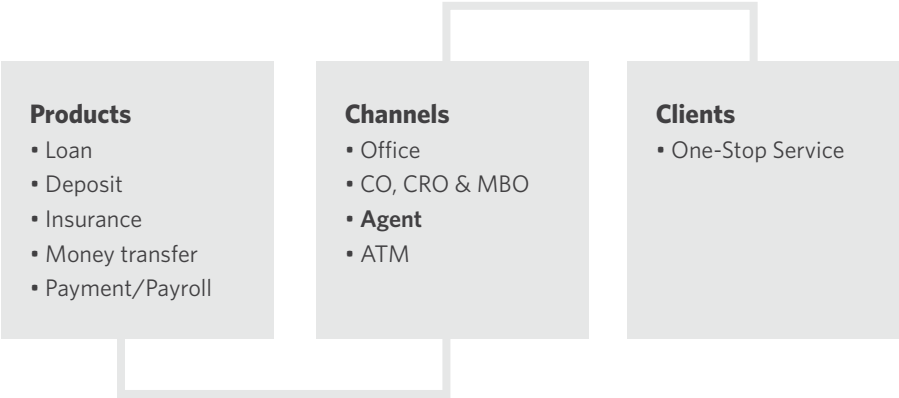
# 5. The challenges of agent banking

## CHALLENGE

A customer-centric approach leads to new opportunities that can change the nature of how things are done. AMK's needs-driven – rather than product-driven – approach led it to recognize a broader set of needs that required more than just credit. This is reflected in AMK's one-stop vision offering the full range of products and services at all customer touchpoints (see Figure 4). AMK had, for example, long recognized the value of savings for customers but had failed to achieve the desired outreach and scale. By creating a low-cost way to massively increase outreach, the agent network provides a mechanism to do so.

Currently numbering 2,300, agents are a new way of working for AMK. They are customer facing and an important channel for AMK service delivery, but they have a very different relationship to AMK compared with staff. Agents are not subject to AMK's rigorous selection and training process, they are not part of its organizational culture, and while they are managed by mobile banking officers, accountability is less than in a staff-manager relationship. This creates risks and challenges in terms of the quality and consistency of service provided, relationships with customers, and opportunities for AMK to learn from this relationship. Fundamentally, the challenge is how to ensure that agents become part of AMK's customer-centric approach, valuing and building their relationships with customers rather than just focusing on transactions and focusing on more profitable products or customers.

Figure 4. AMK's One-Stop Financial Services



## AMK'S APPROACH

For AMK, agents are an additional channel for customers to access the full range of products and services: money transfer, savings, bill payment, insurance, payroll, and credit. For agents, it is a business transaction. Agents are local to the communities they work in, often adding the AMK agency business to an existing grocery shop or other business. They are required to invest financially, purchase marketing materials, and deposit a liquidity balance into their account with AMK. The goal for AMK is to ensure that agents have a sufficient volume of transactions to generate a meaningful profit so they are motivated to provide good customer service and stay with AMK. A key recognition in the evolution of the agent strategy has been the need to see agents as a special class of customer and invest in delivering excellent customer service to them.

The board-level leadership role has been critical in the evolution of the agent network – developing an understanding of customers that led to the recognition of the opportunity; taking the decision to initiate and invest in a major shift in AMK's business model to respond to customer needs; and shaping the model for the agent banking approach.

Leadership at the management level has also been instrumental in gauging and responding to the structural implications for the organization, and for building an understanding and buy-in from staff for what is a significant change in the way that AMK positions itself in the market and the way it works.

### *Making the business model work for agents*

For agents to be a one-stop service for customers, the business model must work for them. The challenge is to ensure access and quality of service for all customers. Income per transaction for agents is small (\$0.1 to \$0.5 for savings; \$0.25 to \$0.9 for transfers). The success of the business is thus based on volume, and this in turn is strongly connected to the product offer and the quality of customer service. A customer journey mapping for agents highlighted serious weaknesses in the experience of agents in working with AMK.<sup>10</sup> Most agents are not motivated, reporting low volumes of transactions and, therefore, low profits. Numerous technical difficulties make the AMK service unreliable, time consuming, and a poor choice compared to competitors: *"The competition next*

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10. Undertaken by 17 Triggers as part of a CGAP partnership to support customer centricity at AMK.

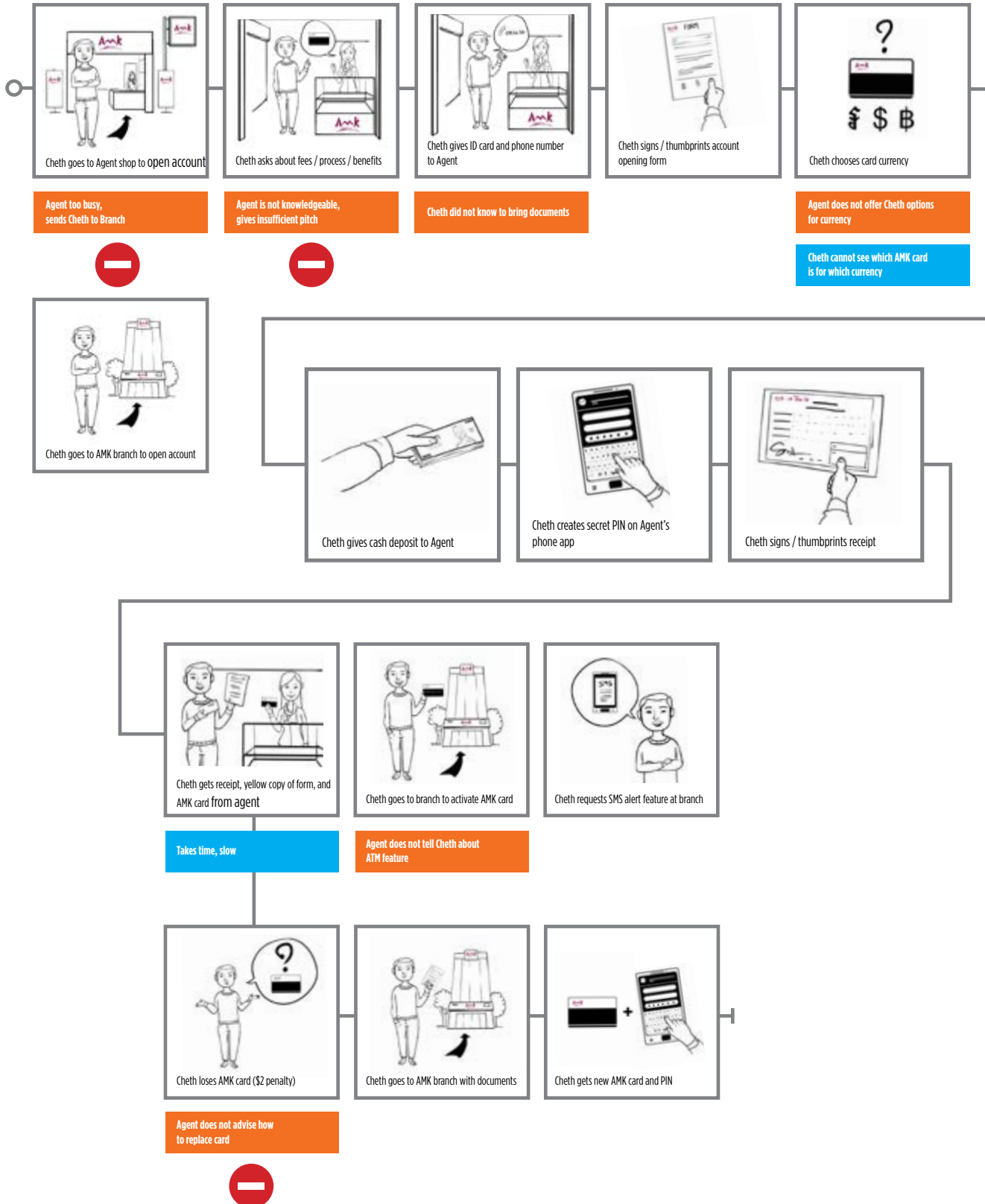
*door is better/faster/shinier.”* Because of low customer volume, agents are often not familiar with making transactions, which makes them nervous and prone to mistakes: “It’s easy to make mistakes. It takes time to fix problems.” This has a knock-on effect for customers who receive a mixed level of customer service, often wait a long time for transactions, encounter mistakes, and are not offered services other than money transfer. Opening a savings account, for example, is a lengthy process for which an agent only receives \$0.50 (see Figure 5). Given the volume of customers and the reality that most agents already have their own business, it is simply not worth the time for most and few accounts are being opened, i.e., less than 200 per month in the first quarter of 2017 were opened by 2,300 agents. This is demotivating for AMK mobile banking officers and agents: “The system makes me (and AMK) look unprofessional.”

In addition to fixing system problems and improving the technical offer, applying a customer-centric view of agents has led to several strategies that are currently being implemented to address the challenges highlighted and improve alignment between agents and AMK goals.

### ***Increasing agent buy-in:***

A competitive strength of AMK is the relationship between staff and customers, but journey mapping highlighted large variations in customer experience with agents. There is a risk that with the more business-minded agents, the relationship becomes more transactional. AMK’s strategy is to find ways for agents to feel that AMK business is their business – and to be proud of AMK. The range of products and services offered and their value for customers becomes the differentiator and driver of business for agents. At present, low transaction volumes mean that there is little incentive for most agents to invest time in customer service, although there are notable exceptions. A starting point for AMK then is to find ways to drive up agent transaction volume and profitability, e.g., by exploring ways for loan customers to make their loan repayments through agents. Improvements in benefits, agent support through mobile banking officers and the call center, and a focus by staff on increasing customer awareness are also designed to improve agent satisfaction.

Figure 5. Steps to Opening an AMK Savings Account



### *Increased support for and monitoring of agents:*

Training for agents is mostly short and functional, focusing on making transactions, liquidity, and branding. The depth of training and support varies significantly depending on the location and capacity of the mobile banking officer and the willingness of the agent to spend time in training. Journey mapping revealed that time spent on training new agents varies from one hour or less to a full day. Currently, the training material provided is a bulky printout that shows slides containing screenshots of the mobile application; it is seldom used by agents. To improve the experience for both agents and customers, AMK is strengthening training and monitoring with a focus on customer service. One method being introduced is a follow-up call by the call center after three months to assess an agent's understanding. Another is twice-yearly agent workshops, which will communicate a clearer vision of AMK and the purpose and value of its products and services. Part of the message will be the importance of customer service.

Training is only one side of the equation, and AMK is strengthening management of agent quality through monitoring and a complaints/feedback mechanism managed by the mobile banking call center. The agent rating system, for example, monitors agent capacity (system and products), customer service, liquidity (cash on-hand and account liquidity), and agent branding.

## **RESULTS**

An increased focus on understanding and responding to the needs of agents is a new strategy for AMK; at the time of the writing of this case study it was too early to report results.



— photo © 17 Triggers

## 6. Structuring an organization to respond to customers

### CHALLENGE

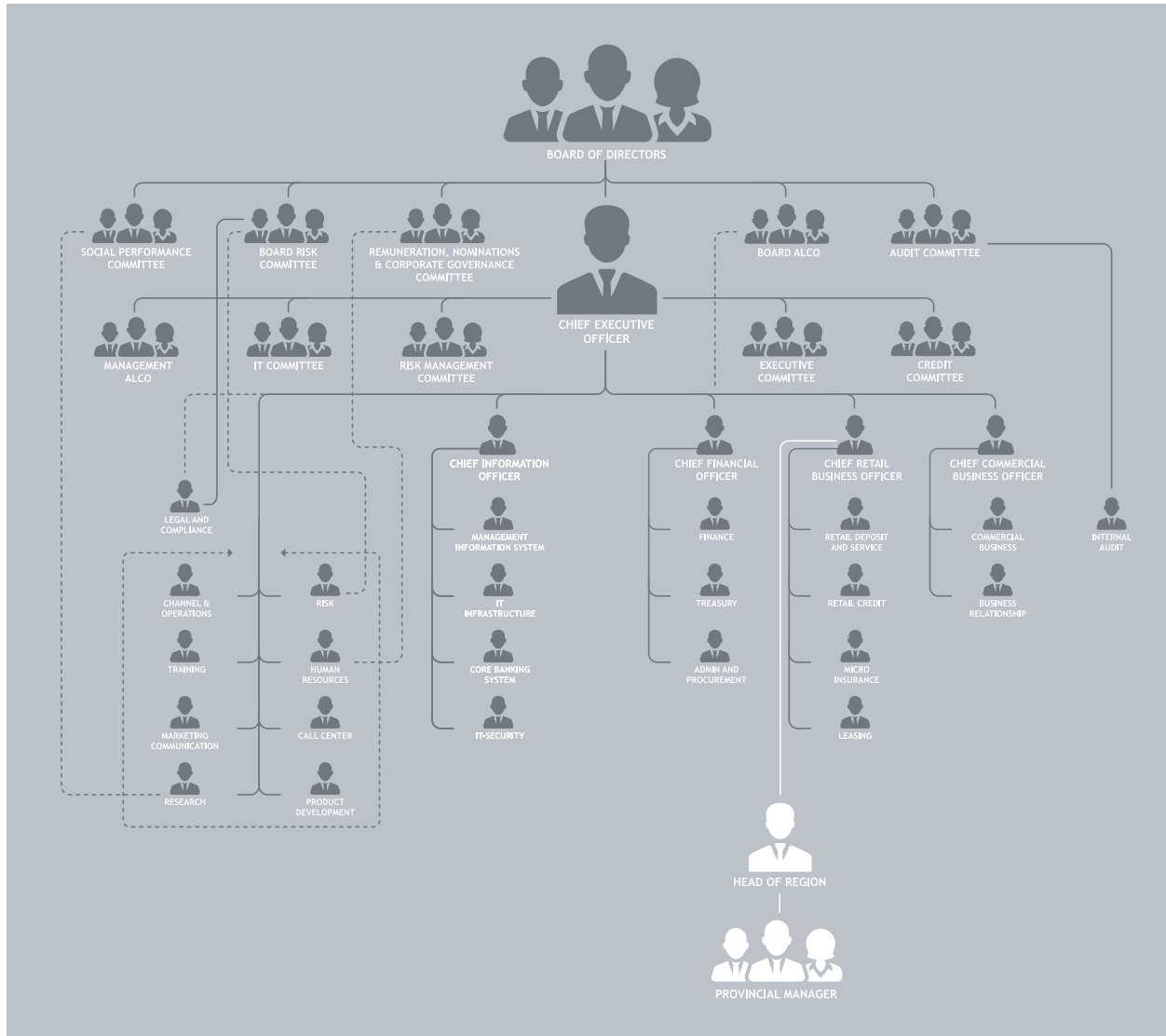
As AMK has grown and diversified its offerings, there has been a need to specialize and focus staff on specific products and services or aspects of the business. While this makes sense from the perspective of organizing delivery, from a customer perspective it means that AMK is not offering a fully integrated service at each touchpoint. Credit officers, for example, are no longer able to open savings accounts or to accept savings deposits. The challenge for AMK is to achieve its one-stop shop vision where all products and services are available through all channels.

### AMK'S APPROACH

The integration of services within AMK has evolved over time. As a credit-focused organization, AMK delivered door-step credit products to customers in their villages. As savings and then microinsurance products were introduced, credit officers were asked to cross-sell and their title changed to “client officer.” Later, the institutional challenges created by the introduction of the agent network led to a decision to restructure management and operations to become more specialized. Mobile banking officers now serve agents, customer relationship officers support savings, and credit officers support credit and microinsurance (and no longer open savings accounts). A similar structural change has been made at the head office. Previously, credit, e-banking, and savings all reported to the chief operations officer (COO) and the chief business officer (CBO) was responsible for research, product development, marketing, and the call center for the entire organization. Senior management is now structured around products, with the COO responsible for credit and microinsurance delivery and product development, and the CBO responsible for delivery of savings and agent banking, as well as all non-credit product development (see Figure 6). Research remains cross-cutting.

While this structural change has helped AMK address the practical challenges of managing an increasingly diverse range of products and services (currently there are 14 credit products), it does raise challenges from a customer perspective. While the one-stop vision takes a holistic view of customers and tailors AMK's services to their multiple needs, staff focus on their specific product line and data is managed by channel rather than by customer (although a new system to be implemented in 2018 will provide a “single customer view”). By

Figure 6. AMK Organizational Structure



compartmentalizing front-line staff, the risk is that they will focus on selling their specific product rather than thinking in terms of what works best for a customer. Would a credit officer think to suggest to a customer that they should save for a need rather than take a loan, or refer a lead to another channel? Similarly, at the head office level, separating credit and non-credit product development reduces the likelihood of holistic thinking. There is a tension between desired integration at the customer level and the organizational structure.

This is where leadership again becomes important. The tension is recognized and the CEO articulated a strategy to work toward greater integration at the field level. However, he needs to manage the practical challenges of delivery – particularly in terms of high workloads for credit officers. His role then is to make this process manageable – building understanding and commitment. The strategy is to implement a step-by-step process, highlighting to staff the value for customers of offering a wider range of services and the impact on customer performance and retention. In the case of microinsurance, for example, there was clearly a direct link between customers experiencing poor health or accidents and defaulting on their loans. Therefore, credit officers quickly saw the value of the product in terms of reducing their workload and the product has been very successfully promoted to loan customers.

Similar arguments can be made for savings and for the use of agent banking. While training for all new staff includes knowledge of all products and services, there is currently an emphasis on communicating an understanding of customer needs and the value of AMK's services to give staff a vision of the future. This was a major focus of Open House fora in 2016 and AMK has since launched an initiative that encourages staff to refer customers to other services (rather than actively requiring or incentivizing cross-selling). Branch managers are tasked with promoting and supporting the initiative. Through the introduction of tablets for credit officers to use for loan application, disbursement, and collection, the CEO's strategy is to reduce their workload and thus create more space for referrals. It is predicted that the workload will reduce by 30 to 40 percent. The longer-term vision is to move all staff toward cross-selling other products and to incentivize cross-selling so customers are supported in choosing products that best match their needs. As well as a cultural change, there is a need to build skills so staff is able to take on this role.

Integration is also sought through incentives that emphasize interconnectivity of different elements of the business. Team-based branch performance incentives are based on performance across product lines, and an incentive bonus has been introduced for all staff (including support staff) based on the overall performance of AMK as a business. This makes up 30 to 40 percent of the annual salary for the incentive. Linking back to the earlier discussion of organizational culture, the message is that staff is a "part of the same family" and that success for customers comes through the combined efforts of all staff. In the future, AMK will move more toward team-based key performance indicators (KPIs). Integration will also be driven at the product level with all loan customers automatically having a savings account opened. As the quality of the agent channel improves, customers will increasingly use them and this will be perceived as a support to credit agents, e.g., with agents making loan referrals.

## Conclusion

For AMK, customer centricity starts at the board level and at the senior management level. AMK has a business model that sees delivering real value to poor and financially excluded Cambodians as the driver for commercial success. This creates a drive to understand current and potential customers and to constantly seek new opportunities to extend and improve AMK's offering. The effort leads to a set of products and services that are unique in a competitive market and are continuously evolving. It also results in a concern for all customers, not only those who drive the greatest profit.

This leadership commitment is consistently communicated and feeds into a customer focus and commitment to the mission throughout the organization. It also shapes the way that AMK addresses challenges, for example, seeing risk management as something to facilitate the customer focus rather than as something that mediates it.

AMK also recognizes the need to translate intent into practice and the value of experience and perspectives coming from all staff. Creating a culture of openness, of trust, and of learning supports the organization in learning from and responding to its customers.

The shift that has taken place as AMK introduces a new business model around agent banking – balancing the needs of customers, agents, and staff – illustrates many of these elements in action and provides a deeper understanding of the DNA of a customer-centric organization.

