ASSESSMENT OF CORPORATE SOCIAL RESPONSIBILITY WITHIN THE STAKEHOLDER THEORY IN COMMERCIAL MICROFINANCE INSTITUTIONS IN BOLIVIA

Master Mini-Thesis

School of Government

University of the Western Cape

By

Mauricio Morón Benítez

Supervisor

Prof. Pieter Le Roux

Cape Town, South Africa, June 2006

Key Words: Corporate Social Responsibility (CRS), Microfinance, Commercialization

TABLE OF CONTENTS

Pag.

LIST OF ABBREVIATIONS

3BL	Three Bottom Line
ASOFIN	Association of Financial Organizations Specialized in Micro Finances of Bolivia
ATM	Automatic Teller Machine
BancoSol	Banco Solidario S.A.
BIO	Belgian Investment Company for Developing Countries
CAF	Andean Development Corporation
CFP	Corporate Financial Performance
CGAP	Consultative Group to Assist the Poor
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
FFP	Fondo Financiero Privado (Private Financial Fund)
FMO	Financing Society of Netherlands
GRI	Global Reporting Initiative
IFC	International Finance Corporation of the World bank
IMF	International Monetary Fund
KfW	German Development Bank
LACIF	Latin American Challenge Investment Fund
MFI	Microfinance Institution
NGO	Non-Governmental Organization
PROFIN-COSUDE	Microfinance Programme of the Swiss Cooperation in Bolivia
SRI	Social Responsible Investor
UK	United Kingdom
UN	United Nations
US	United States

INDEX OF TABLES

Page

INDEX OF GRAPHS

Page

CHAPTER 1: INTRODUCTION

Currently, some microfinance institutions in Bolivia are adopting Corporate Social Responsibility (CSR), a concept whereby companies integrate social and environmental concerns in their business operations and publish the results.

CSR is applied mostly by big companies in the North and in sectors more in the eye of the public, such as oil production or textile and apparel. A number of research questions arise: Why would small financial institutions from a country in the South and under little public scrutiny incorporate CSR in their organizations? Microfinance, their business operation, is already considered social, why go beyond that? Could it be the case of truly social-committed firms or are they just acting strategically? What role do stakeholders play in the microfinance institutions' (MFIs) decision to engage CSR?

The following paragraphs describe the problem statement, justification and research questions of this thesis.

1.1 Problem Statement

In its most basic definition, to commercialize is “to develop commerce in” or “to manage on a business basis”.[1] In microfinance, the notion of commercialization denotes a) the transformation of NGOs dedicated to microfinance into licensed financial entities (this investigation focuses on such transformed NGOs); and b) banks and finance companies that downscale their operations.[2]

Bolivia has been the pioneer in the commercialization of microfinance through microfinance NGO transformations.[3] Many promoters and managers of Bolivian microfinance NGOs readily embraced the notion of commercialization as one that reflects their commitment to a market approach to microcredit, implying principles such as sustainability, professionalism and efficiency in the provision of financial services to the poor.[4]

---

1 WEBSTER, Merriam. Dictionary and Thesaurus on Line.

2 BAYDAS, M. et. al. (1998), Commercial Banks in Microfinance: New Actors, pp. 4-8.

3 The model was introduced worldwide in 1992 when Prodem, a microfinance NGO, obtained a bank license as BancoSol.

4 PECK CHRISTENSEN, R. and DRAKE, D. (2003), Commercialization: The New Reality of Microfinance, p 3.

Since expectations of the role of microcredit in the fight against poverty increased after the first results achieved by leading microfinance NGOs in the mid 1980s, the commercialization process gained much support from different *stakeholders*. For instance, stakeholders such as donors and APEX institutions[5] provided financial support and technical assistance to microfinance NGOs (according to donors' preferences some received less, others more). Meanwhile, the Bolivian Government and the Superintendence of Banks invested resources to adapt the normative and regulative framework to allow microfinance NGOs to undergo the formalization process in order to obtain operating licenses as regulated financial entities.[6] Microfinance NGOs became shareholders in the newly created institutions and some of them attracted international NGOs as investors to obtain the minimum capital required.[7]

The transformation has proven successful. Today, almost 15 years since the first NGO was transformed, five commercial MFIs in Bolivia[8] serve 60% of micro-clients, hold more than 70% of the microfinance portfolio and are the most productive financial institutions in the country with an average return to equity of 18% (the average of the banking system is -1.2%)[9].

Several studies assessed the impact of commercial MFIs on the poor, analyzing mainly the proportion and degree of poverty of the micro-entrepreneurs in their portfolio. All of them found that these organisations have a positive social impact. [10]

These studies stress that without the transformation to formal financial institutions and the access to more funding sources to expand their portfolio, commercial MFIs would not have been able to incorporate as many micro-entrepreneurs into the financial system as they did, providing them with access to services that only supervised institutions can offer, such as savings or money transfer. [11]

Furthermore, in order to increase their social impact, two of the five Bolivian commercial MFIs are currently adopting Corporate Social Responsibility (CSR)[12]. This dissertation investigates the reasons behind this decision.

5 APEX Institutions: Second Tier Banks who promote the development of microfinance through loans and technical assistance. Three operate in Bolivia: FONDESIF (public), NAFIBO (mixed) and FUNDAPRO (private foundation)

6 FIEDLER, H. and PASTOR, F. (2002), Bolivian Microfinance in Times of Crises, p. 11.

7 Idem, p. 22.

8 For the purpose of this thesis, commercial MFIs are only former NGOs, transformed into licensed financial institutions.

9 Superintendencia de Bancos y Entidades Financieras (2004), Boletín Financiero, pp. 2-53

10 PECK CHRISTEN, R. and DRAKE, D. (2003), Commercialization: The New Reality in Microfinance, p. 6.

11 WHITE, Vand CAMPTION, A. (2002), Transformation: Journey from NGO to Regulated MFI, pp. 6-12.

12 Two participate in a pilot project promoted by a Programme of the Swiss Cooperation (PROFIN) in collaboration with the Global Reporting Initiative (GRI) . They intend to publish a social balance sheet in February 2006 for the period 2005.

As some experts consider, it could be the case that commercial MFIs in Bolivia are a perfect example that CSR is intrinsic to firms: private companies engage in social activities because they believe it is the right thing to do, to give back something to the society. Commercial MFIs have NGO origins and they made little modifications to their mission and vision statements, which are still very social-driven.[13] Perhaps it is in their institutional nature to promote social activities further than microfinance.

However, why did the other three commercial MFIs not undertake CSR? Three possible answers arise to indicate that there could be reasons other than their social-driven nature for some MFIs to undertake CSR.

First, due to the characteristics of the market, there may well be more benefits in CRS than costs. Bolivia has long been the most concentrated microfinance market in the West Hemisphere.[14] In a niche where clients are poor people, a cleaner face can make a difference and probably the managers and directors of some MFIs see in CSR an opportunity to differentiate their corporate image, increase clients or get access to funds from social investors.[15]

Secondly, probably 'the eye of the public' is different for MFIs. They do not face environmental or human rights groups in contrast to firms in the North, but some MFIs are possibly under more pressure from social stakeholders than others.

Currently, commercial MFIs still depend – some more, some less – on international NGOs to fund their credit activities. Moreover, in most cases, the main shareholders are still the founder microfinance NGO.[16] Now that they are very profitable, it would not be surprising for these stakeholders to be interested in more social activities additional to microfinance, especially in the MFIs who receive more funds.

Finally, some MFIs could be more prepared to engage in CSR since they are already engaged in some unstructured social activities in addition to microfinance. This would give them a competitive advantage over the other MFIs making them more inclined to adopt CSR. As a consequence, taking Bolivian commercial MFIs as case study, the main research problem arises: What motivates small firms in the South to

[13] WHITE, V. and CAMPTION, A. (2002), Transformation: Journey from NGO to Regulated MFI, p. 4.

[14] PECK CHRISTENSEN, R. and DRAKE, D. (2003), Commercialization: The New Reality of Microfinance, p 5.

[15] Some Socially Responsible Investors are already targeting MFIs as promising companies On August 2004, Citigroup/Banamex announced the issuance of five year peso-denominated investment grade bonds on behalf of Financiera Compartamos, a local microfinance institution in Mexico. See PEREGRINO, M. (2005), Microfinance: A Viable Investment Option, p. 2.

[16] FIEDLER, H. and PASTOR, F. (2002), Bolivian Microfinance in Times of Crises, p. 11.

engage in CSR? Could it be the case of truly social-committed firms or are they just acting strategically?

Two secondary research questions will also guide the investigation: (1) To which degree can stakeholders influence firms to undertake CSR? (2) Are the already more socially-committed firms inclined to engage first in CSR?

The Corporate Social Responsibility framework and stakeholder theories are used to investigate and compare three commercial MFIs in Bolivia, two adopting CSR and one not. A short description of these institutions is presented in Annex A.

1.2 Justification

From the theoretical perspective

Since the publishing of Freeman's milestone book "Strategic Management: A Stakeholder Approach" in 1984, hundreds of articles have been written about stakeholder theory.[17] The theory now constitutes one of the most central frameworks for conceptualizing and understanding the CSR "field". Donaldson and Preston in 1995 have organized the diverse range of articles on stakeholder theory in a taxonomy of different stakeholder theory types, including the instrumental (strategic) and normative approaches.[18]

From a normative perspective, where moral or philosophical guidelines influence firms to adopt stakeholder management and CSR, Bolivian MFIs seem a perfect example due to their NGO origins, social-driven premises and good record of social impact through microfinance.

Nevertheless, Bolivian MFIs also represent profitability, solvency and efficient management, being the best performing financial institutions of the country, with a market oriented and strategic approach to microfinance. Therefore, it may be that their adoption of stakeholder management and CSR follows the achievement of more traditional corporate objectives (market share, profit, corporate image), representing a behaviour framed in the instrumental (strategic) perspective of the theory.

Consequently, these small financial institutions are an interesting case study to compare and analyse the main reasons for firms adopting structured programmes aimed at performing social activities in addition to their day-to-day business. Is it because they have an intrinsic moral and ethical mission or because it is strategic for their

[17] FREEMAN, E. (1984), Strategic Management: A stakeholder approach, pp. 40-55.

[18] DONALDSON, T., and PRESTON, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications, pp. 65-91

corporate performance? This thesis hopefully could contribute to this discussion current in the CSR field.

From the microfinance perspective

Ever since the transformation of NGOs into private enterprises, some theorists and practitioners are concerned about a *mission drift* that would be associated with a commercial approach to microfinance. They argue that a commitment to sustainability and profitability virtually guarantees that a MFI will move up market, abandoning poorer clients. In fact, critics of commercialization frequently note that the average loan size of commercialized microfinance institutions has significantly increased; becoming much higher than that of non-profit MFIs that target the poorest clients. [19]

Nonetheless, other studies have shown that this upscale in the average loan size is an outcome of more "mature" clients in the portfolio (long term customers with larger loans) and the introduction of new products that require higher amounts (for example housing). In fact, these studies conclude that commercial MFIs – due to bigger loan portfolios and economies of scale –allocate more microloans (under USD 500) than their non-profit competitors.[20]

The discussion is still open in the microfinance community, but it only focuses on MFIs' business operations: microfinance. The present investigation will provide donors, theorists and practitioners more information to include in the debate, comparing the base line of three MFIs within the CSR framework and incorporating determinants beyond portfolio composition or client outreach.

The outcome of the thesis will also be important to MFIs, offering them transparency and disclosure about their current situation with respect to CSR compared to their peers, in order to attract potential funding through Socially Responsible Investors (SRI). A recent study shows that SRIs are increasing their share of bonds and stocks from microfinance, targeting the best performing commercial MFIs in Latin America.[21]

From the development perspective

As it is described in this thesis, Corporate Social Responsibility recently has become a powerful concept to attract the attention of policy makers, management and ethical scholars and, most importantly, private firms. Much has been written about CSR and important organisations such as the United Nations and the European Union are

---

[19] PECK CHRISTENSEN, R. and DRAKE, D. (2003), Commercialization: The New Reality in Microfinance, p. 6.

[20] Idem, p.8.

[21] PEREGRINO, M. (2005), Microfinance: A Viable Investment Option, p. 2.

promoting the concept publicly. Nevertheless, most of the policies launched by these organisations are tailored for firms in the North that wish to reduce impacts of economic globalisation on poor countries.[22]

Generally, private firms in the South are not considered as part of development programmes and projects, and are rarely included in the formulation and implementation of social policies. Similarly, the CSR literature about firms based in developing countries is limited and mostly deals with big firms that hold similarities to companies in the North, such as oil companies.[23]

Understanding what motivates small firms in the South to engage in CSR could be an important contribution to the development literature. Once they know how companies in developing countries envisage CSR, and what benefits they expect from it, policy makers can design and implement development policies to promote CSR.

Policies that take into consideration the real reasons behind CSR engagement can lead to programmes providing effective incentives to private firms in the South to play a central role in efforts to eliminate poverty, achieving equitable and accountable systems of governance and ensuring social security.

This starting point can bring new themes, debates and agendas to the sustainable development arena, offering both opportunities and challenges for firms in the South.

1.3 Research Objectives

The objectives of this investigation are (1) to assess and compare the reasons why the selected Bolivian commercial MFIs are engaged, or not engaged, in CSR; (2) to determine which stakeholders are more relevant for each MFI analysed, assessing how they influenced the decision to adopt or not adopt CSR; and (3) to compare the current social performance of the selected MFIs within the framework of corporate social responsibility.

[22] See www.globalpolicy.org for the UN programme on CSR and http://europa.eu.int/comm/employment_social/soc-dial/csr/index.htm for the EU policies.

[23] UNIDO (2002), Corporate Social Responsibility, Implications for Small and Medium Enterprises in Developing Countries, pp. 5-62.

CHAPTER 2: LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Over the past decades, CSR was given great visibility among practitioners, policy makers and, most importantly, private firms in countries from the North and the South. Therefore, an important new line of inquiry within the CSR field is no longer if firms engage in CSR, but rather, what catalyzes organizations to engage in expanding CSR initiatives.

Due to problems of empirically linking social and economic objectives of a corporation, it has been difficult for scholars to provide a theoretical background to CSR. Nevertheless, one wing of management analysis, stakeholder theory, has been found to be quite applicable to the concept. According to the theory, what matters is the survival of the firm, which is affected not only by stockholders, but also by various other stakeholders such as employees, government and customers. Therefore, the theory provides managers with tools for developing more (socially) balanced and stronger strategies that reflect changes inside the firm and in the environment surrounding it.

In 1995, a first taxonomy divided stakeholder theory in three mainstreams, *descriptive, normative and instrumental*. Descriptive stakeholder theory is used to describe how stakeholders can influence firms to undertake social strategies. Instrumental theory argues that firms undertake stakeholder management to achieve traditional corporate objectives. Finally, normative stakeholder theory suggests that firms engage in stakeholder management due to moral or philosophical guidelines.

The next section discusses more extensively the evolution of the CSR concept and Stakeholder Theory. In the final section some hypotheses are derived from the theory.

2.1 Corporate Social Responsibility

The concept of corporate social responsibility (CSR) refers to “the firm’s considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks".[24]

Most of what has been written on CSR focused on corporate social *ir*responsibility and the reaction of the public to it.[25] The best-known example is Royal Dutch Shell and the allegations that the corporation supported the Nigerian military in its execution of the writer Saro-Wiwa and other Ogoni community members for their political activities against Shell. Ogoni political organizations pointed at the environmental damage Shell allegedly caused to the Niger Delta in its more than 35 years of operations in the region.[26] The eye – and rage – of the public focused actively on this event and caused Shell to change its social approach and relationships with host countries.[27]

Shell re-evaluated its operational principles to establish clearer human rights guidelines, and published its first social balance sheet, including a larger commitment to human rights and local community development.[28]

Although this and other examples such as Ikea, Home Depot, and Nike, represents *reactive* social change, there are also growing examples of *proactive* social change with corporations engaging in "*triple bottom line - 3BL*" accounting. [29]

In practical terms, 3BL accounting usually means expanding the traditional company reporting framework to take into account not just financial outcomes but also environmental and social performance.[30]

Since the phrase was coined by John Elkington in 1998, the Leading organisations in CSR reporting, such as the Global Reporting Initiative (GRI) and AccountAbility, have embraced and promoted the 3BL concept to measure sustainability as good CSR performance in the corporate world.[31] According to a study in June 2005, at least 2,600 companies worldwide are publishing stand-alone citizenship, sustainability, environmental and social reports.[32]

Companies adopting this accounting standard give greater visibility to CSR rankings (100 Best Corporate Citizens)[33]; emerging global standards of expected

---

24 DAVIS, K. 1973. The Case for and Against Business Assumption of Social Responsibilities, p. 313.
25 CROPANZANO, R., et al, (2004), Accountability for corporate injustice, pp. 107-133.
26 BAXTER, C., et al, (1995), Ken Saro Wiwa and 8 Ogono people executed: Blood on shell's hands, p. 1.
27 AGUILERA, R., et al, (2004), Putting the S Back in Corporate Social Responsibility: A Multi-Level Theory of Social Change in Organizations, p. 4.
28 LIVESEY, S., and KEARINS, K. (2002), Transparent and caring corporations? A study of sustainability reports by The Body Shop and Royal Dutch/Shell, pp. 233-260.
29 SVENDSEN, A., and LABERGE, M., (2005), Engaging Networks for Whole System Change, p. 4.
30 ELKINGTON, J (1998), Cannibals with Forks: the Triple Bottom Line of 21st Century Business, p. 4.
31 NORMAN, W. and MACDONALD, C (2003), Getting to the Bottom of "Triple Bottom Line", p. 2.
32 WHITE, A. (2005), New Wine, New Bottles: The Rise of Non-Financial Reporting, p. 2.
33 See www.business-ethics.com/100best.htm.

responsible conduct (e.g. the United Nations' Global Compact)[34]; and incorporating accountability initiatives (e.g. SA 8000 and AA 1000)[35] into production processes and global supply chains. Some evidence of proactive social change is that in 2002, 45% of the *Fortune* global top 250 companies produced a separate social and/or environmental report, despite not being legally required to do so.[36]

This spread of the concept of CSR in business has meant that the social and ethical issues facing companies in their strategic planning and daily operations have become an increasingly important consideration for managers and directors. In a survey published in January 2005, the Economist Intelligence Unit reported that more than 80% percent of executives and investors surveyed in United Kingdom and continental Europe believed that corporate responsibility was a central or important consideration in investment decisions, double the percentage (44%) who responded the same way 5 years ago.[37] Another study in the United States found that 82% of companies surveyed by the United States Chamber of Commerce and Boston College in 2004 considered that corporate citizenship needs to be a priority in their business agenda.[38]

At first glance, this convergence in the first world seems to hold great promise for development. Nelson and Bregrem in 2004 identified five key emerging CSR issues of strategic importance to business that lie at the core of development, such as climate change, social and environmental risks along the supply chain, product distribution and use, access and affordability of essential products (particularly in healthcare and information technology) and increasing transparency with respect to corruption and human rights.[39]

Moreover, and despite a common assumption that CSR is a luxury which emerging markets cannot afford, firms in the South are already engaging in an extremely wide range of activities that come under CSR. An International Finance Corporation (IFC) study published in 2002 highlights the benefits in CSR adoption by 240 firms from Africa, Asia, Latin America and Central and Eastern Europe.[40]

---

34 See www.unglobalcompact.org/Portal/.

35 SA8000 is a standard and verification system for assuring humane workplaces and is based on international workplace norms in the International Labour Organisation (ILO) conventions and the UN's Universal Declaration of Human Rights and the Convention on Rights of the Child (see www.sa-intl.org/). AccountAbility standards, the AA1000 Series, are principles based standards intended to provide the basis for improving the sustainability performance of organisations (see www.accountability.org.uk/).

36 KPMG. (2002), KPMG International Survey of Corporate Sustainability Reporting, pp. 1-32.

37 ECONOMIST INTELLIGENCE UNIT (2004):, The Importance of Corporate Responsibility, pp. 2-45.

38 ROCHLIN, S., et al, (2004), The State of Corporate Citizenship in the U.S.: A View from Inside, 2003-2004, p 4.

39 NELSON, J., and C. BERGREM (2004), Values and Value: Communicating the Strategic Importance of Corporate Citizenship to Investors, pp- 1-34.

40 IFC, SustainAbility, ETHOS (2004), Developing Value: The business case for sustainability in emerging markets, pp. 4 -64.

Therefore, an important new line of inquiry within the CSR field is no longer if firms engage in CSR, but rather, *what catalyzes organizations to engage in an increasing number of costly[41] CSR initiatives.*

One premise in this investigation is that in either case (reactive or proactive CSR initiatives, though the thesis focuses on a proactive case), firms are pressured by internal and external actors to engage in CSR actions due to a rapidly changing and competitive environment.

In the following sections, the development of the concept of CSR is introduced as an explanatory context while the stakeholder theory is presented as theoretical background for CSR and the reasons behind CSR engagement.

2.2 Development of the CSR Concept

2.2.1 Social Responsibilities of firms: The 50s and 60s

Most academics agree that the first effort to theorize the relationship between firms and society was that of Howard Bowen in his publication "Social Responsibilities of the Businessmen" in 1953.[42]

Bowen asserted that corporations must consider social consequences and responsibilities due to their position of great influence and the potential consequences of their decisions.[43]

Bowen's publication coincided with a legal environment in the United States that was becoming more favourable to CSR, so it provided the intellectual background to reflect the rapidly changing social environment during the following decade.[44] During the 60s, numerous laws were enacted to regulate businesses and to protect employees and consumers, while the growing consumer rights movement directly confronted the corporate power, leading to the publication of hundreds of books and articles on the subject.[45]

Nevertheless, the growing attention to CSR drew serious criticism. The most eminent objection to CSR was the classical economic argument proposed by Milton Friedman. He argued that the social responsibility of business is only to maximize profits for the shareholders within the rules of the game (obey the law, pay taxes, etc),

---

[41] The Economist Intelligent Unit estimates that a full-fledged CSR program can cost up to 2% of total revenue. EIU (2004), The Importance of Corporate Responsibility, White paper, p. 3.

[42] CARROLL, A.B. (1979), A Three-Dimensional Conceptual Model of Corporate Performance, pp. 497-505. PRESTON, L. E. (1975), Corporation and Society: The Search for a Paradigm., pp 434-453.

[43] B0WEN, H. (1953), Social Responsibilities of the Businessman, p. 3.

[44] PAUL LEE, M. D. and KIM, S. (2005), From Cost to Resource: The Transformation and Diffusion of Corporate Social Responsibility, p. 11.

[45] ELKINS, A. (1977), Toward a Positive Theory of Corporate Social Involvement, pp. 128-133.

and considered CSR a subversive doctrine that threaten the foundation of a free enterprise society.[46] Friedman argued that by pursuing self-interest as Adam Smith's "invisible hand" states, pursuing maximal value for the stockholders will result in maximization of social welfare.[47] The two decades after Bowen's publication were characterized by fierce debates over the legitimacy of CSR but, despite the active discussion, little theoretical improvement was accomplished beyond what Bowen had already laid down.[48]

2.2.2 Enlightened Self-Interest: The 70s

In 1970, the study "A New Rationale for Corporate Social Policy" commissioned by the Committee for Economic Development restructured the CSR debate by providing reconciliation between social and economic interests of firms.[49] The authors realised that without proving that CSR is coherent with stockholder's interests, CSR will always remain questioned. Consequently, they tried to provide a "new rationale" that supports CSR without compromising stockholder's interest.[50]

The study shares Friedman's argument that corporations, within the framework of utility maximization for stockholders, should not engage in CSR, but it also argues that the modern stock portfolio became so diversified that the meaning of shareholder's interest has considerably changed.[51]

By 1970, to spread risk, most stockholders already owned shares in many companies. Therefore, they were not interested in maximization of profit in just one company at the possible expense of other companies in which they owned shares. In other words, owners of diversified portfolios would want to achieve social optimization through joint profit maximization, and would want to spread "social expenditures evenly over all firms to the point where marginal cost equals marginal appropriable benefits", being consistent with the long-term interest for corporations to be socially minded.[52]

This approach was called the "enlightened self-interest model" and produced a new breed of research in the field of CSR in the 70s.[53] The enlightened self-interest

46 FRIEDMAN, M. (1962), Capitalism and Freedom, p. 2.

47 FRIEDMAN, M. (1970), The Social Responsibility of Business Is to Increase Its Profits, p. 13.

48 WARTICK, S. L., and COCHRAN, P. L. (1985), The Evolution of the Corporate Social Performance Model, pp:.758-769.

49 WALLICH, H. C., and MCGOWAN, J. J. (1970), Stockholder Interest and the Corporation's Role in Social Policy, pp. 154-166.

50 ELKINS, A. (1977), Toward a Positive Theory of Corporate Social Involvement, pp. 128-133.

51 WALLICH, H. C., and MCGOWAN, J. J. (1970), Stockholder Interest and the Corporation's Role in Social Policy, pp. 154-166.

52 Ibid.

53 ELKINS, A. (1977), Toward a Positive Theory of Corporate Social Involvement, pp. 128-133.

model, however, was developed more as a concept than as a full-scale theoretical model, loosely coupling social and economic interests.[54]

Even as late as 1975, Preston argued that the field of CSR still lacked an accepted theoretical paradigm, and called for more progress in conceptualization, empirical evidence and policy development.[55]

2.2.3 Corporate Social Performance Model: The 80s

In 1979, Carroll proposed a three-dimensional conceptual model of corporate social performance (CSP) and this immediately gained recognition as a more complete theoretical approach towards CSR.[56]

Carroll's model combines corporate social responsibility, social issues, and corporate social responsiveness under the umbrella of CSP, identifying the modes in which firms can achieve significant performance improvement once they have adopted social responsibility as a relevant concept.[57]

The 3-D model attempted to provide theorists with an understanding of the differences between definitions of CSR, and managers with a tool to better comprehend how to integrate CSR into the economic framework of a company by considering CSP.[58]

The most important contribution of the model is that the three-dimensional model does not treat economic and social goals of a corporation to be incompatible tradeoffs. Rather, both corporate objectives are integrated into the framework of the total social responsibility of business. As a social institution, corporations need to care for issues such as community, environment and employees as well as make good profits.[59]

Wood extended the model in 1991, linking CSP with numerous related theories in organizational studies such as organizational institutionalism and management theories, in order to create a more useful and managerially model.[60]

Nevertheless, during the 80s, researchers and managers -due mainly to its inability to test empirically the relationship between CSR and CSP- never applied the 3-D model widely.[61] Without clear and more consistent mechanisms to measure corporate

54 WEIK, K. (1977), Educational Organizations as Loosely Coupled Systems, pp.1-19.
55 PRESTON, L. E. (1975), Corporation and Society: The Search for a Paradigm., pp 434-453.
56 WOOD, D. J. (1991). Corporate Social Performance Revisited, pp. 691-718.
57 CARROLL, A. B. (1979), A Three-Dimensional Conceptual Model of Corporate Performance, p. 12.
58 Idem, p. 3.
59 Idem, pp.6-13
60 WOOD, D. J. (1991). Corporate Social Performance Revisited, pp. 691-718.
61 MARGOLIS, J. and WALSH, J. (2001), Misery loves companies - Whither social initiatives by business? pp. 1-33

performance, the risk associated in engaging CSR could not be significantly reduced for the shareholders.[62]

2.2.4 Management Theory: The 90s

The question of why some companies constantly perform better than others has produced many studies on management theory.[63] One wing of management analysis, stakeholder theory, has been found to be quite applicable to CSR.[64]

The stakeholder model solved the problem of measurement and empirical testing by narrowing the actors and simplifying their relationship with the firm.[65] From managers' perspective, their responsibilities to employees, customers and government are much easier to visualise and manage than their responsibilities to society. Moreover, most firms, whether deliberately or unintentionally, have already been managing the relationships with the main actors in their immediate surrounding environment (employees, customers and government) and keeping records of their transactions or interactions.[66]

The concept of stakeholders first surfaced in management literature in the 60s. By the 70s, variants of stakeholder theory were already being tested by major corporations in the United States.[67] The stakeholder perspective, though, remained mostly secondary to management theory until mid 80s when Edward Freeman introduced the first systematic theory of stakeholders.[68]

The theory was developed further during the 90s when – due to globalization and more transparent and available information about firms' impact on society – management theorists started to acknowledge that firms have strong connections with other relevant and influential stakeholders than stockholders.[69]

A unique feature of stakeholder theory is that it envisions a corporation's purpose in an entirely different way. With stakeholder theory, the difference between social and economic objectives of a corporation is no longer pertinent, because the core matter is the survival of the firm.[70] Survival of a corporation is affected not only by

---

62 PAUL LEE, M. D. and KIM, S. (2005), From Cost to Resource: The Transformation and Diffusion of Corporate Social Responsibility, p. 14.
63 DRUKER, P. F. (1993), Post-capitalist society, p. 12.
64 CLARKSON, M. E. (1995), A stakeholder framework for analyzing and evaluating corporate social performance, pp. 92-117.
65 PAUL LEE, M. D. and KIM, S. (2005), From Cost to Resource: The Transformation and Diffusion of Corporate Social Responsibility, p. 16.
66 Idem, p. 17.
67 Ibid.
68 FREEMAN, E. (1984), Strategic Management: A stakeholder approach, pp. 40-55
69 Ibid.
70 MULLINS, L. (2001). Management and organizational behavior, pp. 3-42.

stockholders, but also by various other stakeholders such as employees, government and customers.

Because of its broad scope and emphasis on relationships, the stakeholder theory had some obvious implications for CSR and much literature has since developed on the subject.[71] The next section discusses the theory, proposing three different approaches to the question why firms engage in CSR.

2.3 Theory behind CSR: Stakeholder Theory

2.3.1 Definition of Stakeholder Theory

According to Freeman's now-classic definition: “A stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives”.[72]

The focus of the theory has been the manager of the organisation, and how he/she recognises and works with the various stakeholders and their claims. Freeman specified that the theory he had presented was an "inherently 'managerial'" concept or a framework about managerial and, organizational behaviour.[73]

The origins of the theory are to be found in a desire to provide managers with tools for developing more balanced and stronger strategies that reflect changes inside the firm and in the environment surrounding it.[74]

While internal stakeholders such as employees, customers, and stockholders have long been emphasized in management and strategy research, stakeholder theory brings attention also to outside constituencies such as community activists, advocacy groups, religious organizations and other non-governmental organizations. Such stakeholders are often referred to as “secondary” since, in general, they do not have a formal contractual bond with the firm (as is the case with employees and customers) or direct legal authority over the firm (as is the case with government regulators).[75] While firms are not contractually obligated to these secondary stakeholders, evidence suggests that these groups, if they have the means and the legitimacy, can bring pressures to induce firms to respond to stakeholder requests.[76]

---

[71] JONES, T.M. (1995), Instrumental stakeholder theory: A synthesis of ethics and economics, pp. 404-437.
[72] Idem, p. 46.
[73] Idem, p. 43.
[74] CLARKSON M.B. (1995), A stakeholder framework for analyzing and evaluating corporate social performance, pp. 92-117.
[75] Ibid.
[76] MITCHEL, R.K., AGLE, B.R., and WOOD, D.J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts, pp. 853–886.

Freeman, as a main proponent of the stakeholder view on corporate management, argues that the success of a firm should be measured by the satisfaction between all stakeholders. Therefore, advocates of the stakeholder perspective state that social responsibility is an organizational concern and assert that society is best attended by pursuing joint-interests and economic symbiosis.[77]

2.3.2 Taxonomy of Stakeholder Theory

Since Freeman introduced stakeholder theory into the management arena in 1984, a diverse and ample stakeholder literature has developed. The idea that corporations have stakeholders has now become commonplace in management literature. [78]

In 1995, Donaldson and Preston presented a first taxonomy of stakeholder theory to organize the wide range of articles on stakeholder theory. The taxonomy divided stakeholder theory in three mainstreams, *descriptive, normative and instrumental*.[79]

Descriptive stakeholder theory is used to "describe, and sometimes explain" the operations of companies.[80] Instrumental theory is "used to identify the connections, or lack of connections, between stakeholder management and the achievement of traditional corporate objectives".[81] Finally, it is argued that normative stakeholder theory is used to "interpret the function of the corporation" and to identify "moral or philosophical guidelines" for corporate operations.[82]

2.3.2.1 The Normative Approach to Stakeholder Management

Stakeholder theory has mainly been covered from a normative perspective, affirming that managerial relationships with stakeholders are founded on moral and ethical obligations rather than on a wish to use those stakeholders exclusively to maximize revenues.[83]

Within this framework, the normative theory argues that decisions of firms affect stakeholder outcomes and ethics should be involved in these decisions. Ethics, in the Kantian view, deals with obligations that arise when a decision of an individual or

---

77 DE WIT, B., and MEYER, R. (1999). Strategy synthesis. Resolving strategy paradoxes to create competitive advantage, pp. 52-80.

78 According to the University of Toronto, more than 250 articles and books have been written about stakeholder theory since Freeman (see http://www.mgmt.utoronto.ca/~stake/Articles.htm)

79 DONALDSON, T., and PRESTON, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications, pp. 65-91

80 Idem, p. 70.

81 Idem, p. 71.

82 Ibid.

83 BERMAN, S., A. WICKS, et al. (1999). Does Stakeholder Orientation Matter? The Relationship Between Stakeholder Management Models and Firm Financial Performance, pp. 488- 506.

firm has an effect on others; regardless of precisely what constitutes an ethical decision, decisions made without any consideration of their impact on others are usually thought to be unethical.[84]

Moreover, normative advocates state that this moral decision making should be made regardless of the benefits derived from it. Donaldson and Preston point out *that certain claims of stakeholders are based on fundamental moral principles unrelated to the benefits that stakeholders can offer to a corporation*",.[85] In this context, these claims are independent of the strategic concerns of firms and stakeholder welfare is considered to form the foundation of the firm's strategy itself.[86]

In this vein, a Kantian posture[87], a feminist perspective[88], and a fair contracts approach[89] are examples of moral principles that can form the normative foundation for stakeholder-oriented management.

Moreover, the normative orientation argues that *building a profitable and strategic commitment to morality is not only conceptually flawed but is also ineffective.* From a practical perspective, Jones argues that benefits of stakeholder management ironically result only from a genuine dedication to ethical values.[90] He states that organizations that produce and maintain stakeholder relationships based on reciprocal trust will have a competitive advantage over those that do not.[91]

If the commitment of an organization to trust and cooperation is strategic rather than intrinsic, it will not be easy for the organization to sustain the sincere behaviour and reputation required for its attractiveness as a financial partner (i.e., trustworthiness, honesty, and integrity are difficult to fake).[92] Thus, in order to harvest the profits of stakeholder strategic management, a firm must be committed to ethical relationships with stakeholders despite expected remuneration. Moral principles, if strategically applied are not really moral and, paradoxically, can not lead to the strategic results planned.[93]

To this extent, the model is called the intrinsic or normative stakeholder commitment model because the interests of stakeholders have intrinsic value; they enter

---

84 Bowie, N (1994), A Kantian Approach to Business Ethics, pp. 3-8.

85 DONALDSON, T., and PRESTON, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications, pp. 65-70.

86 Idem p. 71.

87 Bowie, N (1994), A Kantian Approach to Business Ethics, pp. 2-16.

88 WICKS, A.C., GILBERT, D.R., Jr., and FREEMAN, R.E. (1994).,A Feminist Reinterpretation of the Stakeholder Concept, pp. 475-497.

89 PHILLIPS, R. A. (1997), Stakeholder Theory and a Principle of Fairness, pp. 51-66.

90 Jones, T.M. (1995)., Instrumental stakeholder theory: A synthesis of ethics and economics, p. 437.

91 Idem, p. 434.

92 FRANK R. (1988), Passions with Reason, p. 4

93 Idem, p. 6.

the decision-making of firms prior to strategic considerations, and form a moral base for corporate strategy itself.[94]

However, the normative stakeholder theory has inherent difficulties in translating this concept into a practical and widely accepted model for managing stakeholder relations. Rowan refers to the fact that the emergent ethical theory is often relayed to business managers in a complex and impractical form. Furthermore, the study of ethics, unlike the study of science, often suffers from a perceived inability to provide valid conclusions.[95]

Furthermore, managers who accept normative stakeholder theory are faced by the fundamental problem of partiality. With the imperative assumption that all legitimate stakeholder claims are worthy of equal consideration by the business organization, managers are immediately faced by difficult questions over stakeholder prioritization.[96]

2.3.2.2 The Descriptive Approach to Stakeholder Management

The descriptive/empirical theory focuses mainly on characterizing the actual actions of firms and stakeholder groups as they interact. The theory describes the nature of a firm, the way managers think about managing and how board members think about the interests of stakeholders (i.e., how corporations are managed in practice). In this sense, the descriptive view is empirical, reflecting and explaining past events, present and future states of an organization's affairs and their stakeholders.[97]

Studies within this theory have examined, for example, the beginning stages of stakeholder mobilization; such as when stakeholder groups act, what tactics they choose and how firms react to these actions.[98]

Other works, such as Mitchell et al.'s framework, provide guidance to the conditions under which firms are likely to positively respond to the requests of secondary stakeholders. According to this framework, three attributes of stakeholders determine their salience to managers (salience being defined as the degree to which managers give priority to competing stakeholder claims). The three attributes are stakeholder power, legitimacy, and urgency. The greater the power, legitimacy, and urgency of the stakeholder group, the greater the stakeholder group's saliency will be in

94 JONES, T, BERMAN, S.L.,. WICKS, A.C and KOTHA, S., Does Stakeholder Orientation Matter? The Relationship between Stakeholder Management Models and Firm Financial Performance, p. 490.

95 ROWAN, J. (2000), The Moral Foundation of Employee Rights, pp. 355-361.

96 GIBSON, K. 'The Moral Basis of Stakeholder Theory', pp. 245-257.

97 Idem, p. 70- 81.

98 CARMIN, J., and BALSER, D.B. (2002), Selecting repertoires of action in environmental movement organizations, pp. 365-388.

the eyes of managers.[99] In the sections that follow, each of the three elements of Mitchell et al.'s are discussed.

Power

Arguably, the greater the power of the stakeholder group, the greater will be the saliency of a request (i.e. likelihood that a firm responds to a stakeholder request). Power is defined by Mitchell et al. as "a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done".[100]

This definition is vague, since it does not offer a measurement for power. Therefore, this thesis will adopt a complementary definition of power based on resource dependency theory.

Resource dependency theory emphasizes that firms act to gain access to the resources necessary for operation and survival. As a result, the relative power between organizations is conditioned by links to needed resources.[101]

In this sense, a firm will respond positively to a stakeholder request if the organization feels that by not doing so it can hamper the availability of actual or future funds or services.

Legitimacy

Mitchell et al. propose that more legitimate stakeholders are more likely to obtain positive responses from firms. They define legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions" [102]

Greater legitimacy allows the stakeholder a more credible threat to influence the firm's access to critical primary stakeholders such as customers and labour supply. Even if a stakeholder group lacks power, as defined by the resource dependence theory above, the legitimacy of the group may be sufficient to obtain a positive firm response.[103]

99 MITCHELL, R.K., AGLE, B.R., and WOOD, D.J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. P. 853–886.

100 Idem, p 860.

101 PFEFFER, J. and G. R. SALANCIK (1978), The external control of organizations, p 9.

102 MITCHELL, R.K., AGLE, B.R., and WOOD, D.J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts, p. 862.

103 Idem, pp. 860-863.

One problem with Mitchell et al.'s definition of legitimacy is that it is conceived only as a characteristic of the stakeholder.[104] Sometimes the stakeholder's claim is the important issue, not only the stakeholder itself. Therefore, this thesis – based on the work of Eesley and Lenox – proposes that legitimacy is given not only to the stakeholder group, but also to the specific claims championed by the stakeholder.[105]

Urgency

The final component of Mitchell et al.'s framework is urgency. Urgency is defined as "the degree to which stakeholder claims call for immediate attention." [106]

Urgency includes both time sensitivity (the degree to which managerial delay is unacceptable to the stakeholder) and, criticality (the importance of the claim to the stakeholder). The authors propose that the urgency of a stakeholder group will positively influence outcomes.[107]

The problem with this definition is that the firm probably will not respond positively just because a stakeholder group cares deeply about an issue and wants immediate action; more relevant – ultimately – is the power of the stakeholder group.

Due to this problem, the present thesis will focus only on power and legitimacy as the main attributes of stakeholders.

2.3.2.3 <u>The Instrumental (Strategic) Approach to Stakeholder Management</u>

The Instrumental (Strategic) Approach to Stakeholder Theory holds that to maximize shareholder value over an uncertain time period, firms ought to pay attention to key stakeholder relationships.[108]

Instrumental stakeholder theory differs from descriptive stakeholder theory in an important aspect. While descriptive stakeholder theory deals with how managers do act, instrumental theory deals with the financial effects if managers act towards stakeholders in certain ways. For example, it argues that if a firm has a contract with its stakeholders based on mutual trust, it will have a competitive advantage over firms that do not.[109]

The principal focus of interest in existing instrumental stakeholder theory has been the notion that corporations practicing stakeholder management will, other things

---

104 Idem, p. 861.

105 EESLEY, Ch. and LENOX, M. (2005), Firm Responses to Secondary Stakeholder Action, p 10.

106 MITCHELL, R.K., AGLE, B.R., and WOOD, D.J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts, p. 864.

107 Idem., pp. 864-865

108 JONES, T, BERMAN, S.L.,. WICKS, A.C and KOTHA, S., (1999) Does Stakeholder Orientation Matter? The Relationship between Stakeholder Management Models and Firm Financial Performance, p. 496.

109 JONES, T.M. (1995), Instrumental stakeholder theory: A synthesis of ethics and economics, p. 424.

being equal, be relatively successful in conventional performance terms.[110] For instance, if a mining company extracting in a developing country includes stakeholders such as workers, the community and environmental groups into its strategic management, the firm will be better prepared to deal with them or to prevent worker's strikes, roads blocked by the community and pressure from environmentalists, reducing costs and improving production.

Therefore, if prudent management of the firm's operating environment, including relationships with its stakeholders, is a part of good management in general, good stakeholder management has a clear practical (instrumental) value for the firm.[111]

A fundamental assumption of this type of model, in contrast to the normative approach, is that the ultimate objective of corporate decisions is marketplace success. A firm considers their stakeholders as part of an environment that ought to be managed in order to assure revenues, and ultimately, profits to shareholders. [112]

In this view, stakeholder management serves as a means to an end, referring to the organization's interest in stakeholder relationships as instrumental (strategic) and contingent on the value of those relationships related directly to financial profits.[113] The instrumental approach clearly converges to the shareholder view on management since instrumental (strategic) ethics enters the context only as an addendum to the rule of profit maximization for the firm.[114]

To Donaldson and Preston instrumental stakeholder theory is "a framework for examining the connections between the practice of stakeholder management and the achievement of *various financial performance goals*".[115] Therefore, concerns of stakeholders enter the decision-making process of firms only if they have strategic (instrumental) value to the organization, supporting the assumption that firms will engage in CSR for reasons beyond moral, normative and ethical values.

For instance, in markets characterized by increasing competition, firms can start strategic stakeholder management in order to create competitive advantages and differentiate themselves from their competitors.[116]

---

110 DONALDSON, T., and PRESTON, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications, p. 67

111 Idem, p. 88.

112 MOORE, G. (1999). Tinged shareholder theory: or what's so special about stakeholders? Business Ethics: A European Review, p. 119.

113 DONALDSON, T., and PRESTON, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications, pp. 65-91

114 QUINN, D. P., and JONES, T. M. (1995), An agent morality view of business policy, p 25.

115 DONALDSON, T., and PRESTON, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications, p. 67

116 HUSTED, B and ALLEN, D (2001), Toward a Model of Corporate Social Strategy Formulation, p 24.

According to the instrumental view, firms in competitive markets will engage in social and stakeholder strategy only if, in addition to achieving social objectives, it creates competitive advantage by developing unique capabilities that have a positive impact on the firm's profitability.[117] Research indicates that capabilities and resources create competitive advantage when they are valuable, rare, and imperfectly imitable.[118] The instrumental theory indicates that if these capabilities could be accomplish by incorporating stakeholder management into the strategic planning, firms will engage in social strategy schemes.[119]

In this vein, a number of initiatives in the literature have been developed to address the links between CSR activity and competitive advantage.

Murray and Montanari developed a marketing approach to social management by considering the social impacts of the company as social goods and services that can be managed similarly to how traditional marketing manages ordinary products. In this model, the firm identifies markets for social product and determines the marketing variables (product, place, price, and promotion) for each relevant stakeholder group. It afterwards designs and implements a social responsibility programme to satisfy needs in those markets identified, and finally evaluates the capability of the company to satisfy societal expectations.[120]

Other authors developed a model of social strategy based on Porter's model of competitiveness. For instance, Mahon and McGowan regard the social issue itself as the product of the social strategy.[121] For these authors, transactions take place in social issues rather than in a product market as in Porter's model, changing the unit of exchange from money to influence.[122] Analogous to Porter's five forces model, Mahon and McGowan assume five forces that affect social strategy.[123] A successful social strategy requires an accurate positioning with respect to these forces, though the authors do not detail how this positioning can be achieved and how competitive advantages can be created.[124]

Other researchers analyse the industry structure and argue that prior to embarking on a social and stakeholder strategy, different industry characteristics are

117 Idem, p. 3.

118 BARNEY, J. (1986), Strategic factor markets: Expectations, luck, and business strategy, Management Science, 32:, p 1236.

119 HUSTED, B and ALLEN, D (2001), Toward a Model of Corporate Social Strategy Formulation, p 12.

120 MURRAY, K. and MONTANARY, J. (1986), Strategic management of the socially responsible firm: Integrating management and marketing theory, pp. 815-827.

121 MAHON, J. and McGOWAN, R (1998), Modelling industry political dynamics, pp. 390-413.

122 Ibid.

123 Ibid.

124 Ibid.

evaluated by managers (external analysis): market concentration, product attribute differentiation, and industry growth rates.[125] Therefore, in industries where market concentration is high and/or product differentiation is difficult to achieve due to small margins and/or the industry grows slowly, firms will consider stakeholder management to gain a competitive advantage.[126]

In competitive markets, companies look for different kinds of strategies to achieve superiority in one or more of five traditional competitive factors: product image, design, price, service, or corporate reputation.[127] Firms will engage in social strategy only if it can help to improve these competitive factors.

Regarding market concentration, strategic stakeholder management could be important for less well-positioned firms. Considering again Porter's strategic analysis, small firms, which do not possess the competitive advantage of leadership, would seek strategies to gain competitive advantage through differentiation in order to compete with market leaders.[128] In this view, less well-positioned firms would analyse if engaging in stakeholder and social strategies will help them to differentiate themselves from market leaders, adding social characteristics to their products and image.[129]

Moreover, firms will also evaluate their own internal competitive advantages, comparing them to their competitors in the industry (internal analysis).[130] Top management perceptions of the firm's competitive advantage over competitors need to be assessed with regard to cost advantage, among other factors.[131] This dimension of internal competitive advantage is an indicator of the perceived power a firm holds in relationship to its principal competitors.[132]

Consequently, before engaging in social and stakeholder strategy, firms evaluate their resources or specific assets useful for creating cost advantages that few competitors can acquire easily. Porter argues that, among other factors, a higher "proprietary learning curve" could be a powerful advantage.[133] In other words, a firm already engaging in social activities would own a useful resource to acquire cost advantage over potential competitors, since a higher stage on the proprietary learning

---

125 ROBINSON, K and McDOUGALL, P. (1998), The impact of alternative operationalizations of industry structural elements on measures of performance for entrepreneurial manufacturing ventures, pp. 1079-1100.
126 Ibid.
127 Ibid.
128 PORTER, M. (1980), Competitive Strategy: Techniques for Analyzing Industries and Competitors, pp. 180-220.
129 HUSTED, B and ALLEN, D (2001), Toward a Model of Corporate Social Strategy Formulation, p 14-22.
130 Idem, pp. 10-13.
131 PORTER, M. (1980), Competitive Strategy: Techniques for Analyzing Industries and Competitors, pp. 180-220.
132 Ibid.
133 Idem, pp. 240-256.

curve provides the company with a better understanding of the costs associated with the activities in order to perform better.[134]

To sum up, instrumental stakeholder theory affirms that firms analyse rationally the industry and the market before engaging in social strategies and only embrace CSR if they can perceive an authentic differentiation and competitive advantage.

Recently, CSR literature and particularly instrumental stakeholder theory has focused more on testing and discussing the empirical link between CSR and competitive factors to prove the "business case" behind stakeholder and social strategy. Most of this literature analyses factors such as financial performance, improvement of reputation, attracting better employees and better access to funds.

Financial Performance

The focus of instrumental stakeholder theory has great similarities to the general empirical quest of showing a connection between corporate social performance (CSP) and corporate financial performance (CFP).[135] CSP identifies the modes in which firms can achieve significant performance improvement once they have adopted social responsibility as a relevant concept.[136] Some authors argue that true CSR – strategic CSR – can only be carried out if a company also profits from its 'good works'. [137]

Since the early 1980s a significant body of CSR research has centred on the debate over whether there is a relationship between good CSP and strong financial performance, and what kind of relationship there is. Two of the most recent and complete research studies were conducted by Margollis et. al., and Orlitzsky et. al..

In 2001, in a survey of the past 30 years' research on the topic, Margollis et. al found a weakly positive link between a firm's overall CSP and CFP in the majority of the 95 studies reviewed, but also encountered major methodological and theoretical inconsistencies, such as that 70 out of the 95 studies measured CSP differently. This determined that any positive link was scientifically inconclusive.[138]

On the other hand, in 2003 Orlitzky, et. al. conducted a meta-analytic study analysing 52 studies published between 1972 and 1997, containing a total of 33,878 observations, finding evidence of a significant positive effect of corporate

134 HUSTED, B and ALLEN, D (2001), Toward a Model of Corporate Social Strategy Formulation, p 14.
135 EGELS, N (2005), Reframing Instrumental Stakeholder Theory, p. 3.
136 SETHI, P. (1975), Dimensions of Corporate Social Performance: An Analytical Framework, p. 59.
137 LANTOS, G.P. (2001), The boundaries of strategic corporate social responsibility, p. 615.
138 MARGOLIS, J. and WALSH, J. (2001), Misery loves companies - Whither social initiatives by business? pp. 1-33.

social/environmental performance on corporate financial performance.[139] First, it finds that corporate social performance correlates more strongly with corporate financial performance when using accounting measures for analysis rather than market-based measures, such as stock price. Second, it finds a "virtuous cycle" between corporate social and financial performance: not only does strong CSP lead to strong CFP, but also strong CFP allows companies to afford spending on social responsibility measures, which can lead to increasing CSP – and so on.[140]

Some authors argue that this study provided a “breakthrough” in the CSR literature and brings some closure on the long running debate about whether it is in organizations’ best interest, at least financially, to engage in CSR.[141]

According to this approach, the “business case” or the search for better financial performance is probably one of the main reasons why companies engage in CSR.

Image and reputation improvement

According to a survey of the World Economic Forum 2004, most of the world’s leading CEOs and organization leaders consider corporate reputation as a more important measure of success than stock market performance, profitability and return on investment. [142]

Moreover, some authors argue that CSR and its effects on reputation can have significant value as a form of competitive advantage, and that the studies searching for the link between CSR and CFP should integrate these effects in order to assess the true value of CSR.[143]

In CSR literature, the notion of reputation is linked to “a general organizational attribute that reflects the extent to which external stakeholders see the firm as ‘good’ and not ‘bad’”.[144]

As markets have grown to be more competitive, CSR has become an important source of differentiation for firms through improvement of image. Dawkins and Lewis found that more than 50% of clients, interviewed from different industries, ranked

---

139 ORLITZKY, M., et. al., (2003), Corporate Social and Financial Performance: A meta-analysis. pp. 403-441.

140 Ibid.

141 AGUILERA, R., et al, (2004), Putting the S Back in Corporate Social Responsibility: A Multi-Level Theory of Social Change in Organizations, p. 4.

142 The World Economic Forum sent a survey in December 2003 to all 1,500 participants to the 34th Annual Meeting in January 2004 in Davos, Switzerland. About 10% of the participants (132 respondents), whose membership is primarily drawn from the world’s 1,000 leading global companies, responded. This “Voice of the Leaders Survey” was released on January 2005 by the World Economic Forum and Fleishman-Hillard International Communications. See the Corporate Social Responsibility Newswire Services in http://www.csrwire.org.

143 PELOZA, John (2004), Corporate Social Responsibility as Reputation Insurance, p. 3.

144 ROBERTS, P. and DOWNLING, G (2002), Corporate Reputation and Sustained Superior Financial Performance, Strategic Management Journal, 23, p. 1078.

forms of corporate responsibility – such as community commitment – as the most important factor in forming an impression of a company.[145]

Scholars argue that in order to translate into positive financial results, the value of reputation should be tied intrinsically to the inability for competitors to imitate the reputation.[146] The value of a positive reputation is "precisely because the development of a good reputation takes considerable time, and depends on a firm making stable and consistent investments over time".[147] Therefore, reputation is perhaps the most valuable asset of any firm and investing in CSR could be very important to the firm. However, authors argue that CSR should be introduced and improved rationally and strategically in order to obtain important results.[148]

In this vein, research has shown that firms that are already considered unscrupulous are not able to enhance dramatically their image through CSR, and in fact they could harm their reputation by engaging in social activities.[149]

The benefits of a good reputation were regarded not only as a positive image but also as a form of insurance policy against negative events. Specifically, Klein and Dawar found empirical evidence that consumer perceptions of a firm engaging in CSR reduced their attributions of blame for a product failure, and argued that CSR may have value to the firm even if it does not immediately increase profitability because it can help mitigate the effects of a damaging event.[150] Their study extended the work of previous researchers demonstrating that consumers are more willing to punish the bad behaviour of firms than they are willing to reward their good behaviour.[151]

Gathering both effects, Fombrun, et. al., affirm that CSR has two forms of potential benefits for the firm through reputation enhancement: a positive incremental gain as a reward for positive behaviour and a mitigation of consequences from negative firm behaviours.[152] They categorise these benefits as "opportunities" and "safety nets".[153]

---

145 DAWKINS, J. and LEWIS, S. (2003), CSR in Stakeholder Expectations: And Their Implication on Corporate Strategy, pp. 185-193.
146 ROBERTS, P. and DOWNLING, G (2002), Corporate Reputation and Sustained Superior Financial Performance, Strategic Management Journal, 23, p. 1089.
147 Ibid, p. 1085.
148 PELOZA, John (2004), Corporate Social Responsibility as Reputation Insurance, p. 14.
149 DEAN, D. (2003), Consumer Perception of Corporate Donations: Effects of Company Reputation for Social Responsibility and Type of Donation, pp. 91-102.
150 KLEIN, J. and DAWAR, H. (2004), Corporate Social Responsibility and Consumers' Attributions and Brand Evaluations in a Product-Harm Crisis, pp. 203-217.
151 CREYER, E. and ROSS, W. (1996), The Impact of Corporate Behavior on Perceived Product Value, pp. 173-185.
152 FOMBRUN, Ch., et. al. (2000) Opportunity Platforms and Safety Nets: Corporate Citizenship and Reputational Risk, pp. 85-106.
153 Ibid.

Better Access to Funds

Mark Mansley defined Socially Responsible Investments (SRIs) as "investment where social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments, and the responsible use of rights… attaching to investment".[154]

The author also provides two main strands to the implementation of Socially Responsible Investment. One strand deals with the selection of assets for the portfolio, while the other relates to the use of the powers or rights obtained through the investment process to encourage socially responsible behaviour by the party which has received the investment capital.[155]

These techniques typically go under the names of 'screening' and 'engagement'. Screening effectively biases the stock selection process to ensure that suitable firms are deliberately included (positive screening) and/or unsuitable firms are deliberately excluded (negative screening).[156]

Engagement is an increasingly important aspect of SRI whereby an investor might invest in (or at least not disinvestment from) an unsuitable firm but, rather, the investor will engage with that company at the relevant opportunities in order to persuade the company to change its behaviour.[157]

In practice, according to a survey conducted in 2002, two thirds of investment fund managers currently employ both approaches for the SRI equity funds they run.[158]

SRIs are becoming an important funding opportunity, particularly for firms in the South, since social mutual funds retail more than USD 1.5 billion every year in the United States, searching for profitable but also socially responsible opportunities to invest in firms mainly from developing countries.[159] In Europe, 313 green, social and ethical funds retailed more than 12.2 billion Euros worth in assets in 2003.[160]

Therefore, another strategically motivated reason for CSR is future access to funds. Companies may contribute to building a market, or gain access to resources that increase profits.[161]

---

154 MANSLEY, M. (2000), Socially Responsible Investment, p. 2.
155 Idem, pp. 3-5.
156 Idem, p. 3.
157 Idem, pp 3-4.
158 DELOITTE , F. and TOUCHE , M. (2002), Socially Responsible Investment Survey, p. 5.
159 CHENG, J. and SOUSA-SHIELDS, M. (2003), Microfinance and Socially Responsible Investment in Latin America, p. 14.
160 See www.sricompass.org.
161 Idem, p. 47

According to a study in June 2005, at least 2,600 companies worldwide are publishing stand-alone citizenship, sustainability, environmental and social reports to have access to these funds.[162]

Employees

Many studies have shown that investing in employees can bring direct benefits to a company, both financially and in terms of increased employee loyalty and productivity. Such investment can include schemes such as provision of childcare facilities, flexible work hours and job sharing. Employee investment is an essential aspect of CSR, as the workforce is also the community; especially in smaller companies where a substantial proportion of employees are likely to come from the local community. [163]

A company's dedication to CSR can help to attract and retain employees. People want to work for a company that behaves in accordance with their own values and beliefs.[164] In developed countries, employees are not just worried about promotion and salary any more. According to a study of The Cherenson Group, 78% of employees in United States would rather work for an ethical and reputable company than receive a higher salary.[165]

Good social performance also provides companies with a competitive advantage when attracting a skilled workforce. Gaining access to highly skilled, high value labour likely to be stimulated by, and interested in, companies with well-developed CSR approaches is a strong motivating force.[166] A recent study suggested that applicants, both in countries from the North and South, are more likely to pursue jobs from socially responsible companies than from companies with poor social performance reputations.[167] The study found that applicants might have a higher self-image when working for socially responsive companies.[168]

162 WHITE, A. (2005), New Wine, New Bottles: The Rise of Non-Financial Reporting, p. 2.
163 JENKINS, H. and HINES, F. (2003), Shouldering the Burden of Corporate Social Responsibility: What Makes Business Get Committed?, p 15.
164 Idem.
165 See www.cherenson.com.
166 JENKINS, H. and HINES, F. (2003), Shouldering the Burden of Corporate Social Responsibility: What Makes Business Get Committed?, p 15.
167 GREENING, D. and TURBAN, D. (2000), Corporate social performance as a competitive advantage in attracting a quality workforce, pp. 254-280.
168 Idem.

2.4 Hypotheses

Within the theoretical framework described, this thesis will attempt to answer the research questions stating that:

- Hypothesis 1: Increasing competition led less well-positioned MFIs to undertake CSR for strategic (instrumental) reasons.
- Hypothesis 2: Considering the descriptive approach to stakeholder theory, CSR was adopted by those MFIs whose powerful stakeholders have relatively more social legitimacy.
- Hypothesis 3: CSR was adopted by those MFIs who already are performing better according to CSR standards, having a better initial competitive advantage.

CHAPTER 3: METHODOLOGY

Three Commercial MFIs in Bolivia are taken as case study, two currently adopting CSR and one not.

The study describes the "Bolivian case", including the movement from social financial NGOs to private microfinance institutions. For the field research, secondary data from the MFIs was reviewed (business plans, acts, and minutes) and interviews with managerial staff were conducted to address the motives behind the adoption of CSR in the three MFIs selected. Focus groups were designed and conducted to prioritise stakeholders in the MFIs selected, and to assess CSR performance in these institutions.

The following paragraphs detail the methodology used in the investigation, particularly on the field research.

3.1 Case Study

As was mentioned in the introduction, two out of five commercial MFIs are currently adopting CSR in Bolivia. This initiative is executed as a pilot project promoted by a Programme of the Swiss Cooperation (PROFIN-COSUDE), ending with the publication of the organisations' first social balance sheet. The project is supervised by the Bolivian Corporation of CSR, Fundación Emprender and the Global Reporting Initiative (GRI), one of the world's leading organisations in transparency and CSR information reporting (see www.globalreporting.org).

For the proposes of the present thesis, these two MFIs (FIE FFP and ECOFUTURO FFP, both non-banking regulated financial institutions) were taken as case study, as well as Banco Los Andes Procredit which is not adopting CSR.

Among the three MFIs not embarking on CSR, Banco Los Andes was chosen as case study due mainly to its willingness to offer information regarding its current CSR performance. Any of the other two MFIs, BancoSol or Prodem, would have been functional for the present thesis but the access to institutional data and top managers were crucial to gather comparable data between MFIs for this research.

Having the three non-CSR MFIs would have been the best methodological scenario to compare results. Nevertheless, to have only Banco Los Andes is probably the second-best option. The bank, a former NGO, is now one of the market leaders in

Bolivia and it is described often as a “no-nonsense, focused financial institution”.[169] Therefore, it is more than interesting to compare the bank with the small non-banking MFIs engaging in CSR. For further information, Annex A describes the main features of the five MFIs.

3.2 Operationalisation of Variables

Given the hypotheses proposed, the following variables were considered:

Table 1. Variables Operationalisation

	Independent Variables	Dependent Variables
H 1:	V1: Competition and market positioning	V2: View or approach to CSR
H 2:	V4: Attribute of stakeholders	V3: Adoption of CSR
H 3:	V5: CSR performance	V3: Adoption of CSR

Variable 1: Competition and market positioning

To measure competition in the Bolivian microfinance market, two indicators were taken from the International Monetary Fund’s “Financial Sector Assessment: A Handbook”. [170]

- Market coverage: Number of clients served/number of micro and small entrepreneurs.
- Average real interest: Declining interest rates in MFIs means increasing competition.

For comparison purposes, these indicators were also applied to other Latin American countries with mature microfinance markets, such as Ecuador, Peru and Colombia.

Other indicators that suggest competition in financial markets, such as an improvement of client service quality, a diversification in lending products and the broadening of the target group; were discussed only for the Bolivian microfinance industry. This approach was adopted because most of these indicators have no established benchmarking (It is methodological misleading to affirm that the quality of service or the diversification of financial products is better/deeper in a particular country rather than in another).

Regarding market positioning, the share of portfolio (loans and clients) of each MFI was analysed as a proxy.

---

169 RHYNE, E. (2001): Commercialization and Crisis in Bolivian Microfinance, p. 5.
170 IMF (2005), Financial Sector Assessment: A Handbook, p. 18.

Variable 2: View or approach to CSR

The MFIs' view of CSR can be either normative or strategic. Interviews with managers and members of the board of directors were conducted in order to assess the reasons behind (a) why two MFIs are engaging in CSR and (b) the motives why one MFI did not feel the necessity to do the same.

Variable 3: Adoption of CSR

This variable was given. Currently, FIE and Ecofuturo are the two MFIs adopting CSR out of the five commercial MFIs in Bolivia. As has already been indicated, Banco Los Andes was selected from the three non-CSR MFIs as part of the case study.

Variable 4: Stakeholders' Attributes

First, focus groups with top-executives of the three institutions were conducted, in order to prioritise the most important stakeholders for each institution. Secondly, the following attributes were analysed for the most important stakeholders identified:

- *Power*: Resource dependency theory emphasizes that firms will respond positively to a stakeholder request if the organisation feels that when not doing so it can hamper the availability of actual or future funds or services. In this respect stakeholders' resources available for investment in microfinance and their ability to hinder the access to the future funds will be a relevant indicator.
- *Legitimacy*: the term is defined as a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions. Probably, legitimacy is best measured by perceptions of the public, but – due to financial and time constraints – the present investigation proposes to operationalise legitimacy through a) the mission and values of the stakeholders analysed; and b) through the perception of the MFIs' managers about the legitimacy of these stakeholders, based on previous studies such as Agle, et. al.[171]

Variable 5: CSR Performance

The present thesis adopted the Self-application Guide of CSR Indicators of the Ethos Institute and the Argentinean Institute of CRS (www.iarse.org) as a measurement tool. The Guide consists of 35 modules with grading and binary indicators which help to

[171] AGLE, B.R., MITCHEL, R.K., SONNENFELD, J.A. (1999). Who matters to CEOS? An investigation of stakeholder attributes and salience, corporate performance, and CEO values, pp. 548-571.

measure seven main CSR themes: (1) Values, Transparency and Governance; (2) Workforce; (3) Environment; (4) Suppliers; (5) Customers and Consumers; (6) Community; and (7) Government and Society.

The guide was distributed to three top executives of the MFIs selected. They were asked to grade the different indicators, first separately and then in a focus group in order to promote discussion and agreement on the indicators.

3.3 Methods of Data Collection

During the research phase of the thesis data were gathered from primary and secondary sources, with the aim of collecting all the relevant information to measure the proposed variables.

3.3.1 Secondary Data

Information about competition and market positioning was found mainly in the MFIs' internal and public reports, including annual reports (yearbooks), and reports to the Superintendence of Banks, among others. Webpages of different organizations were consulted to measure variables across microfinance markets in Latin America: these webpages included those of the Consultative Group to Assist the Poor (member of the World Bank), MixMarket, Accion International and Micro enterprises Best Practices, among others.

Internal documents, such as the yearly strategic plan of the MFIs, helped to give an indication of the stakeholder management approach of the institutions.

Annual reports and reports of stakeholders were consulted to collect information to measure the power of the stakeholders identified.

3.3.2 Primary Data

Personal interviews and focus groups, as main method of primary data collection, were used to gather quantitative and qualitative information. Key managerial personnel of the MFIs and relevant (identified) representatives of stakeholders were interviewed, using:

- A Quantitative Interview, with standardized, close-ended questions. Mainly found in the Guide of CRS indicators.
- A Qualitative Interview, with a guided and structured approach, including a protocol listing possible open-ended questions.

The information collected as quantitative data was used to compare the stakeholder management and the CSR performance among MFIs; while qualitative data helped to collect information about the MFIs' perception about the legitimacy of stakeholders and their motives for engaging in CSR.

CHAPTER 4: FINDINGS

The present chapter is divided according to the hypotheses proposed for the research. A summary of the main findings is presented below.

Regarding the incidence of competition on CSR adoption.

Taking market coverage and decreases in active interest rates as relevant indicators for competition, data analysed from secondary sources showed that Bolivia has the most competitive microfinance industry in Latin America. Competition produced other positive effects such as improvements in the quality of client service and diversification in lending products.

Analysing the market share, figures concluded that the less well-positioned organisations in the market are the ones currently engaging in Corporate Social Responsibility (Ecofuturo and FIE), while Banco Los Andes is, with BancoSol, one of the leader firms in the industry.

According to interviews conducted with top MFIs executives to measure CSR adoption, the less well-positioned organisations in the market, currently engaging in Corporate Social Responsibility, regard CSR as a strategic management tool that could improve their reputation and help them gain a competitive advantage. Banco Los Andes, on the other hand, argued that CSR was not appropriate for the organization "at the moment", given that all its efforts were concentrated on microfinance.

Regarding Stakeholders Incidence on CSR Adoption.

Power and legitimacy were proposed as relevant indicators for stakeholders' attributes, following the descriptive view of stakeholder theory. After analysing their influence on the availability of actual or future funds or services for each MFI, shareholders and other funding sources were found to be the most powerful stakeholders among the main stakeholders identified by the MFIs through focus groups.

Measuring legitimacy amongst the powerful stakeholders, the analysis presented found that FIE and Ecofuturo have more socially legitimate shareholders, while FIE and Banco Los Andes maintain greater loans from more socially legitimate funding sources.

Interviews conducted with the top executives of the MFIs and information gathered from secondary sources showed that MFIs engaging in CSR had an important influence from socially legitimate stakeholders to initiate the process of transparent reporting of CSR, mainly from shareholders.

Ecofuturo had their main advocates for CSR in founder NGOs. FIE was also influenced by a minor funding sources, to start more than one pilot project related to CSR. On the other hand, powerful and legitimate stakeholders, given their preferences, influenced Banco Los Andes to engage in activities more related to environmental sustainability.

Regarding CSR Base Line and CSR Adoption

The CSR base line was measured by the Ethos CSR Appraisal Tool in order to determine which firm is likely to perform better on a potential social balance sheet, addressing if Ecofuturo and FIE have a starting competitive advantage over Banco Los Andes.

Taking into account the seven broad themes proposed by the Ethos indicators, the data analysis conducted indicates that Banco Los Andes performs better than FIE and Ecofuturo by CSR standards. Considering this, it can be concluded that the MFI not undertaking CSR has a better starting point than the two firms participating in the CSR pilot project, according to Ethos' CSR standards.

4.1 The Incidence of Competition on CSR Adoption

4.1.1 Competition

The dominance of commercial MFIs in Latin America represents a shift from a decade ago when microcredit in the region was dominated by microfinance NGOs.[172]

The process is also a change in the view of the best model to facilitate the access to financial services for low income people since it is argued that it leads to a growing degree of competition.[173] In Bolivia, as the following paragraphs describe, competition has increased to the point that real (and expected) effects have taken place, from improvements in the quality of client service, to diversification in lending products, to a broadened definition of target group, to decreases in the interest rates charged on loans. The next points detail the commercialisation process and how it led to greater levels of market development in Bolivia and in the region.

---

[172] PECK CHRISTENSEN, R. and DRAKE, D. (2003), Commercialization: The New Reality of Microfinance, p 2.

[173] Idem, p 3.

4.1.1.1 *Commercialization in Latin America*

In microfinance circles, Bolivia is often thought of as the model for commercial microfinance. In 1992, BancoSol became the first transformed microlender in the world and by the mid-1990s it generated performance indicators that placed the MFI at the top of the Bolivian banking industry.[174] The model was propagated throughout Latin America and by 2004 forty seven commercial MFIs held 48% of the clients and 53% of the portfolio. Table 2 details the most important commercial MFIs in the region.

Table 2. Principal Commercial MFIs in Latin America as of Dec. 2004

INSTITUTION	Country	Outstanding Microloans ($000)	Clients	Average Loan US$ *
Compartamos	Mexico	102,034	309,637	330
Mibanco	Peru	111,966	92,236	1,214
Banco Solidario (BancoSol)	Bolivia	103,888	91,805	1,132
Banco Los Andes Procredit	Bolivia	116.579	84.887	1,.373
Calpia/Banco Procredit	El Salvador	128.277	81.229	1.579
Banco Solidario	Ecuador	114.342	60.385**	959
Prodem FFP	Bolivia	108.560	67.933	1.598
CMAC Piura	Peru	113.699	64.698	1.757
Confia / Banco Procredit	Nicaragua	86.495	56.618	1.528
Edpyme Edificar	Peru	60.537	54.858	1.104

Source: MARULANDA, B et al, (2005), The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics, p.10.
* The average loan is estimated as the outstanding loans divided by number of clients.
**Reflects Banco Solidario's microloan clients & portfolio. Total clients all financial products:119,390

As the table shows, Bolivian commercial MFIs are in the same company as entities such as Mibanco in Peru, Calpiá in El Salvador, and Compartamos in Mexico. Some of these microfinance institutions have converted into regulated non-banking entities that operate on special regulatory norms, as in the case of four “Fondos Financieros Privados-FFPs” (Private Financial Funds) in Bolivia, “Financiera” Calpiá in El Salvador and fourteen “EDPyMES” in Peru.[175] During the last two years, Caja los Andes FFP in Bolivia and Calpiá in Salvador have further converted into commercial banks to give them both a competitive edge and to be able to provide a wider range of services to their clientele.

In 2003, 18 of the world’s 21 most profitable MFIs operated in Latin America, all of them holding a return on equity larger than the average of the 10 best performing banks in the world.[176]

Commercial MFIs are joined by a group of entities that maintained their NGO status, yet are still achieving high levels of financial sustainability and scale in their

---

[174] RHYNE, E. (2001): Commercialization and Crisis in Bolivian Microfinance, pp. 5-6

[175] POYO, J. et.al., (1999), Commercialization of Microfinance: A Conceptual Framework for Latin America, pp 5-16.

[176] MIXMARKET (2005), The Microbanking Bulletin, p. 21.

outreach. As table 3 illustrates, some of these organizations even maintain a larger portfolio than some regulated institutions in the region.

Table 3. Principal Microfinance NGOs in Latin America as of Dec. 2004

INSTITUTION	Country	Outstanding Microloans ($000)	Clients	Average Loan US$ *
Fund. WWB Colombia/Cali	Colombia	66.122	92.533	715
Fund. Mundo Mujer / Popayan	Colombia	29.849	86.816	344
FMM Bucaramanga	Colombia	19.785	49.014	404
Crecer	Bolivia	12.271	46.565	264
Génesis	Guatemala	25.798	42.491	607
Adopem	Dominican Rep.	18.385	39.933	460
Promujer	Bolivia	5.587	38.587	145
Corp. Mundial de la Mujer	Colombia	14.466	34.918	414
Fund. Mario Santo Domingo	Colombia	10.596	34.585	306
FAMA	Nicaragua	16.225	31.672	512

Source: MARULANDA, B et al, (2005), The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics, p.11.
* The average loan is estimated as the outstanding loans divided by number of clients.

In the majority of these cases, the decision to remain as non-profit institutions has been made because of the desire to provide not just financial services to their clients but also to complement those services with training and capacity building, among others. For instance, CRECER and PROMUJER in Bolivia offer health and education services, entirely financed by their village banking operations.

At the end of the 1990s and the beginning of the new century, the whole microfinance panorama in Latin America has been enriched by the entrance of some commercial banks, attracted to serve this market specifically by the success achieved by commercial MFIs.[177] Table 4 incorporates all actors to show the microfinance industry composition in Latin America.

Table 4. Microfinance Industry Composition in Latin America as of Dec. 2004

TYPE OF INSTITUTION	*No.*	*Outstanding Microloans ($000)*	*Clients*	*Average Loan US$ **
Commercial Banks	17	1.175.232	847.498	1.387
Commercial MFIs	47	1.790.373	1.540.920	1.162
NGOs	56	384,045	868,544	442
Total	**120**	**3.349.650**	**3.256.962**	**1.028**

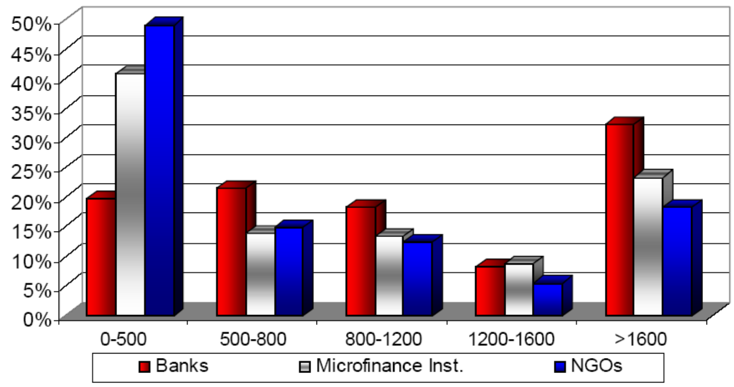
Source: MARULANDA, B et al, (2005), The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics, p.6.
* The average loan is estimated as the outstanding loans divided by number of clients.

As table 4 shows, *commercial MFIs hold the biggest client outreach and outstanding portfolio*, while NGOs still make up the majority of microfinance providers in Latin America. NGOs also maintain the lowest average loan size, showing that they focus more on poorer clients than their regulated competitors do. However, analysing

[177] The most important commercial banks dedicated to microfinance operates in Chile (Banco del Estado Microempresa, Banco Santander Banafé y Banco del Desarrollo), Brazil (Banco do Nordeste) and Ecuador (Banco Solidario and Banco Pichincha). See POYO, J. et.al., (1999), Commercialization of Microfinance: A Conceptual Framework for Latin America, p 10.

the number of loans by loan category (see Graph 1 below), one notices that while the NGOs disburse the largest percentage of their loans in the US$500 and below range, there is not much of a difference from commercial MFIs.

Graph 1. Distribution of the Number of Credits Disbursed in 2004 by Size of Loan



Source: MARULANDA, B et al, (2005), The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics, p.27.

Many agree that the bigger average loan size in commercial MFIs is an outcome of more "mature" clients in the portfolio (long term customers with larger loans) and the introduction of new products that require higher amounts (for example housing).[178] In fact, commercial MFIs –due to bigger loan portfolios and economies of scale- concentrate more microloans (under US$ 500) than NGOs (616.368 compared to 416.901).[179]

4.1.1.2 Measuring Competition

Most microfinance practitioners argue that the process of commercialisation observed in Latin America is closely linked to increasing degrees of competition in local markets among providers of financial services for the poor.[180]

That is particularly the case in Bolivia where a mature market meets demographics. Bolivia has some of the most important MFIs in the region (in portfolio and client's outreach terms – see tables 1 and 2), though it has a smaller population (9 million inhabitants) compared to other leading microfinance countries such as Peru (27 million), Chile (16 million) or Colombia (46 million).[181]

To assess and *compare* the level of competition among countries, two indicators from the IMF's "Financial Sector Assessment: A Handbook" are proposed: market

[178] MARULANDA, B et al, (2005), The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics, p.28.
[179] Figures extracted with data showed in graph 1 and table 3.
[180] PECK CHRISTENSEN, R. and DRAKE, D. (2003), Commercialization: The New Reality of Microfinance, p 4.
[181] ECLAC (2002), Boletín Demográfico No. 69. América Latina y Caribe: Estimaciones y Proyecciones de Población. 1950-2050, p.11.

coverage and interest rates.[182] Other indicators that suggest competition in financial markets, such as improvement of client service quality, broadening of the target group and diversification in lending products are only discussed for the Bolivian microfinance industry.

Market coverage and interest rates

The work of Westley (2001) was used to determine the market coverage in every country.[183] Westley estimated the microenterprise market in the diverse countries of the region by including those businesses with fewer than three employees. The potential demand was estimated at approximately 50% of those businesses identified by Westley. It is also acknowledge that since this number does not account for lower income families operating outside the microenterprise sector, figures are likely to underestimate the total size of the market for all countries.

Looking at the numbers in table 5, a conservative estimate would show that Bolivian microfinance institutions are serving approximately 56% of the potential market, a situation that clearly differs from the average for all countries together (14.7%) and from that of the others countries considered individually – with Chile as the second most successful country serving approximately 28% of the potential market.

Table 5. Coverage of the Potential Market by Country184

COUNTRY	Estimated size of the market (Number of microenterprises.)	Market being covered 2004 (clients served by MFIs)	(%) Coverage
Bolivia	681.160	379.713	55.7%
Chile	603.590	168.799	28.0%
El Salvador	333.590	89.427	26.8%
Paraguay	493.660	82.658	16.7%
Peru	3.433.095	899.196	26.2%
Colombia	3.250.900	442.109	13.6%
Mexico	5.136.950	347.874	6.8%
Dom. Republic	696.090	70.602	10.1%
Honduras	445.590	17.356	3.9%
Venezuela	1.623.635	13.368	0.8%
Guatemala	710.855	42.491	6.0%
Total	**17.409.115**	**2.553.593**	**14.7%**

Source: WESTLEY, G. (2001), Can Financial Market Policy Reduce Income Inequality?, p 6.
MARULANDA, B et al, (2005), The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics, p. 14.

Most agree that this market saturation has made Bolivia one of the world's most competitive and rapidly changing microfinance markets, improving efficiency and reducing interest rates.[185]

---

182 IMF (2005), Financial Sector Assessment: A Handbook, p. 18.

183 WESTLEY, G. (2001), Can Financial Market Policy Reduce Income Inequality?, p 6.

184 The Nicaraguan market is excluded since using the Westley data, along with that compiled by Otero, would show market coverage of 98%, which, according to Otero herself, is far from true (xxx).

Pedro Arriola – General Manager of Banco Los Andes Procredit- argues that "interest rates were significantly lower for clients as a result of the increased efficiency achieved by (microfinance) institutions that took advantage of their economies of scale serving as intermediaries for a larger volume of resources".[186]

To investigate this contention, the average active interest rate for the microcredit portfolio of Bolivian commercial MFIs was analysed. Table 6 details the comparison amongst the most important commercial MFIs and NGOs in the region.

Table 6. Average Gross Return for Microcredit Portfolio in Latin American MFIs

INSTITUTION	*Country*	*Portfolio Gross Return*	*INSTITUTION*	*Country*	*Portfolio Gross Return*
Compartamos	Mexico	87,50%	CMAC Santa	Peru	35,90%
Fincomun	Mexico	80,22%	Confianza	Peru	35,47%
D-Miro	Ecuador	46,08%	Nueva Vision	Peru	35,39%
WWB Popayan	Colombia	41,85%	Pro- Mujer	Bolivia	34,48%
Procredit	Nicaragua	41,27%	Nieborowski	Nicaragua	33,64%
Findesa	Nicaragua	40,79%	CMAC Ica	Peru	33,11%
Proempresa	Peru	40,73%	CMAC Arequipa	Peru	33,06%
WWB Bucaramanga	Colombia	40,70%	WWB Cali	Colombia	32,68%
Crear Arequipa	Peru	40,45%	CMAC Trujillo	Peru	30,91%
WWB Bogota	Colombia	38,92%	CMAC Tacna	Peru	30,48%
WWB Medellin	Colombia	38,89%	CMAC Cusco	Peru	28,17%
CMAC Sullana	Peru	37,65%	D-Frif	Bolivia	27,85%
Edyficar	Peru	36,99%	Banco Procredit	El Salvador	22,07%

INSTITUTION	*Portfolio Gross Return*
Average Bolivian Commercial MFIs*	21,76%

Source: ASOFIN (2005), Resumen Institucional Junio 2005, p. 16
* includes BancoSol, Banco Los Andes, FIE, Ecofuturo and Prodem

In 1992, before the formalization of commercial MFIs, the average active interest rate for microcredits in these organisations was above 37%.[187] By 2004, commercial MFIs reduced their active interest rates by 16 percentage points to an average of 21.56%, the lowest among Latin American MFIs according to the Rating Agency MixMarket (See table 6).

According to the IMF, a more developed and competitive market leads to decreasing active interest rates in financial institutions.[188] That is certainly the case with the microfinance industry in Bolivia.

---

185 NAVAJAS, S (2002) et al, Lending Technologies, Competition, and Consolidation in the Market for Microfinance in Bolivia, p. 6.

186 ARRIOLA, P., (2003), Microfinance in Bolivia: History and Current Situation, p. 17.

187 ASOFIN (2005), Resumen Institucional Junio 2005, p. 16

188 IMF (2005), Financial Sector Assessment: A Handbook, p. 18.

Innovation and client outreach

In this country, the saturation of the market also led to product and quality service innovation and to a broadened definition of the microfinance market.

Regarding the lending technology, the established solidarity group credit imported by pioneer NGOs from Bangladesh's Grammeen Bank was complemented by individual loans, tailored to more productive micro-entrepreneurs.[189] In this lending technology the MFI spends substantially more resources in screening applicants and asks borrowers to pledge household assets as collateral, even though it is evident that seizing these valuables (e.g., sofa, television set, refrigerator) typically would yield relatively little to the lender.[190] In December 2004, 65% of the total MFIs' portfolio was disbursed in individual loans, while 23% went to credit groups.[191]

At the same time, MFIs also began to seek new market niches to diversify their portfolio and be able to reduce the impact of systemic risks.[192]

Non-regulated NGOs took advantage of their "room to manoeuvre" and developed unconventional microfinance products such us financial leasing[193], venture capital[194] and warrant[195], among others.

On the other hand and due to their regulated status, commercial MFIs offered a more ample range of products and services such as savings, remittances, on line transfers, payments and the collection of taxes, credit and debit cards.[196] Regarding the lending products, commercial MFIs noticed that while group lending provided working capital to microentreprenuers, individual credit could be adapted to offer investment capital, housing, consumer credit and credit lines.[197]

One breakthrough in service innovation is probably Prodem's smart Automatic Teller Machine (ATM).[198]

---

189 NAVAJAS, S (2002) et al, Lending Technologies, Competition, and Consolidation in the Market for Microfinance in Bolivia, p. 6.

190 GONZALEZ-VEGA, C, (1997), Microempresas y Servicios Financieros, pp. 13-27.

191 ASOFIN (2005), Resumen Institucional Junio 2005, p. 16

192 GONZALEZ-VEGA, C, (1997), Microempresas y Servicios Financieros, pp. 13-27.

193 See NGO ANED's experience. NAIR, J, et.al. (2005), Leasing: An Underutilized Tool in Rural Finance, pp 1. 47.

194 See NGO PROCREDITO's Experience. SOIS FAM (2004), Venture Capital in Bolivia: An Alternative for Rural Financing?, pp.1-8.

195 Warrant is a derivative security that gives the holder the right to purchase securities (usually equity) from the issuer at a specific price within a certain time frame. Warrants are often included in a new debt issue as a "sweetener" to entice investors. See NGO FONDECO's Experience. COLLAO, M (2004), Warrant y Microwarrant: Alternativas de garantía para el pequeño productor, Centro AFIN, Cuaderno de Trabajo 4, pp 1-53.

196 POYO, J. et.al., (1999), Commercialization of Microfinance: A Conceptual Framework for Latin America, p. 15.

197 ASOFIN (2005), Resumen Institucional Junio 2005, p. 2.

198 Prodem FFP was established as an NGO in 1986 by ACCION International. Since 1999, it has been a regulated non-banking institution and today is the MFI holding the largest rural outreach in Bolivia, with 79 branches. See complete profile in Annex A.

Prodem has designed its own ATM, tailored to meet the needs of its rural customers. The company provides its clients with a smart card, so that the ATMs are able to verify the customer's identity through fingerprint scanning and complete transactions without being electronically connected to the central office, thereby allowing Prodem to expand its reach into remote areas.[199]

Moreover, the ATMs are capable of "speaking" to their users in their local language, thus enabling illiterate customers to access their services. Audio instructions are currently available in Spanish, Quechua, or Aymara. Combined with a touch screen interface, customers are able to deposit and withdraw funds without filling out a deposit slip or withdrawal form.[200] Additionally, the ATMs facilitate money transfers, provide access to government programs that provide work for low-skill workers, and make payments to senior citizens.[201]

As competition amongst lenders intensified and the microfinance market matured, it was expected to see not only increased outreach and product innovation but also substantial market consolidation. The next section details the microfinance market composition in Bolivia, in order to determine the more and less well-positioned MFIs in the country.

4.1.1.3 Market Consolidation – MFIs Positioning

The development of the microfinance market in Bolivia may be usefully divided into three stages. The first stage was characterized by the dominance of BancoSol. Created in 1992 as a commercial bank, from the client base developed since 1987 by Prodem, its NGO predecessor, BancoSol established an early presence through the extensive use of its group lending technology.[202]

The second stage was marked by the emergence in 1995, as a new microlender and serious competitor, of Caja Los Andes, the first FFP established in Bolivia on the basis of the NGO Procredito. In contrast to BancoSol, Caja Los Andes uses individual lending technology.[203]

---

[199] HERNANDEZ R., et al., (2003), What Works: Prodem FFP'S Multilingual Smart ATMs for Microfinance, p. 3.

[200] Idem, p.6.

[201] Prodem's ATM software was developed by a subsidiary of Prodem, Innova Empresarial, which specializes in technology and consulting services. In addition, Innova is in the process of developing Palm technology that would enable Prodem to take their financial services, via a handheld, into local homes and businesses of their customers. Idem, p. 7.

[202] NAVAJAS, S (2002) et al, Lending Technologies, Competition, and Consolidation in the Market for Microfinance in Bolivia, p. 6.

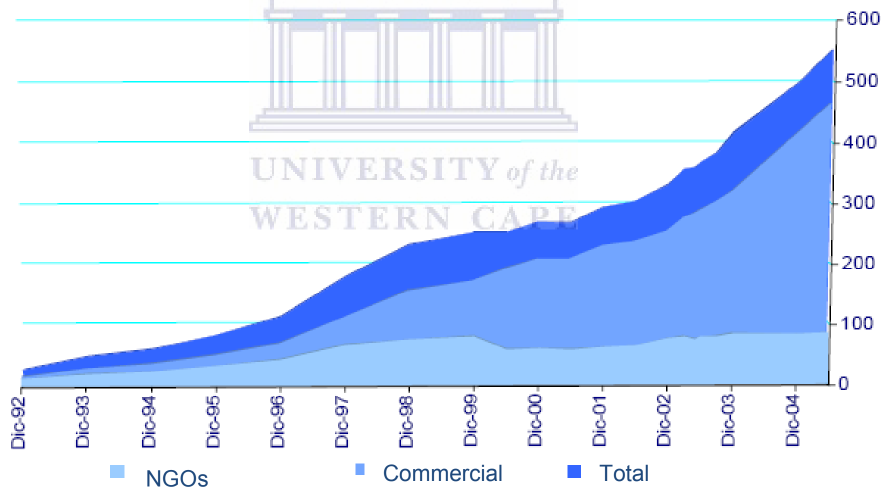
[203] SOLARES, M., (1997), Caja de Ahorro y Préstamo Los Andes, in: Gonzalez-Vega C., Prado F., Miller T. (Eds.), El Reto de las Microfinanzas en América Latina: la Visión Actual, Corporación Andina de Fomento, pp. 111-120.

BancoSol dominated the market until 1994, but since then, both BancoSol and Caja Los Andes greatly expanded the scale of their operations. Although Caja Los Andes grew in part by reaching some larger clients that BancoSol might have reached with an individual lending technology, it is evident that their clienteles substantially overlapped. Many of Los Andes' new clients had moved from BancoSol, but the evidence suggests that BancoSol had captured rather few borrowers in return, even after several years of competition.[204]

The third stage, starting in 1998, was characterized by increasing competition from newly transformed FFPs: FIE (transformed in 1998), EcoFuturo (formed in 1999 by a group of 4 NGOs, FADES, IDEPRO, ANED, and CIDRE) and Prodem (incorporated in 2000).[205]

Ever since the transformation of BancoSol in 1992, commercial MFIs started to dominate the industry, accounting for most of the portfolio growth (Graph 2). In June 2005, commercial MFIs held 84% of the total outstanding microfinance portfolio.

Graph 2. Evolution of the Outstanding Portfolio of Bolivian MFIs ($000,000)



Source: ASOFIN (2005), Resumen Institucional Junio 2005, p. 3 and ARRIOLA, P., (2003), Microfinance in Bolivia: History and Current Situation, p. 2.

Today, the microfinance industry in Bolivia is still primarily in the hands of the two pioneer lenders. By June 2005, BancoSol and Banco Los Andes Procredit (former Caja Los Andes FFP) were the two largest microlenders in Bolivia with 77.461 and 72.048 borrowers respectively. Together, they share around 56% of the commercial MFIs' clients (See Table 7).

204 GONZALEZ-VEGA, C., et.al., (1996), Microfinance Market Niches and Client Profiles in Bolivia, p. 3.
205 See the complete institutions' profile in Annex A.

Table 7. Commercial MFIs' Market Positioning as of June 2005

	Clients		Outstanding Portfolio	
Commercial MFI	***Number***	***(%)***	***Thousand US$***	***(%)***
BancoSol	77.461	29%	113.907	28%
Banco Los Andes	72.048	27%	128.471	31%
Prodem FFP	61.838	23%	94.453	23%
FIE FFP	45.547	17%	59.594	14%
Ecofuturo FFP	12.087	4%	15.920	4%
TOTAL	268.981	100%	412.345	100%

Source: www.microfinanzasbolivia.com

These are impressive numbers, as all commercial banks combined (not including BancoSol and Banco Los Andes) reached only 162.224 borrowers, less than the half of commercial MFIs'.[206]

Despite its late entry, Prodem FFP holds nearly 25% of the commercial MFIs outstanding portfolio, leaving FIE FFP and Ecofuturo far behind in the market positioning with 14% and 4%.

Consequently, it can be concluded that BancoSol and Banco Los Andes are the two market leaders, whereas FIE and Ecofuturo are the less well-positioned firms.

4.1.2 Stakeholder (CSR) Approach by Commercial MFIs

As the previous point describes, the commercialisation model led to a competitive and saturated microfinance market in Latin America and especially in Bolivia where the process began. Today, the microfinance landscape in the country is dominated by commercial MFIs.

This thesis argues that the two less well-positioned commercial MFIs (Ecofuturo FFP and FIE FFP) are engaging in Corporate Social Responsibility for strategic reasons, trying to differentiate themselves (and their products) from their competitors, in order to gain market share and improve profits.

The General Manager of Ecofuturo FFP, the Risk Manager of FIE FFP and the National Risk Manager of Banco Los Andes were interviewed to assess whether this hypothesis holds.[207] Banco Los Andes was included as a comparison institution due to its leading position and since the organisation is not planning to undertake CSR in the short term. Annex B contains the model of the interviews conducted.

Both Ecofuturo and FIE were very open to affirm that they are engaging in CSR for strategic reasons. Both agreed that the core motive for undertaking CSR was that it

206 ASOFIN (2005), Resumen Institucional Junio 2005, p. 3.
207 Interviews were conducted between the 14th and 25th of October 2005.

can improve their social impact and also positively affect their financial performance, product differentiation from their competitors and relationship with their stakeholders.

Moreover, they rejected the normative approach as a reason to undertake CSR. Both managers considered that it is not realistic to assume that MFIs must commit themselves to CSR regardless of the potential benefits and costs resulting from its implementation, and only because it is coherent with the mission/vision and nature of the organisations.

Both institutions have social-driven missions[208] and their managers affirmed that CSR was the next logical step in their institutional development as private institutions seeking financial and social performance. Nonetheless, they agree that embracing additional activities should be in concordance with the sustainable approach of the organisations. In fact, CSR was adopted after a careful assessment of costs and benefits were conducted in both institutions.

As the General Manager of Ecofuturo commented, CSR is handled directly by him and was already incorporated in Ecofuturo's Business Plan for 2005. The concept was included in the plan mainly because of a recommendation by the Board of Directors, because all the members considered CSR as an opportunity for the institution to improve its image.

Likewise, FIE is betting on a positive impact of CSR on the institution's competitiveness. As its Risk Manager who is responsible for the CSR project argues, the firm is investing in client satisfaction and CSR can reinforce this work. She affirms that as "an issue of competitiveness, (CSR) is definitively something that can differentiate us (from the competition), since we have a disadvantage with competitors in technology, ATMs, etc., so a better image amongst our clients can benefit us greatly".[209]

The following table summarizes the reasons for engaging in CSR identified by both managers as the most important ones.

Table 8. FIE's and ECOFUTURO's main reasons to engage in CSR (from 1 to 5 in importance)

Indicator	*Ecofuturo*	*FIE*
Improve the organizational image in order to attract more clients	5	5
Access to Socially Responsible Investors	4	3
Increase employees' productivity	4	4
Improve the institution's financial performance	4	4

Source: Interviews based on model in Annex B.

208 See the institutional description of the FIE and Ecofuturo in Annex A
209 Interview with Elizabeth Nava, Risk Manager of FIE FFP.

The two managers were convinced that *image and reputation* are key variables to succeed in microfinance, referring to microfinance as “a competitive market where organisations serve poor people”. In this vein, both interviewees identified the improvement of the organisational image (as a mean to attract more clients, i.e., gain market share) as the main reason for engaging in CSR

On the other hand, the National Risk Manager of Banco Los Andes Procredit confirmed that CSR was not appropriate for the organization “at the moment” given that all efforts were concentrated in microfinance, which is already social. He believes that CSR could probably be considered by Banco Los Andes in the medium term to structure a better impact of other social activities besides microfinance. When asked about the potential competitiveness benefits from CSR adoption, he argued that CSR is in line with the institution’s social mission, but it was only considered for the medium term.

4.1.3 Main Findings

Latin America is the region where commercialisation of microfinance is the most developed. Less than 15 years since the first MFI was transformed, commercial MFIs hold the largest proportion of the microcredit portfolio and client outreach in the region. This process led to increasing levels of competition in local markets, particularly in the pioneer country –Bolivia.

Taking market coverage and decreases in active interest rates as relevant indicators, Bolivia has the most competitive microfinance industry in Latin America. Competition produced other positive effects such as improvements in the quality of client service and diversification in lending products.

According to interviews conducted with top MFIs executives, the organisations are not only trying to differentiate their financial products, but also their image towards clients. The less well-positioned organisations in the market, currently engaging in Corporate Social Responsibility, regard CSR as a strategic management tool to improve their reputation and gain competitive advantage in the market. They also affirm that CSR fits well to their institutional mission and vision, being the next logical step in their organisational development.

4.2 Influence of Stakeholders on CSR Adoption

4.2.1 Stakeholders Identification and Prioritisation

According to each organisation's reality, mission and surrounding environment, stakeholders could act differently.

A focus group in each institution was conducted in order to identify and, most importantly, prioritise the core stakeholders to FIE, Ecofuturo and Banco Los Andes,.

First, it is important to recognise the support the present research had from all three the MFIs. The General Manager – in the case of Ecofuturo – and the National Risk Managers – of FIE and Banco Los Andes – were more than willing to participate.

Focus groups included 3 to 5 executives selected by the MFIs themselves as personnel that could enrich the discussion and the identification of stakeholders. Annex C details the participants and the results of each focus group.

Other executives were appointed according to their knowledge of the organisation or because their working area was considered as related to stakeholder management. For instance, the personnel responsible for the planning and the personnel responsible for human resources were thought important in Ecofuturo, while in FIE more "external" persons to the firm participated, such as the Vice-President of the Board of Directors, the Internal Auditor and the representative of the main shareholder.

The first part of the focus group was designed to identify the most important stakeholders in the MFIs. A brief presentation about CSR and its relationship with stakeholder management was conducted as an introduction to the exercise. Afterwards, each participant wrote on paper the core stakeholders in the firm, their interests in the firm and their relevance to the MFI, according to his/her understanding.

The stakeholders identified by the personnel were discussed in a group session and summarised in a single matrix.[210] Table 9 shows the main stakeholders identified by each MFI in the exercise.

[210] See Matrix 1 for each MFI in Annex C

Table 9. Stakeholders Identified by MFIs

Stakeholder	*Stakeholder's interests in the MFI*	*Los Andes*	*FIE*	*Ecofuturo*
Shareholders	Sustainability	√	√	√
Clients (borrowers and savers)	Access to quality services	√	√	√
Directors	Accomplish institutional goals	√	√	
Funding Sources	Profits and impact	√	√	√
Employees	Security and good work environment	√	√	√
Microfinance Network	Harmonise policies and promote equilibrium	√		
Community	Donations and impact	√	√	√
Suppliers	Increase business		√	√
International Cooperation	Impact			√
Government	Taxes, regulation and control		√	√
Superintendence of Banks	Regulation and supervision	√		√

Source: Annex C

As can be deduced from the table, some stakeholders were identified by all institutions and others not, reflecting that MFIs share the same surrounding environment but – at the same time – each organization has a different group of actors which they consider can affect or are affected by the firm.

The second part of the focus group activities consisted of prioritising the stakeholders identified in the first Matrix.

In a new matrix, the stakeholders were analysed collectively according to their relevance in 5 fields established by the strategic approach as determined when engaging in CSR and stakeholder management: (1) image and reputation improvement; (2) increase of number of clients; (3) better access to funding; (4) better relationship with the community; and (5) improvement in the employees' motivation. The relevance of the different stakeholders in each field was discussed and measured by the group on a scale from 1 to 3 (1 low impact, 3 high impact).

Table 10 summarises the 5 best ranked stakeholders according to their impact on the fields described. The prioritisation is detailed in Annex C.

Table 10. Stakeholders prioritised by MFIs

STAKEHOLDER	*Los Andes**	*FIE**	*Ecofuturo**	*Total*
Clients (borrowers and savers)	15	10	14	**39**
Employees	14	11	12	**36**
Shareholders	15	10	10	**35**
Funding Sources	10	10	10	**30**
Community	9	9	10	**28**

Source: Annex C
* Sum of levels of impact of stakeholders in the 5 fields (e.g., 15= the stakeholder scored 5 times as level 3 of impact)

As the table illustrates, MFIs agreed that clients, employees, shareholders, funding sources, community and government were the core stakeholders of their organizations.

The results show no surprises as these actors are important to any firm. In other industries, more in the eye of the public, NGOs or environmental and human rights groups could probably be identified as key stakeholders. MFIs do not face this public screening; therefore, the stakeholders prioritised are more "standard".

Regarding the fields of prioritisation, some were considered more important than others. The following table details the number of MFIs that ranked as high (3) the impact of stakeholders on the different fields of prioritisation.

Table 11. Number of MFIs ranking stakeholders as having high impact on the prioritisation fields

STAKEHOLDER	*Image and Reputation Improvement*	*Increase in number of clients*	*Better access to funding*	*Better relations with the community*	*personnel's motivation improvement*	*Total*
Clients	3	3	3	3	1	**13**
Employees	2	3	0	2	2	**9**
Shareholders	2	1	3	1	1	**8**
Funding Sources	3	0	3	0	0	**6**
Community	3	0	0	3	0	**6**
Total	**13**	**7**	**9**	**9**	**4**	

Source: Annex C

Table 11 shows that MFIs believe that better stakeholder management could have a higher impact on the fields of image & reputation, access to funding and relations with the community.

Particularly, all MFIs (except one in respect of employees and shareholders) consider that better stakeholder management could lead to a great improvement of the organisations' Image and Reputation. This supports the conclusion of point 4.1: MFIs assume that CSR will improve their market positioning by creating a better image amongst clients.

Regarding stakeholders individually, clients were mentioned by most MFIs as having a high impact in the different fields proposed. In other words, all three MFIs believe that better stakeholder management of clients will have a high impact on reputation, increase the number of borrowers and savers, lead to better access to funding and better relations with the community, while only one MFI thinks that it will improve the motivation of personnel. Other stakeholders that scored relatively high were employees and shareholders.

In sum, the focus groups conducted with the MFIs helped to identify 5 stakeholders considered by the organisations as core to their interests, prioritised as follows: (1) clients, (2) employees, (3) shareholders, (4) funding sources, and (5) community.

However, how could these stakeholders have affected the decision of FIE and Ecofuturo to engage in CSR? Or not to engage in the case of Banco Los Andes? All firms can identify and prioritise their stakeholders (normally all firms do it formally or informally) but only a few undertake further steps towards social activities beyond their business operations.

According to the descriptive approach to stakeholder theory, firms tend to engage in CSR due to the demands of powerful and legitimate stakeholders. The following section discusses the attributes of the 5 main stakeholders prioritised, analysing their power and legitimacy.

4.2.2 Attributes of Main Stakeholders

As proposed in the theoretical background, the main criteria for stakeholder elimination will be power. Only the most powerful stakeholders will be analysed by the legitimacy criteria in order to determine their incidence on CSR adoption by the MFIs studied.

The next points conclude that this thesis will focus only on shareholders and funding sources as relevant stakeholders.

4.2.2.1 <u>Power Criteria</u>

In contrast to other industries, clients, employees and communities have no power (as defined in theory) on microfinance. The lack of organisation is the main problem.

As was discussed in the definition of power (see page 17), a firm will respond positively to a stakeholder request if the organization feels that by not doing so it can hamper the availability of actual or future funds or services. Therefore, a structured representation of interests and requests is critical to assign power to a stakeholder.

In MFIs there are no unions or similar organised entities to represent employees. Even though there is a Bolivian Confederation of Banking Unions, this type of organisation does not exist in the microfinance sector and is rare in the financial sector in general. One of the main reasons for this situation is that collective negotiations of salaries hardly ever take place in the industry and outsourced companies conduct most hiring.[211]

Regarding clients, in 1999 an increasing problem of over-indebtedness in the microfinance market led to the creation of Small Debtors' Associations in various parts of the country, but these were formed for specific reasons and their credibility did not last long.[212] The leaders of these associations promised borrowers to write-off their debts, including both principal and interest. These associations organised increasingly violent demonstrations and protest marches directed against financial entities, including MFIs, banks and consumer credit entities, who were accused of abusive and humiliating practices against borrowers.

The Superintendent of Banks examined the claims case by case. An analysis of the situation proved that the majority of the cases were not related to clients of MFIs, but rather to consumer credit "financieras". The results of the analysis even showed non-existent clients.

In the same year, the Government, financial institutions and representatives of the debtors associations signed a first agreement. In spite of it, the conflict persisted and the actions of one of the largest debtors associations ended in July 2001 with the violent take-over of the Superintendence facilities and over 100 hostages. A few days later, this association, the Government, the guilds of financial entities and mediators, signed a framework agreement to resolve the conflict.

It should be underscored that after these events, many borrowers left the associations, seeking dialogue with the institutions and a reasonable solution to their problems. Debtors realised that the promises made by the associations' leaders were false and that they could not solve their problems through pressure. By 2001, the organisations disappeared.

On the other hand, communities are - as an inherited characteristic from the Inca Period- a very important cohesive factor among indigenous people in the western part of

211 See Indymedia's web page: http://bolivia.indymedia.org/es/newswire/archive411.shtml.
212 FIEDLER, H. and PASTOR, F. (2002), Bolivian Microfinance in Times of Crises, p. 9.

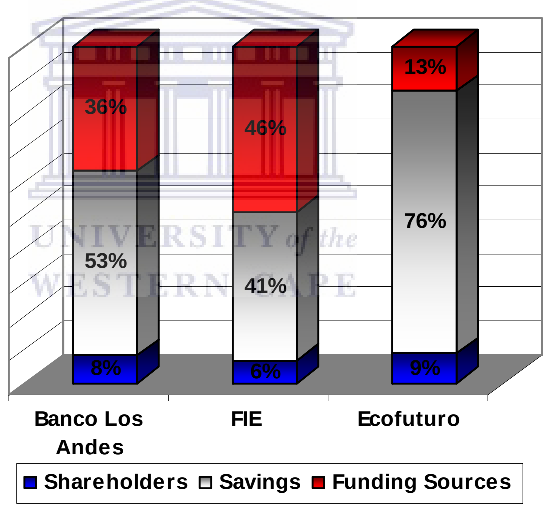
the country, but lack a national or even regional organisation. Most "ayllus", as these communities are called in the native language, live for the sole purpose of structuring communal work and rarely interact with other ayllus.[213]

From the preceding paragraphs, one can conclude that the MFIs will not regard clients(except under extreme circumstances, as detailed above), employees and the community as powerful stakeholders, since they cannot affect the possibility of access to new funds.

In contrast, shareholders and funding sources have a real impact on the availability of resources necessary for the MFIs' survival.

As the following graph shows, shareholders and funding sources represent an important portion of the MFIs portfolio funding. One could affirm that a MFI will respond positively to a request from these stakeholders if the organisation feels that when not doing so it can hinder the availability of actual or future funds.

Graph 3. MFIs Portfolio Funding Composition (June 2005)



Source: Superintendence of Banks (2005), Boletín Informativo, p.43.

Savings are the main source of portfolio funding in the MFIs analysed, while funding sources are more important in Banco Los Andes and FIE. But how legitimate are these stakeholders? How social-driven are their goals?

This attribute is discussed in the next point, in order to assess whether FIE and Ecofuturo are under the influence of more legitimate social stakeholders than Banco Los Andes.

213 ANIBARRO, Jorge (1955), El Cooperativismo y el mejoramiento de las Comunidades Indígenas de Bolivia, pp. 16-19.

4.2.2.2 Legitimacy

In Bolivian commercial MFIs, shareholders are mainly NGOs, Development Banks, Bilateral Donors and Specialised Funds. The later consists of private funds in the North seeking investment opportunities in development fields in the South.

The reasons for NGOs, Development Banks and Bilateral Donors investing in commercial MFIs are straightforward. They seek mainly to have a social impact but, due to the MFIs' vision about microfinance, they believe that the organisation should also be sustainable in order to serve the beneficiaries better. What differentiates them from Specialised Funds is profit-seeking.[214]

Some funds are specialised only in microfinance, such as Procredit Holding, Foundations Triodos-Doen and Hivos-Triodos, and Oikocredit, while others, such as ICCO, invest in several development fields. Except for ICCO and Triodos-Oden, which administer church and lottery funds respectively, Procredit Holding, Oikocredit and Hivos-Triodos are funded mostly by private investors.[215] To some degree, all of them seek profitability in their investments in order to be sustainable.[216]

Table 12 details the shareholder composition of FIE, Ecofuturo and Banco Los Andes.

Table 12. MFIs Shareholder Composition, when transformed and as of June 2005 (%)

OWNER	Banco Los Andes		FIE		Ecofuturo	
	1995	06/2005	1998	06/2005	1999	06/2005
Founder NGOs	37,5	14,6	59,5	49,3	89,7	78,3
International NGOs	43,7	-	15,0		-	-
Development Banks	-	-	-	9,5*	-	12,3*
Bilateral Donors	-	-	10,0Ψ	5,9Ψ	7,0Ψ	4,2Ψ
Specialised Funds	-	83,6Ω		23,2μ	-	2,9φ
Private Individuals	18,8	1,8	15,5	12,1	3,3	2,3
Total	100	100	100	100	100	100

Source: NIMAL, F (2004), Micro success Story? Transformation of NGOs into Regulated Financial Institutions, p.12
Bolsa Boliviana de Valores, http://bolsa-valores-bolivia.com/listadeemisores1.htm.
Ecofuturo (1999), Memoria Anual, p.16.
* Andean Development Corporation, Ψ Swiss Cooperation (COSUDE), Ω Procredit Holding,, μ Oikocredit , ICCO and Foundations Triodos-Deon and Hivos-Triodos, φ ICCO

In June 2005, as the figures show, FIE and Ecofuturo had a bigger participation of NGOs, Development Banks and Bilateral Donors, compared to Banco Los Andes.

---

214 NIMAL, F (2004), Micro success Story? Transformation of NGOs into Regulated Financial Institutions, p.14

215 See www.triodos.com, www.procredit-holding.com, www.oikocredit.org and www.icco.nl.

216 NIMAL, F (2004), Micro success Story? Transformation of NGOs into Regulated Financial Institutions, p.15.

Moreover, Banco Los Andes reduced the participation of the founder NGO among shareholders by 61%, leaving Procredit Holding as the main stockholder. Though founder NGOs also reduced their proportional share of FIE and Ecofuturo, they are still the largest shareholders in both organisations.

The importance of Specialised Funds in each institution varies. In Banco Los Andes, Procredit Holding is the major investor with 84% of the shares, while Triodos-Deon and Hivos-Triodos, taken together, are the second largest owners in FIE with 13% of the firm's stocks and Oikocredit the third with 8%. ICCO holds 3% of the shares in both Ecofuturo and FIE.[217]

Analysing the legal status of the most important investors, whereas both Triodos-Deon and Hivos-Triodos are foundations administered by Triodos Bank, Oikocredit and Procredit Holding are private companies, the latter run mainly by former employees of the founder-consulting firm: Internationale Projekt Consult.[218]

From the overview of the data presented, it can be concluded that Ecofuturo has a more social-driven ownership, with NGOs, Development Banks and Bilateral Donors accounting for more than 90% of the shareholder composition and with founder NGOs holding near 80% of the stocks. Regarding FIE, the founder NGO is still the major owner with 50% of the firm's shares and Specialised Funds, mostly belonging to foundations representing lottery and church funds (Triodos-Doen and ICCO), holding 23% of the company.

Compared to the other two MFIs, the main shareholders of Banco Los Andes have less social legitimacy. In contrast with the NGOs, Development Banks, Bilateral Donors, or other Specialised Funds, Procredit Holding is clearly less social-driven.

Probably this is not a fair comparison. Procredit Holding is one of the leading pioneers developing and forging commercial MFIs around the world, benefiting thousands of people, and its methodology and business mentality are probably the main contributors to Banco Los Andes' success. Nevertheless, this thesis seeks to analyse which MFIs have stakeholders that are more legitimate, so the conclusion is valid.

Funding Sources

A commercial MFI, like any other formal financial institution in Bolivia, can be funded by financial organisations such as second tier banks, other national financial organisations and international institutions.

---

217 Bolsa Boliviana de Valores, http://bolsa-valores-bolivia.com/listadeemisores1.htm.
218 See www.triodos.com, www.procredit-holding.com, www.oikocredit.org.

NAFIBO and FONDESIF are the two Bolivian second tier banks. NAFIBO has a mixed (public and private) ownership, while FONDESIF is entirely public. Both organisations have special funds destined to promote microfinance activities, as part of governmental policies aimed at the eradication of poverty.[219]

MFIs are also authorised to contract medium- and long-terms loans from other Bolivian regulated financial organisations (such as banks, credit unions, other FFPs and housing loan "mutuales") and from international financial organisations.

Table 13 indicates that Ecofuturo is almost entirely funded by other Bolivian financial entities. In contrast, FIE depends more on loans from second tier banks and international organisations as their main source of institutional funding, whereas Banco Los Andes attracts funds mostly from national and international financial organisations.

Table 13. MFIs composition of Funding Sources (Dec. 2004)

FUNDING SOURCE	*Banco Los Andes*	*FIE*	*ECOFUTURO*
Second Tier Banks	13,1%	29,8%	0,0%
National Organisations	20,1%	17,9%	99,2%
International Organisations	66,1%	51,0%	0,0%
Other	0,8%	1,2%	0,8%
Total	100,0%	100,0%	100,0%

Source: Superintendecnia de Bancos y Entidades Financieras (2005), Boletín Financiero Diciembre 2004.

Loans from other national financial entities only require the payment of market interest rates. MFIs can obtain as many loans as they want from the financial system as long as they pay the interest rate offered. Loans from second tier banks and international organizations are different.

In order to be granted a loan from NAFIBO or FONDESIF, with interest rates below the market rate, the company must retail the funds obtained to microloans in areas prioritised by governmental policies. Second tier banks offer incentives to MFIs to serve market niches beyond their traditional clientele (e.g. small street traders in big cities). Therefore, the prioritised areas vary from unserved rural peasants to peri-urban handcrafters.[220]

In the case of international organisations, normally, the loans also require the funds to be used for specific purposes. Most of these entities consist of development banks, specialised funds and international financial NGOs. Depending on the organisations, some of them prioritise general concerns such as sustainable development

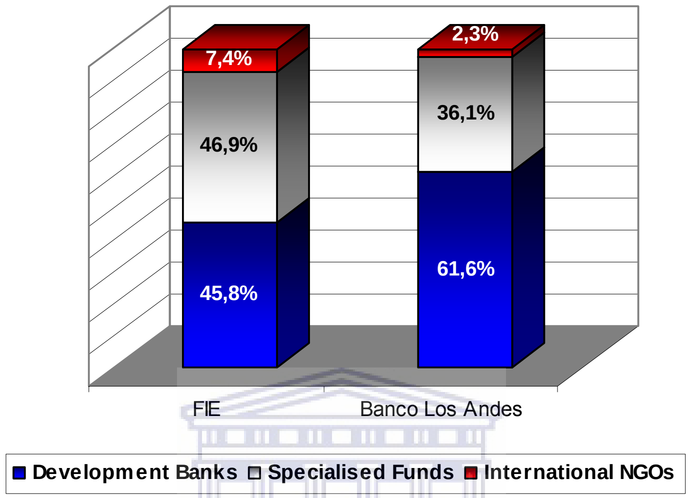
219 See www.fondesfi.gov.bo and www.nafibo.com.bo.

220 See www.fondesfi.gov.bo and www.nafibo.com.bo.

or economic growth, while others focus more on microfinance activities to fight poverty.

Graph 4 illustrates the composition of the international funding of Banco Los Andes and FIE. (Ecofuturo does not obtain any loans from these organisations).

Graph 4. FIE and Banco Los Andes' International Funding Source Composition (Dec. 2004)



Source: PriceWaterhouseCoopers (2005), Banco Los Andes Audited Financial Statements 2004, p.7
PriceWaterhouseCoopers (2005), FIE Audited Financial Statements 2004, p.6.

Both organisations have more or less the same source of international funding, primarily from development banks and specialised funds, with international NGOs only having a marginal share.

Development banks include the International Finance Corporation of the World Bank (IFC) (31% in Banco Los Andes and 20% in FIE) the Andean Development Corporation (CAF) (15% in Banco Los Andes and 26% in FIE) and the German Development Bank (KfW) (13% in Banco Los Andes).[221]

Regarding Specialised Funds, FIE holds larger loans from Blue Orchand Microfinance (18%), the Latin American Challenge Investment Fund, LACIF (14%) and Triodos-Doen (9%), while the main international creditors of Banco Los Andes are the Netherlands' Financing Society, FMO (15%), the Organization of the Petroleum Exporting Countries Fund, OPEC Fund (13%) and the Belgian Investment Company for Developing Countries, BIO (8%).[222]

[221] PriceWaterhouseCoopers (2005), Banco Los Andes Audited Financial Statements 2004, p.7 and PriceWaterhouseCoopers (2005), FIE Audited Financial Statements 2004, p.6.
[222] Ibid. For profiles of the specialised funds visit www.blueorchad.ch, www.lacif.com, www.triodos.com, www.fmo.nl, www.opecfund.org, www.b-i-o.be.

According to the information presented, FIE and Banco Los Andes rely more on conditional loans below market rates from Specialised Funds, Second Tier and Development Banks than Ecofuturo, which is funded mainly by commercial loans from Bolivian financial entities.

After establishing which are the most powerful and legitimate stakeholders in the case of each MFI, the following sections discuss the extent to which these stakeholders affected the decision of the organisations to engage in CSR.

4.2.3 Stakeholder Incidence on MFIs

As part of the interview conducted with top MFIs managers, they were asked to give their opinion about the degree of involvement of shareholders and funding sources in the decision to undertake CSR. (See Annex B).

According to the General Manager of Ecofuturo and the Risk Manager of FIE, founder NGOs were key activists seeking information and contacting people related to the CSR field, nationally and internationally.

In FIE, the founder NGO is the main promoter of social activities beyond microfinance, particularly involving the community, clients and employees. The president of the organisation (who participated in the stakeholder focus group) is also actively involved in the implementation of CSR and is proud to present the NGO and the president of the Board of Directors (representing the founder NGO) as the main advocates.

In Ecofuturo, CSR was also an initiative of the Board of Directors. The General Manager referred to the President and Vice-President of the Board as the major promoters, both representing founder NGOs.

The Swiss Cooperation (COSUDE) is a minority shareholder of both Ecofuturo and FIE, and is the principal advocate of CSR in microfinance in Bolivia, through its project PROFIN. According to both MFIs, PROFIN proposed the implementation of the CSR pilot project that the two organisations are currently participating.

Moreover, as an initiative of Tridos Bank, one of FIE’s main shareholders and minor funding source, the organisation will take part in another pilot project aimed to implement sustainability reporting.

Tridos Bank organised and financed a workshop in October 2005 for investee microfinance institutions of Triodos-Doen and Hivos-Triodos Fund at the organisation’s headquarters in the Netherlands. FIE is one of the six MFIs interested in taking part in the pilot designed to assist commercial MFIs in the implementation of the Global Reporting Initiative (GRI) Guidelines from 2006 onwards.[223]

According to Banco Los Andes' National Risk Manager, the main shareholder is more focused on the sustainability of the bank and the impact of its microfinance activities, but the organisation does not dismiss engaging in social activities beyond microfinance in the future. The interviewee argued that Procredit Holding promotes activities more related to environmental sustainability. Some other funding sources of Banco Los Andes, such as FMO and BIO, also ask more environmental friendly polices from the MFI.

Like any other institution belonging to the Procredit Group, operational activities and the screening criteria of loans performed by Banco Los Andes are in strict concordance with environmental laws and norms. Banco Los Andes is the only MFI in Bolivia with an environmental policy structured within an Environmental Management System, including an "exclusion list", defining activities and economic sectors that cannot be financed by the Bank.[224]

4.2.4 Main Findings

Focus groups conducted with the three MFIs included in this case study concluded that the organisations prioritise clients, employees, shareholders, funding sources and the community as the main stakeholders.

According to the definition assumed for power as an attribute of stakeholders, shareholders and funding sources were found to be the most powerful stakeholders. Table 14 describes the social legitimacy of the main stockholders and funding sources for each MFI, based on the analysis of their characteristics, ownership and legal status.

Table 14. Legitimacy Ranking of Shareholders and Funding Sources

MFI	*Shareholders*	*Funding Sources*
Ecofuturo	1	3
FIE	2	1
Banco Los Andes	3	2

Source: Tables 12 and 13

Comparatively, FIE and Ecofuturo have more socially legitimate shareholders, while FIE and Banco Los Andes maintain larger loans from more socially legitimate funding sources.

---

223 Other MFIs participants are Acleda Bank in Cambodia, K-Rep Bank in Kenya, Centenary Rural Development Bank in Uganda, Banco Solidario in Ecuador and Findesa in Nicaragua. See http://www.triodos.com/com/whats_new/latest_news/general/179709?lang=

224 BANCO LOS ANDES (2005), Memoria Anual, pp. 34-35.

In accordance with interviews conducted with the top executives of the MFIs and information gathered from secondary sources, MFIs engaging in CSR had been influenced significantly by socially legitimate stakeholders, mainly the shareholders, to initiate the process of transparent reporting within CSR.

Ecofuturo had their main advocates in founder NGOs, while FIE also had the influence of minor funding sources, which led the organisation to start more than one pilot project related to CSR.

Powerful stakeholders, according to their preferences, influenced Banco Los Andes to engage in activities more related to environmental sustainability.

4.3 CSR Base Line Incidence on CSR Adoption

The outcome of the pilot project started by FIE and Ecofuturo will be the publication of their first structured social balance sheet, in accordance with GRI guidelines. Therefore, they do not yet know how they are performing according to CSR indicators.

Nevertheless, there are appraisal tools to help firms to conduct a preliminary diagnosis about their CSR performance before undertaking the implementation process of socially responsible management practices.

In order to assess the CSR base line of FIE, Ecofuturo and Banco Los Andes, the Ethos CSR Appraisal Tool was chosen as a proxy to determine which firm is likely to perform better on a potential social balance sheet, in order to address the question whether the MFIs wanting to engage in CSR have an initial competitive advantage.

The Ethos indicators are an effort of the Ethos Institute aimed at providing companies with a tool to support the process of incorporation of CSR in their management. The indicators are integrated with relevant initiatives in the field of Sustainable Development such as the Global Compact and the Millennium Development Goals of the United Nations. The tool was also harmonised taking into account common points with other important and strategic tools for CSR reporting: GRI (Global Reporting Initiative), Sustainability Reporting Guidelines, SAI (Social Accountability International), SA8000 Standard, and Accountability AA1000 Standard.[225]

The assessment questionnaire is divided into seven broad themes:

- Values, Transparency and Governance
- Workforce

---

225 INSTITUTO ETHOS (2005), ETHOS Indicators on Corporate Social Responsibility, p.3.

- Environment
- Suppliers
- Consumers and Customers
- Community
- Government and Society

These themes are addressed by 224 questions divided into two types of indicators. The first type, which can be described as depth indicators, assesses the current stage of the company's management. It comprises 35 indicators showing four stages of a certain practice, whose performance level evolves from 1 to 4. Each level assumes the fulfilment of the previous one, therefore Stage 4 corresponds to the best performance in that practice, and presupposes the company has already reached an excellence level in that indicator. In the event none of the boxes corresponds to the company's reality, two other options are available: (a) the firm has not addressed the issue before or (b) It is not applicable to the company.

The second type of indicators includes binary questions (yes/no). Its items provide elements for validation and deeper evaluation of the social responsibility stage identified by the company in the first indicators.

The questionnaire is an 80 page document available in three languages free of charge at www.ethos.org. A summarised version can be found in Annex F.

Due to the far-reaching nature of the themes, several areas of the company were engaged in the process of filling out the questionnaire. The higher the number of people involved in the process and the more diversified the hierarchical levels and the departments involved are, the more representative will the answers be and the deeper will the internal consideration be, thus ensuring a better self-diagnosis. The MFIs agreed that the same persons involved in the stakeholder prioritisation process were the appropriate personnel to fill in the form.

First, each person was asked to fill in the questions separately and a final meeting was scheduled to discuss and consolidate the results, assuring a better organisational consensus about the indicators.

Even though this methodology of appraisal tries to acquire results that are as accurate and impartial as possible within the constraints of time and resources (and though it is the one recommended by the Ethos Institute[226]), it nonetheless leaves room for some information asymmetries between the interviewer and the MFIs. In order words, the MFIs can overestimate (or simply lie about) their CSR performance and the

[226] INSTITUTO ETHOS (2005), ETHOS Indicators on Corporate Social Responsibility, p.3.

interviewer would have no means to know the real information. This situation is probable because most of the data required by the indicators are confidential or belong more to the institutional culture than to formal documents.

Nevertheless, as is shown by the findings obtained, most of the information gathered from the MFIs could be supported by indirect data in the field, providing more validity to the methodology.

The following section summarises the results in respect of each of the broad themes proposed by the Ethos indicators.[227] Tables are used to compare the different MFIs with regard to these indicators. The proportion of in-depth indicators under stages 3 and 4 and the proportion of binary indicators with the answer "yes" are taken into account to assess which MFI has a better starting point in CSR. Since the binary indicators are a complement of the depth indicators, the later will be more conclusive for the analysis.

4.3.1 Values, Transparency and Governance

Six depth and 31 binary indicators were used to address the performance of the MFIs on values, transparency and governance in themes such as "adoption and scope of ethical values and principles", "dissemination of the company's values and ethical principles", and "organizational structure and governance practices", among others.

As table 15 shows, in FIE all 6 depth indicators are situated at stage 2 or beyond. The situation is different in Banco Los Andes and Ecofuturo. Either they did not consider an issue before, or they have indicators below stage 2, showing a lower CSR performance. If the binary indicators are considered, FIE has 18 affirmative answers, Banco Los Andes 14 and Ecofuturo 10. This also shows a better performance by FIE.

[227] The assessment questionnaire was executed in all three organizations in October 2005.

Table 15. MFIs CSR Base Line: Values, Transparency and Governance

INDICATORS	*FIE*	*Ecofuturo*	*Banco Los Andes*
Depth Indicators			
It was not considered	0	1	1
Not applicable	0	0	0
Stage 1	0	3	1
Stage 2	4	2	1
Stage 3	2	0	3
Stage 4	0	0	0
Binary Indicators			
Yes	18	10	14
No	12	21	17
Not applicable	1	0	0

Source: Annex G

Nevertheless, Banco Los Andes has more depth indicators at stage 3 than the other MFIs (one more than FIE and three more than Ecofuturo), indicating that the firm went further in addressing some CSR issues.

For instance, Banco Los Andes is one stage further than FIE regarding the depth indicator of relations with competitors, affirming that the company discusses its attitude with workers and customers, warning them about fair competition issues, and participates in the discussion of these issues in professional associations. FIE reached the stage where the firm has explicit and stated rules of unfair competition, but discusses its attitude towards competitors only periodically (or when it is necessary), with its workforce.

Therefore, regarding values, transparency and governance, the results are not conclusive, since FIE has a larger number of indicators beyond stage 2, and Banco Los Andes has more depth indicators at further stages.

4.3.2 Workforce

Taking into account the 9 depth indicators used to assess the CSR performance on the workforce, table 16 illustrates that Banco Los Andes has reached more advanced stages than FIE and Ecofuturo.

Table 16. MFIs CSR Base Line: Workforce

INDICATOR	FIE	Ecofuturo	Banco Los Andes
Depth Indicators			
It was not considered	2	2	1
Not applicable	2	1	1
Stage 1	1	3	0
Stage 2	2	3	3
Stage 3	2	0	3
Stage 4	0	0	1
Binary Indicators			
Yes	14	12	14
No	33	42	41
Not app.	12	5	4

Source: Annex G

Seven out of nine depth indicators of Banco Los Andes fall at stage 2 or higher, whereas FIE has only 4 in these categories and Ecofuturo has none. Regarding binary indicators, Banco Los Andes and FIE are performing equally, with 14 positive answers.

Banco Los Andes performs better on themes such as "valuing diversity", "handling of dismissals", "preparation for retirement" and "participative management". With respect to the latter, the firm believes that it has reached the optimal stage (4), where the company incorporates the participation of employee representatives in management committees or in strategic decisions, and provides them with the necessary training to participate in the development of these processes. This affirmation is based on policies carried on by Banco Los Andes during major strategic decisions, such as the transformation into a Bank or the relocation of Headquarters from La Paz to Santa Cruz. According to the Risk Manager, every major strategic decision is taken only after consultation with employees through the operational departments.[228]

FIE and Ecofuturo only reached stage 2, where the firms provide employees with information about the company and training to enable them to understand and analyse such information, but does not integrate them into strategic decisions.

4.3.3 Environment

Table 17 shows that Banco Los Andes performs better with respect to environmental issues within CSR.

228 Focus Group conducted to fill the ETHOS indicators.

Table 17. MFIs CSR Base Line: Environment

INDICATOR	FIE	Ecofuturo	Banco Los Andes
Depth Indicators			
It was not considered	1	2	0
Not applicable	2	1	1
Stage 1	0	0	0
Stage 2	0	0	1
Stage 3	0	0	0
Stage 4	0	0	1
Binary Indicators			
Yes	0	0	3
No	2	6	5
Not app.	12	8	6

Source: Annex G

Banco Los Andes is the only MFI in Bolivia with an environmental policy structured within an Environmental Management System, including an "exclusion list" defining activities and economic sectors that cannot be financed by the Bank. [229] This is reflected by the fact that 2 out of 3 depth indicators are beyond stage 2, while FIE and Ecofuturo cannot claim that they have reached at least stage 1 with respect to all of them.

Furthermore, Banco Los Andes believes that the firm reached the highest stage of the depth indicator measuring the company's commitment to environmental quality improvement, assuring that the bank develops new businesses taking into account, from scratch, the principles and opportunities related to environmental sustainability.

4.3.4 Suppliers

The supplier's indicators measured the MFIs' performance on themes such as the criteria for the selection of suppliers and outsourcing companies, and policies against child and forced labour in the production chain, among others. Table 18 indicates that many of the issues proposed by Ethos were not considered before by any MFI, particularly not by FIE.

229 BANCO LOS ANDES (2005), Memoria Anual, pp. 34-35.

Table 18. MFIs CSR Base Line: Suppliers

INDICATOR	FIE	Ecofuturo	Banco Los Andes
Depth Indicators			
It was not considered	4	2	2
Not applicable	0	0	0
Stage 1	1	1	2
Stage 2	0	2	1
Stage 3	0	0	0
Stage 4	0	0	0
Binary Indicators			
Yes	2	6	3
No	17	13	16
Not app.	0	0	0

Source: Annex G

Analysing depth and binary indicators, Ecofuturo performs slightly better than Banco Los Andes, with one more indicator in stage 2 and 3 more "yes" answers about binary indicators, whereas FIE reached only stage 1 and has 4 less affirmative binary indicators than Ecofuturo.

4.3.5 Consumers and Customers

As table 19 illustrates, regarding CSR performance on managing consumers and customers, Banco Los Andes has reached stages 3 and 4 in 2 of the 3 depth indicators proposed by Ethos, while FIE has only come up to stage 3 and Ecofuturo up to stage 2. Concerning binary indicators, FIE and Banco Los Andes scored 16 affirmative questions and Ecofuturo scored 10.

Table 19.

Table 20. MFIs CSR Base Line: Consumers and Customers

INDICATOR	FIE	Ecofuturo	Banco Los Andes
Depth Indicators			
It was not considered	1	0	0
Not applicable	0	0	0
Stage 1	0	2	1
Stage 2	1	1	0
Stage 3	1	0	1
Stage 4	0	0	1
Binary Indicators			
Yes	16	10	16
No	9	15	9
Not app.	1	1	1

Source: Annex G

Ethos indicators about customers and consumers measure issues such as "the firm's business communication influence on the building of an image of credibility and trust", its "commitment to customers/consumers service quality" and its "knowledge and management of potential damage caused by its products and services".

With regard to this issue, Banco Los Andes claims that it has reached the highest level of performance, implying that the firm carries out research and works together with suppliers and distributors, consumers, competitors and government, aiming to improve products and services continuously. The General Manager of Banco Los Andes is the Chairman of the Association of Financial Organizations Specialised in Micro Finances of Bolivia (ASOFIN), and the Bank is the main promoter of joint research, the exchange of information amongst MFIs and the improvement of the service quality to clients of the microfinance industry as a whole.[230]

4.3.6 The Community

Regarding the community, Ethos indicators try to measure the CSR performance of firms on issues such as the management of the company's impact on the surrounding community, relations with local organizations, social action funding and the company's engagement in social action. Table 20 indicates that Ecofuturo did not consider these issues before, while FIE reached stage 2 in one depth indicator and Banco Los Andes reached the same stage twice.

Table 21. MFIs CSR Base Line: Community

INDICATOR	*FIE*	*Ecofuturo*	*Banco Los Andes*
Depth Indicators			
It was not considered	1	4	0
Not applicable	0	0	0
Stage 1	2	0	2
Stage 2	1	0	2
Stage 3	0	0	0
Stage 4	0	0	0
Binary Indicators			
Yes	0	0	8
No	22	22	14
Not app.	0	0	0

Source: Annex G

[230] See www.asofinbolivia.com.

Banco Los Andes performed better that the other MFIs with respect to the community indicators since the Bank claims that (with respect to the company's engagement in social action), in addition to donations and/or corporate social projects, the firm makes available some of its employees' working hours or equipment for activities connected with these projects. Banco Los Andes not only donated funds for parks, hospitals and school restoration in communities of cities such as Sucre and Santa Cruz and worked together with the Municipality of La Paz to restore garbage cans in the city, but also gave incentives to its workers to participate in those projects or donate funds as well. FIE reached one stage lower, since it donates funds to different social projects, but does not encourage its workers to contribute to the projects.[231]

Regarding binary indicators, Banco Los Andes had 8 affirmative responses, whereas FIE and Ecofuturo had none.

4.3.7 Government and Society

As table 21 shows, Banco Los Andes reached further stages regarding depth indicators than Ecofuturo and FIE regarding Government and Society. The bank believes that one indicator falls at stage 4 and 2 at stage 2, while FIE only reached stage 1 and Ecofuturo stage 2.

Table 22. MFIs CSR Base Line: Government and Society

INDICATOR	*FIE*	*Ecofuturo*	*Banco Los Andes*
Depth Indicators			
It was not considered	0	1	0
Not applicable	2	1	1
Stage 1	2	1	0
Stage 2	0	1	2
Stage 3	0	0	0
Stage 4	0	0	1
Binary Indicators			
Yes	0	1	5
No	6	8	4
Not app.	6	3	3

Source: Annex G

Considering binary indicators, Banco Los Andes had more positive answers (5) than the other two MFIs (zero FIE and 1 Ecofuturo).

---

231 Focus Groups conducted to fill the ETHOS indicators.

Regarding this particular theme, Ethos indicators measure policies against donations to political campaigns, the companies' construction of citizenship, and anti-corruption and bribery practices. With regard to the latter, Banco Los Andes has reached the highest stage, whereas FIE believed it was not applicable and Ecofuturo had not considered the issue before.

4.3.8 Main Findings

Taking into account the seven broad themes described in preceding sections, it can be concluded that Banco Los Andes performs better than FIE and Ecofuturo according to Ethos indicators of CSR. Table 22 ranks the performance of each MFI according to the data of tables 15 to 21 and indicates that Banco Los Andes performed equal or better than the other two MFIs except in respect of one theme, suppliers.

Table 23. CSR Base Line, Summary (1 to 3, 1 being the highest)

CSR Theme	*FIE*	*Ecofuturo*	*Banco Los Andes*
Values, Transparency and Governance	1	2	1
Workforce	2	3	1
Environment	2	2	1
Suppliers	3	1	2
Customers and Consumers	2	3	1
Community	2	3	1
Government and Society	3	2	1

Source: Tables 15 to 21

This finding indicates that the MFI not undertaking CSR has a better initial position in respect of CSR than the two firms participating in the CSR pilot project, according to Ethos' CSR standards.

CHAPTER 5: CONCLUSIONS, SCOPE, SHORTCOMINGS AND RECOMMENDATIONS

The following paragraphs discuss the main conclusions of the thesis, testing the hypotheses proposed against the findings encountered during the field research. This is followed by recommendations to encourage further research on the subject and proposals with regard to potential changes in policy in the development field.

In general, it can be argued that there are two main reasons for commercial MFIs to engage in CSR: (a) instrumental (strategic) potential benefits to gain competitive advantage to overcome increasing competition and saturation of the market; and (b) pressure from influential (powerful) social stakeholders, mainly from the ones providing funds (shareholders and funding sources).

These reasons are more crucial than a potential initial advantage over competitors. It can be argued that the MFIs did not evaluate their internal competitive advantages before engaging in CSR, even though it could be fundamental once the social balance sheet is published. In other words, undertaking CSR will not be of much use if the formal results show that the firm is less socially responsible or aware than its competitors. On the other hand, if a firm is behind in respect of CSR indicators, this may be a strong argument for engaging in CSR activities.

5.1 Conclusions

5.1.1 The Incidence of Competition on CSR Adoption

The first hypothesis considered that increasing competition led less well-positioned MFIs to undertake CSR for strategic (instrumental) reasons. Variables within the hypothesis were assumed as:

	Independent Variables	**Dependent Variables**
H 1:	V1: Competition and market positioning	V2: View or approach to CSR

With the information gathered, it can be concluded that the hypothesis proposed cannot be rejected. Increasing competition in the Bolivian microfinance industry is pushing MFIs to acquire competitive advantages. Within this framework, less well-positioned MFIs see in CSR a strategic concept to gain market share in order to compete with market leaders, while leading firms still do not acknowledge CSR as relevant. Consequently, the adoption of CSR is strategic and not normative, being consistent with the instrumental view of stakeholder theory.

5.1.2 Stakeholders Incidence on CSR Adoption

The second hypothesis proposed took into account the descriptive view of stakeholder theory and affirmed that CSR was adopted by those MFIs whose powerful stakeholders have relatively more social legitimacy. Variables were proposed as follows:

	Independent Variables	**Dependent Variables**
H 2:	V4: Attributes of stakeholders	V3: Adoption of CSR

The findings did not present sufficient empirical evidence to reject hypothesis 2, indicating that powerful and legitimate stakeholders influenced FIE and Ecofuturo to engage in CSR. The stakeholders also had an influence on Banco Los Andes, but they led the firm to focus more on environmental issues rather than on CSR.

5.1.3 CSR Base Line and CSR Adoption

The third hypothesis postulates that CSR was adopted by those MFIs who are already performing better according to CSR standards, having a better initial internal competitive advantage. The variables proposed were:

	Independent Variables	**Dependent Variables**
H 3:	V5: CSR performance	V3: Adoption of CSR

Taking into account the seven broad themes proposed by the Ethos indicators, the data analysis conducted indicates that Banco Los Andes performs better than FIE and Ecofuturo according to CSR standards. This finding indicates that there is enough empirical evidence to reject hypothesis 3, suggesting that FIE and Ecofuturo did not engage in CSR because of an initial competitive advantage.

5.2 Scope and Shortcomings

The present thesis is methodologically based on a case study, therefore its findings should be generalised carefully. Commercial MFIs in Bolivia represent small financial firms operating in a developing country, but the conclusions deduced from their approach towards CSR should be cautiously studied prior to any generalisations to other firms with similar characteristics.

5.3 Recommendations

The pilot project started by FIE and Ecofuturo will end with the publication of their first structured social balance sheet. This thesis only discussed why these organisations were embarking on CSR. Therefore, the next logical step is to consider whether the firms' expectations about the potential strategic benefits of CSR were realised.

Research should be conducted after a prudent period of CSR implementation, assessing whether a competitive advantage and better positioning in the market (through image improvement and differentiation) were accomplished by Ecofuturo and FIE.

Previous studies have shown the potential benefits of CSR adoption by firms in the South.[232] Nevertheless, expanding the research of this thesis to also consider this question would provide a bigger picture of the "business case" for CSR, and whether expectations are indeed realised.

Moreover, the benefits achieved should be compared with other companies undertaking CSR in order to analyse whether CSR is more valuable to certain firms. The reasoning behind this is that trustworthiness, honesty, and integrity are difficult to fake. Consequently, MFIs could be an excellent case study to address whether CSR is more instrumental (practical) for firms already considered to be social than for companies under more public scrutiny such as oil companies or even normal banking institutions.

Regarding development policies, the findings of the present thesis could be a motivation for organisations (public or donors) wanting to promote CSR in the South. Development organisations could seek competitive markets and promote the strategic benefits of CSR or assess the feasibility of giving incentives to firms in these markets in order to induce them to start CSR.

Nonetheless, the outcome of the present thesis will only assure them that firms could be interested in CSR, not if CSR will be of real value to the firms. Development organisations would have to rely on other studies to confirm that CSR has real strategic value to companies.

232 An IFC study published in 2002 highlights the benefits in CSR adoption by 240 firms from Africa, Asia, Latin America and Central and Eastern Europe. IFC, SustainAbility, ETHOS (2004), Developing Value: The business case for sustainability in emerging markets, pp. 4 -64.

BIBLIOGRAPHY

AGLE, B.R., MITCHEL, R.K., and SONNENFELD, J.A. 1999. Who matters to CEOS? An investigation of stakeholder attributes and salience, corporate performance, and CEO values, Academy of Management Journal 42, pp. 507-523.

AGUILERA, R., RUPP, D., WILLIAMS, C., GANAPATHI, J., (2004), Putting the S Back in Corporate Social Responsibility: A Multi-Level Theory of Social Change in Organizations, p. 58.

ANIBARRO, Jorge (1955), El Cooperativismo y el mejoramiento de las Comunidades Indígenas de Bolivia, Centro Regional de Educación Fundamental para la América Latina, p. 25.

ARRIOLA, P., (2003), Microfinance in Bolivia: History and Current Situation, ASOFIN, p. 17.

ASOFIN (2005), Resumen Institucional Junio 2005, p. 18.

BANCO LOS ANDES (2005), Memoria Anual, p. 77.

BARNEY, J. (1986), Strategic factor markets: Expectations, luck, and business strategy, Management Science 32, pp. 1231-1242.

BAXTER, C., HORSMAN, P., and KRTZMANN, S. (1995), Ken Saro Wiwa and 8 Ogono people executed: Blood on Shell's hands, Greenpeace International, p. 21.

BAYDAS, M., GRAHAM, D. and VALENZUELA, L (1998), Commercial Banks in Microfinance: New Actors, Consultative Group to Assist the Poor, Focus No. 12, p. 4.

BOWEN, H. (1953), Social Responsibilities of the Businessman. New York: Harper and Brothers, p. 32.

CARMIN, J., and BASLER, D.B. (2002), Selecting repertoires of action in environmental movement Organizations, Organization Environment 15, pp. 365-388.

CARROLL, A.B. (1979) A Three-Dimensional Conceptual Model of Corporate Performance, Academy of Management Review 4, pp. 497-505

CHENG, J. and SOUSA SHIELDS, M. (2003), Microfinance and Socially Responsible Investment in Latin America, IADB, Workshop Report, p. 16.

CLARKSON, M. E. (1995), A stakeholder framework for analyzing and evaluating corporate social performance, Academy of Management Review 20, pp. 92-117.

COLLAO, M (2004), Warrant y Microwarrant: Alternativas de garantía para el pequeño productor, Centro AFIN, Cuaderno de Trabajo 4, p. 53.

CREYER, E. and ROSS, W. (1996), The Impact of Corporate Behavior on Perceived Product Value, Marketing Letters, 7, pp. 173-185.

CROPANZANO, R., CHROBOT-MASON, D., RUPP, D. E., and PREHAR, C. A. (2004), Accountability for Corporate Injustice, Human Resource Management Review, 14, pp. 107-133.

DAVIS, K. (1973), The Case for and Against Business Assumption of Social Responsibilities. Academy of Management Journal, 16, pp. 312-323.

DAWKINS, J. and LEWIS, S. (2003), CSR in Stakeholder Expectations: And Their Implication on Corporate Strategy, Journal of Business Ethics, 44, pp. 185-193.

DE WIT, B., and MEYER, R. (1999), Strategy Synthesis: Resolving Strategy

Paradoxes to Create Competitive Advantage, Thompson Business Press, pp. 72-79.

DEAN, D. (2003), Consumer Perception of Corporate Donations: Effects of Company Reputation for Social Responsibility and Type of Donation, Journal of Advertising, 32, pp. 91-102.

DELOITTE, F. and TOUCHE, M. (2002), Socially Responsible Investment Survey, p. 23.

DONALDSON, T., and PRESTON, L. E. (1995), The stakeholder theory of the corporation: Concepts, evidence, and implications, Academy of Management Review 20, pp. 65–91.

DRUKER, P. F. (1993), Post-capitalist society, Harper Business, p. 15.

ECLAC (2002), Boletín Demográfico No. 69. América Latina y Caribe: Estimaciones y Proyecciones de Población. 1950-2050, p.247.

ECOFUTURO (1999), Memoria Anual, p. 37.

ECONOMIST INTELLIGENCE UNIT (2004), The Importance of Corporate Responsibility, White paper, sponsored by Oracle, p.45

EESLEY, Ch. and LENOX, M. (2005), Firm Responses to Secondary Stakeholder Action, Fuqua School of Business, Duke University, p 38.

EGELS, N (2005), Reframing Instrumental Stakeholder Theory, University of St. Gallen, p. 14.

ELKINS, A. (1977), Toward a Positive Theory of Corporate Social Involvement, Academy of Management Review, 2(1), pp. 128-133.

FIEDLER, H. and PASTOR, F. (2002), Bolivian Microfinance in Times of Crises, FONDESIF, p.33.

FOMBRUN, Ch., GARDBERG, N. and BARNET, M., (2000) Opportunity Platforms and Safety Nets: Corporate Citizenship and Reputational Risk, Business and Society Review, 105, pp. 85-106.

FREEMAN, R. E. (1984), Strategic Management: A stakeholder approach, Boston, Pitman, p. 35.

FRIEDMAN, M. (1962), Capitalism and Freedom, University of Chicago Press, p. 14.

FRIEDMAN, M. (1970), The social responsibility of business is to increase its profits, New York Times Magazine, September 13, pp. 32-33, 122,124,126.

GIBSON, K (2000), The Moral Basis of Stakeholder Theory’, Journal of Business Ethics 26, pp. 245-257.

GONZALEZ-VEGA, C, (1997), Microempresas y Servicios Financieros, in: Gonzalez-Vega C., Prado F., Miller T. (Eds.), El Reto de las Microfinanzas en América Latina: la Visión Actual. Corpacion Andina de Fomento, Caracas, pp. 13-27.

GONZALEZ-VEGA, C., et.al., (1996), Microfinance Market Niches and Client Profiles in Bolivia. Economics and Sociology Occasional Paper No. 2346. The Ohio State University, p 65.

GREENING, D. and TURBAN, D. (2000), Corporate social performance as a competitive advantage in attracting a quality workforce, Business and Society 39, pp. 254-280.

HERNANDEZ R., et al., (2003), What Works: Prodem FFP'S Multilingual Smart

ATMs for Microfinance, Michigan Business Scholl, What Works Case Study, p. 27.

HUSTED, B and ALLEN, D (2001), Toward a Model of Corporate Social Strategy Formulation, Instituto Tecnologico y de Estudios Superiores de Monterrey and Instituto de Empresa, p 35.

IMF (2005), Financial Sector Assessment: A Handbook, p. 18.

INSTITUTO Ethos (2005), Ethos Indicators on Corporate Social Responsibility, p.80.

JENKINS, H. and HINES, F. (2003), Shouldering the Burden of Corporate Social Responsibility: What Makes Business Get Committed?, The Centre For Business Relationships, Accountability, Sustainability and Society, Working Paper Series No. 4, p. 42.

JONES, T, BERMAN, S.L.,. WICKS, A.C and KOTHA, S., (1999) Does Stakeholder Orientation Matter? The Relationship between Stakeholder Management Models and Firm Financial Performance, Academy of Management Journal, Vol. 42, No. 5, pp. 488-506.

JONES, T.M. (1995), Instrumental stakeholder theory: A synthesis of ethics and economics. Academy of Management Review, 20, pp. 404-437.

KLEIN, J. and DAWAR, H. (2004), Corporate Social Responsibility and Consumers' Attributions and Brand Evaluations in a Product-Harm Crisis, International Journal of Research in Marketing, 21, pp. 203-217.

KPMG (2002), KPMG International Survey of Corporate Sustainability Reporting, p 32.

LANTOS, G.P. (2001) The boundaries of strategic corporate social responsibility, Journal of Consumer Marketing 18, p. 595-630.

LIVESEY, S., and KEARINS, K. (2002), Transparent and caring corporations? A study of sustainability reports by The Body Shop and Royal Dutch/Shell, Organization and Environment, 15, pp. 233-260.

MAHON, J. and McGOWAN, R (1998), Modelling industry political dynamics. Business and Society, 37, pp. 390-413.

MANSLEY, M. (2000), Socially Responsible Investment, Pensions Week, p. 21.

MARGOLIS, J., and WALSH, J. (2001), Misery loves companies - Whither social initiatives by business?, Working paper, Harvard Business School, published in Adminstrative Science Quarterly, p. 43.

MARULANDA, B and OTERO, M (2005), The Profile of Microfinance in Latin America in 10 Years: Vision & Characteristics, ACCION Internacional, p. 65.

MITCHEL, R.K., AGLE, B.R., and WOOD, D.J. (1997), Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts, Academy of Management Review 22, pp.853–886.

MIXMARKET (2005), The Microbanking Bulletin, Special Edition on Financing: The Scope of Funding Mechanisms, Issue No. 11, p. 119.

MOORE, G. (1999), Tinged shareholder theory: or what's so special about stakeholders?, Business Ethics: A European Review 8, pp. 117-127.

MULLINS L. (2001), Management and organizational behavior, 6th edn., Harlow, Pearson Education ltd., p. 102.

MURRAY, K. and MONTANARY, J. (1986), Strategic management of the socially responsible firm: Integrating management and marketing theory. Academy of Management Review, 11, pp. 815-827.

NAIR, J, et.al. (2005), Leasing: An Underutilized Tool in Rural Finance, Agriculture and Rural Development Discussion Paper 7, The World Bank, pp 1. 47.

NAVAJAS, S., et al (2002), Lending Technologies, Competition, and Consolidation in the Market for Microfinance in Bolivia, p. 60.

NELSON, J. (2004), The Public Role of Private Enterprise, working paper, John F.

Kennedy School of Government, Harvard University. P. 23.

NELSON, J., and BERGREM, C. (2004), Values and Value: Communicating the Strategic Importance of Corporate Citizenship to Investors, Discussion paper, World Economic Forum and International Business Leaders Forum, p. 34.

NIMAL, F (2004), Micro success Story? Transformation of NGOs into Regulated Financial Institutions, Asian Development Bank, p.48.

ORLITZKY, M., SCHMIDT, F. L., and RYNES, S. L. (2003), Corporate Social and Financial Performance: A meta-analysis. Organization Studies, 24, pp. 403- 441.

PAUL LEE, M. D. and KIM, S. (2005), From Cost to Resource: The Transformation and Diffusion of Corporate Social Responsibility, Working Paper Series 25, Center for the Study of Economy and Society, p. 38.

PECK CHRISTENSEN, R. (2001) "Commercialization and Mission Drift: The Transformation of Microfinance in Latin America, Consultative Group to Assist the Poor. Occasional Paper 5, p. 32.

PECK CHRISTENSEN, R. and DRAKE, D. (2003), Commercialization: The New Reality of Microfinance, Accion International, p. 12.

PELOZA, John (2004), Corporate Social Responsibility as Reputation Insurance, University of Calgary Canada p. 37.

PEREGRINO, M. (2005), Microfinance: A Viable Investment Option, p. 5.

PFEFFER, J., and SALANCIK, G. (1978). The External Control of Organizations, New York: Harper & Row, p. 53

PHILLIPS, R. A. (1997), Stakeholder theory and a principle of fairness. Business Ethics Quarterly, 7, p. 51.

PORTER, M. (1980), Competitive Strategy: Techniques for Analyzing Industries and Competitors, Free Press New York, p. 432.

POYO, J. et.al., (1999), Commercialization of Microfinance: A Conceptual Framework for Latin America, Consultative Group to Assist the Poor, p. 55.

PRESTON, L. E. (1975), Corporation and Society: The Search for a Paradigm. Journal of Economic Literature, 13(2): pp. 434-453.

PRICEWATERHOUSECOOPERS (2005), Banco Los Andes S.A. Audited Financial Statements 2004, p.45.

PRICEWATERHOUSECOOPERS (2005), FIE FFP Audited Financial Statements 2004, p.39.

QUINN, D. P., and JONES, T. M. (1995), An agent morality view of business policy. Academy of Management Review 20, pp. 22-42.

RHYNE, E. (2002), Commercialization and Crisis in Bolivian Microfinance, Microenterprise Best Practices, p 33.

ROBERTS, P. and DOWNLING, G. (2002), Corporate Reputation and Sustained Superior Financial Performance, Strategic Management Journal, 23, pp. 1077-1093.

ROBINSON, K and McDOUGALL, P. (1998), The impact of alternative operationalizations of industry structural elements on measures of performance for entrepreneurial manufacturing ventures, Strategic Management Journal, 19, pp. 1079-1100.

ROCHLIN, S., WITTER, K., MIRVIS, P., JORDAN, S., & BEEVAS, D. T. (2004), The State of Corporate Citizenship in the U.S.: A View from Inside, 2003-2004, The Center for Corporate Citizenship at Boston College., p 43.

ROWAN, J. (2000), The Moral Foundation of Employee Rights, Journal of Business Ethics 24, pp 355–361.

SETHI, P., (1975), Dimensions of Corporate Social Performance: An Analytical Framework', California Management Review 17, pp. 58-64

SOIS FAM (2004), Venture Capital in Bolivia: An Alternative for Rural Financing?, Zoom Microfinance, Number 15, p. 8.

SOLARES, M., (1997), Caja de Ahorro y Préstamo Los Andes, in: Gonzalez-Vega C., Prado F., Miller T. (Eds.), El Reto de las Microfinanzas en América Latina: la Visión Actual, Corporación Andina de Fomento, pp. 111-120.

SUPERINTENDENCIA DE BANCOS Y ENTIDADES FINANCIERAS de BOLIVIA (2005), Boletín Financiero Diciembre 2004, p. 59.

SVENDSEN, A., and LABERGE, M., (2005), Engaging Networks for Whole System Change, in J. Jonkers and MC deWitte (eds) The Challenge of Implementing Corporate Social Responsibility, Palgrave/McMillan Publishers, pp. 2-18.

UNIDO (2002), Corporate Social Responsibility, Implications for Small and Medium Enterprises in Developing Countries, p. 90.

WALLICH, H. C. and MCGOWAN, J. J. (1970), Stockholder Interest and the Corporation's Role in Social Policy. In BAUMOL, W. J. (Ed.), A New Rationale for Corporate Social Policy, Committee for Economic Development, pp. 154-166.

WARTICK, S. L. and COCHRAN, P. L. (1985), The Evolution of the Corporate Social Performance Model, Academy of Management Review, 10(4), pp. 758-769.

WEIK, K. (1977), Educational Organizations as Loosely Coupled Systems, Administrative Science Quarterly, 21(1), pp. 1-19.

WESTLEY, G. (2001) Can Financial Market Policy Reduce Income Inequality? Technical Paper Series, Inter-American Development Bank, p. 56.

WHITE, V. and CAMPTION, A. (2002), Transformation: Journey from NGO to Regulated MFI, Accion International p. 14.

WICKS, A., GILBERT, D., and FREEMAN, R.E. (1994). A Feminist Reinterpretation of the Stakeholder Concept. Business Ethics Quarterly, 4, pp. 475-497.

WOOD, D. J. (1991), Corporate Social Performance Revisited, Academy of Management Review, 16(4), pp. 691-718.

Internet Web Sites consulted

100 Best Corporate Citizens	www.business-ethics.com/100best.htm.
Argentinean Institute of CRS	www.iarse.org
ASOFIN	www.asofinbolivia.com
BIO	www.b-i-o.be
Blue Orchand Microfinance	www.blueorchad.ch
Bolivian Stock Exchange Companies	http://bolsa-valores-bolivia.com/listadeemisores1.htm.
CSR news	http://www.csrwire.org
Ethos Institute	www.ethos.org
EU policies on CSR	http://europa.eu.int/comm/employment_social/soc-dial/csr/index.htm
FINRURAL	www.finrural-bo.org
FMO	www.fmo.nl
FONDESIF	www.fondesfi.gov.bo
Global Reporting Initiative	www.globalreporting.org
ICCO	www.icco.nl
Indian Media in Bolivia	http://bolivia.indymedia.org/es/newswire/archive411.shtml
Indicators AA 1000	www.accountability.org.uk/
Indicators SA 8000	www.sa-intl.org/
LACIF	www.lacif.com
Microfinance in Bolivia	www.microfinanzasbolivia.com
NAFIBO	www.nafibo.com.bo
Oikocredit	www.oikocredit.org
OPEC Fund	www.opecfund.org
Procredit holding	www.procredit-holding.com
SRIs in Europe	www.sricompass.org
The Chereson Group	www.cherenson.com
Triodos Bank, Foundations Triodos-Doen and Hivos-Triodos	www.triodos.com
UN Global Compact	www.unglobalcompact.org/Portal/
UN Programme on CSR	www.globalpolicy.org
University of Toronto and CSR	http://www.mgmt.utoronto.ca/~stake/Articles.htm

ANNEXES

ANNEX A: Commercial MFIs' Institutional Profile[233]

BancoSol

Name	Banco Solidario S.A.
Logo	
Incorporation Date	December 11, 1991
Starting Operations Date	February 10, 1992
Mission	We are the bank that provides opportunities to low income sectors for a better future through access to high quality, integrated financial services.
Target Group	Urban and rural micro and small enterprise
Number of Branches	40
Number of Employees	664
Brief Profile	In 1984, a group of Bolivian businessmen linked to the micro-entrepreneurial sector in the country requested Accion Internacional of the United States, to consider the opportunity to create a non-profit institution that could support the development of microenterprises in Bolivia. Among other things, the study concluded that lack of access to credit through the formal financial system was the major limiting factor for the growth of microenterprises. From that perspective, on November 17, 1986, international and Bolivian investors made possible the initiation of credit intermediation activities with the public through the Promoción para el Desarrollo de la Microempresa (Prodem), structured as an (NGO). This new entity started to grant small loans for working capital to groups of three or more persons involved in similar activities, which got together to formally guarantee each other in order to comply with the responsibilities acquired under the Solidarity

233 Extracted from http://www.microfinanzasbolivia.com, http://www.asofinbolivia.com, and http://www.finrural-bo.org.

Name	Banco Solidario S.A.
	Credit methodology. In January 1992, the NGO had 17.000 clients with a credit portfolio that amounted to 4 million US Dollars, distributed in 4 branches located in the cities of La Paz, El Alto, Cochabamba and Santa Cruz. Until that time the positive development of the NGO and the great unsatisfied demand for financial services were the main reasons that prompted the Board of Directors to expand the activities to satisfy the demand for credit in the growing microenterprise sector. The most promising alternative and the most feasible instrument to reach their objectives and to overcome the limitations resulting from the financial and legal structure of the Non-Governmental Organization was the creation in 1992 of a commercial bank thereafter, called Banco Solidario S.A. (BancoSol S.A.) After more than a decade of activities, BancoSol has disbursed more than 1.300 million US Dollars, financing more than 1.350.000 projects for microenterepreneurs.
Relevant Facts	In 2004 BancoSol were rated as the BEST BANK OF BOLIVIA in accordance with the CAMEL analysis undertaken by the Nueva Economía Weekly publication. During eight consecutive years the organization was among the two best banks in the country, according to this analysis. For the fifth consecutive year, Fitch Ratings, the international rating firm, rated BancoSol with an A+.

Banco Los Andes

Name	Banco Los Andes Procredit S.A.
Logo	
Incorporation Date	June 29, 1995
Starting Operations Date	July 10, 1995
Mission	Grant financial services of excellence to micro, small and medium enterprises, contributing to the socio-economic

Name	Banco Los Andes Procredit S.A.
	development of Bolivia Develop a responsible and ethical relationship with our clients and employees Our commitment with the country is permanent, seeking reasonable profitability that will allow us to be sustainable in the long term
Target Group	Urban and rural, micro, small and medium enterprises
Number of Branches	37
Number of Employees	840
Brief Profile	From the outset in 1995, Caja Los Andes consolidated its position as one of the most successful institutions in the Bolivian financial market. The sustained growthregistered throughout its institutional life is in contrast with the results of the national financial system; enabling it to fully comply with its mission, consistent in "contributing to the socio-economic development of the population with lower resources, supporting the development of the micro, small and medium enterprise and the improvement of the quality of life of their families." Los Andes has become an example of innovation in financial technologies adapted to the segments of the population ignored by the traditional banking system. These efforts have gained recognition at the national and the international level. An example of this is the Award of Excellence in Microfinance granted by the Interamerican Development Bank (IDB) for its performance in Latin America in the year 2000. Caja Los Andes started its activities in 1995 based on the portfolio, activities and credit technology of the Asociación ProCredito, the founder and main stockholder of Caja Los Andes at that time. Caja Los Andes applied an entrepreneurial policy with a long term vision that enabled it to reach its objectives in the social sphere with sound economic and financial development. When Caja Los Andes became regulated/ supervised it was able to include credit services and deposits from the public, adapted to the characteristics of its target population. The institution was guided by the vision to "Grow as an institution that provides dynamic, timely, integral and efficient financial services to its clients, within a framework of sustainability that will guarantee its sound permanence in time". Caja Los

Name	Banco Los Andes Procredit S.A.
	Andes was able to face difficulties in times of crisis, making the best of its competitive advantages and combining them with a strategy that transcended prudence in its operations. Its institutional performance contrasts with the evolution of the national financial system and has enabled Banco Los Andes ProCredit to be at the vanguard in a market characterized for its high level of competition, considered as the most developed and competitive microfinance market in Latin America.
Relevant Facts	To date, with a credit portfolio of more than 126 million Dollars and 71.000 clients, Los Andes takes pride in being first in portfolio volume among all the microfinance entities in the country, and second in deposits from the public, with 96 million Dollars distributed in 95.000 deposit accounts, mainly from the lower income stratum of the population. The levels of the portfolio quality improvement are superior to the average in the financial system, reaching a default rate of 2.4% as a consequence of strict prudent policies that enable Los Andes to project growth in business volume which will be even more significant in the future, always maintaining optimum levels of financial self-sustainability. Starting in January 2005, Los Andes began operating as Banco Los Andes ProCredit, has complying with all legal procedures set forth by the Superintendence of Banks and Financial Entities, with equity of approximately 15 million Dollars. The Bank is part of the ProCredit Group, a network of financial institutions that currently has 18 members in Eastern Europe, Latin America and Africa. These institutions, whose major stockholder is ProCredit Holding AG (legally incorporated, with head office in Germany) promote financial services for the lower income population aimed to provide socio-economic development, prioritizing the financing of small and medium enterprises thus covering an important gap in the financial market. Throughout the years, the Group has developed a profound level of understanding in connection with the problems of the micro and small enterprises, as well as their opportunities and their importance by developing integrated financial services adapted to these sectors. The major shareholders of ProCredit Holding AG are international institutions, i.e. IFC (of the World Bank) KFW and DEG (of the German Government), FMO (of the Dutch Government) and BIO (of the Belgian Government), and private institutions such as IPC and IPC-Invest (Germany), Doën Foundation (Holland) ProCredit Assotiation (Bolivia), Fundasal Foundation (El Salvador), among others. All the above-mentioned are institutions committed to contribute to the improvement of the living conditions of low income populations in developing countries. The group of

Name	Banco Los Andes Procredit S.A.
	shareholders, with their support to the consolidation of Banco Los Andes ProCredit, generates stability and economic growth encompassing social impact for the benefit of the majority sectors of the population.

Ecofuturo FFP

Name	Fondo Financiero Privado EcoFuturo S.A.
Logo	
Incorporation Date	August 3, 1998
Starting Operations Date	June 1, 1999
Mission	To become a competitive, efficient and sustainable financial entity supporting the development of the small and microenterprise in rural and urban areas, providing innovative services adapted to the needs of its clients.
Target Group	Urban and rural microenterprise
Number of Branches	8
Number of Employees	113
Brief Profile	EcoFuturo was created by a group of NGOs (ANED, FADES, IDEPRO and UNITAS), jointly with a group of businessmen and with the assistance of some international cooperation agencies. After facing some difficulties in its first years of operations, as a Private Financial Fund, EcoFuturo has favorably evolved and is reaching its consolidation as one of the important players in the Bolivian microfinance spectrum.

FIE FFP

Name	Fondo Financiero Privado para el Fomento a las Iniciativas Económicas S.A.
Logo	fie s.a. FONDO FINANCIERO PRIVADO
Incorporation Date	February 17, 1998
Starting Operations Date	March 16, 1998
Mission	FFP FIE S.A. institutional mission has not changed since its inception. From the social point of view its activities are cantered within the low income sectors, recognized by FIE as one of the important economic agents for the development of the country. FIE seeks to obtain reasonable profitability for its shareholders through transparent practices from the entrepreneurial point of view and to develop equitable conditions designed for the democratization of the economy.
Target Group	Urban micro and small enterprise
Number of Branches	78
Number of Employees	551
Brief Profile	The history of FIE started in mid-1984 in a social agency serving political refugees in La Paz, Bolivia. It is in this social endeavor where five professional women proposed to create services for clients facing difficult situations due to lack of employment, income and others that would help FIE to overcome the traditional practices of grants and subsidies. The daily contact with the diverse impoverished sectors forced them to question the causes of such impoverishment as well as the traditional interventions seeking to “mitigate” poverty. In the course of these questions, micro credit experiences from other parts of the world became news, specifically the experience of SEWA in India, Grameen Bank in Bangladesh and Accion in the Dominican Republic.

Prodem FFP

Name	Fondo Financiero Privado para la Promoción y Desarrollo de la Microempresa S.A.
Logo	prodem oportunidad Fondo Financiero Privado S.A.
Incorporation Date	August 18, 1998
Starting Operations Date	January 3, 2000
Mission	To provide state-of-the-art financial products and services of excellence to satisfy the long-lasting needs of our urban and rural clients, supporting the country's development with highly qualified staff committed with a concept of quality, change, innovation, efficiency and profitability.
Target Group	Rural and urban, micro, small, and medium enterprise
Number of Branches	79
Number of Employees	610
Brief Profile	Prodem was incorporated in 1986 as a non-profit organization, with the vision to introduce microfinance services in Bolivia's urban and rural areas. In 1992, Prodem created BancoSol, the first bank in the world specialized in providing financial services to micro and small entrepreneurs. In 1988, Prodem managed a portfolio of over 24 million US Dollars distributed among 47 thousand clients, and a network of national branches. Later, Prodem realized that it was necessary to deeply penetrate into the rural area as a regulated / supervised entity. Thus, the Fondo Financiero Privado Prodem was founded. This step forward resulted in the largest network of rural branches in the country.

ANNEX B: Model for the Interview to Key Personnel of MFIs

Personnel Interviewed:

Banco Los Andes Procredit	Omar Medrano National Risk Manager	23.10.2005
FFP Ecofuturo	Rodolfo Medrano General Manager	25.10.2005
FFP FIE	Elizabeth Nava Risk Manager	14.10.2005

Questionnaire:

1. How did the MFI find out about CSR?
2. Who have been the main promoters (internal and external to the MFI) to undertake CSR?
3. Since when had the MFI planed to engage in CSR?
4. Which effects do you think CSR will have on:
   a. Clients
   b. Employees
   c. Shareholders
   d. Funding Resources
   e. Suppliers
   f. Superintendence of Banks
5. In your opinion how much did the following reasons influenced the MFI to start CSR (5=very important, 1= no important). Please comment why.

Improve the relationship with main stakeholders	
Improve the organizational image in order to attract more clients	
Access to Social Responsible Investors	
Increase employees' productivity	
Improve the MFI's social impact on the community, particularly non-clients.	
Improve the environmental management of the organization	

DO the right thing, regardless of the benefits, because it is coherent with the original mission	
Document the non-financial social activities that the institution already perform	
Improve the institution's financial performance	

6. Which sentence reflects better the core motive that drove the MFI to engage in CSR:
    a. CSR is likely to improve the firm's social impact beyond microfinance and –at the same time- positively affect the MFI's financial performance, product differentiation from competitors and relationship with main stakeholders. Therefore, it is part of the strategic management of the firm.
    b. The MFI must improve its social impact on the community, regardless potential benefits and costs produced by its implementation, given that it is coherent with the mission/vision and nature of the MFI.
7. How would you judge the social legitimacy of the MFI's main shareholders? Here, for each MFI, the main shareholders are listed with a small description about their profile

Shareholder 1	
Shareholder 2	
Shareholder 3	
Shareholder 4	

8. In your opinion how involved were the main shareholders in the decision to engage in CSR. How involved are in its implementation (5=very much, 1= not at all). Please comment why.

	Engagement	**Implementation**
Shareholder 1		
Shareholder 2		
Shareholder 3		
Shareholder 4		

9. How would you judge the social legitimacy of the MFI's main funding sources?

Here, for each MFI, the main funding sources are listed with a small description about their profile

Funding source 1	
Funding source 2	
Funding source 3	
Funding source 4	

10. In your opinion how involved were the main funding providers in the decision to engage in CSR. How involved are in its implementation (5=very much, 1= not at all). Please comment why.

	Engagement	**Implementation**
Funding source 1		
Funding source 2		
Funding source 3		
Funding source 4		

ANNEX C: Stakeholders Identification and Prioritisation, Results Focus Groups

Ecofuturo FFP

Date: August 26th 2005

Participants:

		Position
1.	Rodolfo Medrano	General Manager
2.	Armando Farfán	Responsible of Planning
3.	José Osinaga	National Risk Manager
4.	Mariana Claure	Responsible for Human Resources
5.	Rodrigo Recke	Intern

Matrix 1: Stakeholders Identification

Stakeholder	Stakeholder's interests in the MFI	Relevance*
Employees	Stability, good work environment, loyalty	3+3+3+3+3
Clients	Good services, good quality products	3+3+3+3+3
Community	Infrastructure, development, outreach, donations	3+3+2
Government	Taxes, supervision, regulation, impact	3+3+2+1
Shareholders	Profits and impact	3+3+3+3
International Cooperation	Impact	3+3+2
Suppliers	Increase business	2+2+2
Funding Sources	Profits and Impact	2+2+3

*Where: (1) low; (2) medium; (3) high. Each number represents the identification of the stakeholder by a participant and the relevance assigned.

Matrix 2: Stakeholders Prioritisation

Stakeholder	Image and Reputation Improvement*	Increase in number of clients*	Better access to funding*	Better relationship with the community*	personnel's motivation improvement*	SUM
Clients	3	3	3	3	2	**14**
Employees	2	3	1	3	3	**12**
Funding Sources	3	2	3	1	1	**10**
Shareholders	3	2	3	1	1	**10**
Community	3	1	2	3	1	**10**
Government	3	2	1	2	1	**9**
Int. Cooperation	3	1	2	1	1	**8**
Suppliers	2	1	1	1	1	**6**

*Where: (1) low impact; (2) medium impact; (3) high impact.

FIE FFP

Date: August 25th 2005

Participants:

		Position
1.	Elizabeth Nava	Risk Manager
2.	Federico Ruck	Vice-President of the Board of Directors
3.	Ximena Behoteguy	Internal Auditing
4.	Maria Victoria Rojas	President of NGO FIE (Main Shareholder)
5.	Noelia Romao	Responsible for New Projects

Matrix 1: Stakeholders Identification

Stakeholder	Stakeholder’s interests in the MFI	Relevance*
Employees	Stability, good work environment, loyalty	3+3+3+3+3
Clients	Good Services, good quality products	3+3+3+3+3
Community	Infrastructure, development, outreach, donations	2+2+1+2+2
Government	Taxes, supervision, regulation	3+3+3
Shareholders	Profits and impact	3+2+3+3+3
Directors	Profits and impact	3
Suppliers	Increase business	1+2+2+2
Funding Sources	Profits and impact	2

*Where: (1) low; (2) medium; (3) high. Each number represents the identification of the stakeholder by a participant and the relevance assigned.

Matrix 2: Stakeholders Prioritisation

Stakeholder	Image and Reputation Improvement*	Increase in number of clients*	Better access to funding*	Better relationship with the community*	personnel’s motivation improvement *	SUM
Employees	2	3	1	2	3	**11**
Clients	3	3	1	1	2	**10**
Shareholders	2	2	3	1	2	**10**
Funding Sources	3	2	3	1	1	**10**
Community	3	1	1	3	1	**9**
Government	2	2	3	1	1	**9**
Directors	3	2	2	1	1	**9**
Suppliers	2	1	1	1	1	**6**

*Where: (1) low impact; (2) medium impact; (3) high impact.

Banco Los Andes Procredit

Date: October 19th 2005

Participants:

		Position
1.	Omar Medrano	National Risk Manager
2.	Waldo Claros	Manager's Office Asisstance
3.	Frida Luna	National Microcredit Sub-Manager

Matrix 1: Stakeholders Identification

Stakeholder	Stakeholder's interests in the MFI	Relevance*
Shareholders	Sustainability	3+3
Clients	Access to quality services	3+3+3
Directors	Accomplish institutional goals	2+2+3
Superintendence of Banks	Supervision, regulation	3+3+3
Funding Sources	Profits and Impact	3+2+3
Employees	Security and good work environment	3+3+3
Microfinance Network	Harmonise policies and promote equilibrium	2+2
Community	Donations and impact	2+3

*Where: (1) low; (2) medium; (3) high. Each number represents the identification of the stakeholder by a participant and the relevance assigned.

Matrix 2: Stakeholders Prioritisation

Stakeholder	Image and Reputation Improvement*	Increase in number of clients*	Better access to funding*	Better relationship with the community*	personnel's motivation improvement *	SUM
Shareholders	3	3	3	3	3	**15**
Clients	3	3	3	3	3	**15**
Employees	3	3	2	3	3	**14**
Funding Sources	3	2	3	1	1	**10**
Community	3	1	1	3	1	**9**
Superintendence of Banks	2	2	3	1	1	**9**
Directors	3	2	2	1	1	**9**

Community	2	1	1	3	1	**8**

*Where: (1) low impact; (2) medium impact; (3) high impact.

ANNEX D: Ethos Indicators, Summary of Questions

Values, Transparency and Governance	CONDUCT SELF-REGULATION	Ethical Commitments Embedding into Organizational Culture Corporate Governance
	TRANSPARENT RELATIONS WITH SOCIETY	Dialogue with Stakeholders Relations with Competition Social Reporting
Workforce	DIALOGUE AND PARTICIPATION	Relations with Unions Participative Management
	RESPECT FOR THE INDIVIDUAL	Commitment to Children's Future Valuing Diversity Relations with Outsourced Workerss
	DECENT WORK	Compensation, Benefits and Career Planning Policy Concern for Health, Safety and Working Conditions Commitment to Professional Development and Employability Handling of Dismissals Preparation for Retirement
Environment	RESPONSIBILITY FOR FUTURE GENERATIONS	Company's Commitment to Environmental Quality Improvement Environmental Education
	ENVIRONMENTAL IMPACT MANAGEMENT	Environmental Impact and Product and Service Life Cycle Management Forest Economics Sustainability Inputs and Waste Reduction
Suppliers	SELECTION, ASSESSMENT AND PARTNERSHIP WITH SUPPLIERS	Criteria Used in Selection and Assessment of Suppliers Child Labor in the Production Chain Forced Labor (or Similar to Slavery) in the Production Chain Support to Supplier Development
Consumers and Customers	SOCIAL DIMENSION OF CONSUMPTION	Business Communication Policy Excellence in Customer Service Knowledge and Management of Potential Harm Caused by Products and Services
Community	RELATIONS WITH THE LOCAL COMMUNITY	Management of the Company's Impact on the Surrounding Community Relations with Local Organizations
	SOCIAL ACTION	Financiamento da Ação Social Company's Engagement in Social Action
Government and Society	POLITICAL TRANSPARENCY	Donations to Political Campaigns Companies' Construction of Citizenship Anti-Corruption and Bribery Practices
	SOCIAL LEADERSHIP	Social Leadership and Influence Participation in Government Social Projects

ANNEX E: Ethos Indicators, Data Base

Nro.	FIE	ECOFUTURO	BANCO LOS ANDES
100	Stage 3	Stage 1	Stage 3
101	Yes	No	Yes
102	Yes	Yes	No
103	Yes	No	Yes
104	Yes	No	Yes
105	Yes	No	Yes
106	Yes	Yes	Yes
107	Yes	Yes	Yes
108	Yes	Yes	No
109	Yes	Yes	Yes
200	Stage 2	Stage 1	Stage 2
201	Yes	Yes	Yes
202	No	No	No
202	No	No	Yes
203	No	No	No
204	Yes	Yes	Yes
300	Stage 3	Stage 2	Stage 3
301	Yes	No	Yes
302	Yes	Yes	No
400	Stage 2	Stage 1	Stage 1
401	Yes	No	Yes
402	Yes	Yes	No
403	No	No	No
404	Not app.	No	No
500	Stage 2	Stage 2	Stage 3
501	No	No	No
502	Yes	No	No
600	Stage 2	It was not considered	It was not considered
601	No	No	Yes
602	Yes	Yes	Yes
603	No	No	No
604	No	No	No
605	No	No	No
606	No	No	No
607	Yes	No	No
608	No	No	No
609	No	No	No
700	Not applicable	Not applicable	Not applicable
701	Not app.	Not app.	Not app.
702	Not app.	Not app.	Not app.
703	Not app.	Not app.	Not app.
704	Not app.	Not app.	Not app.
800	Stage 2	Stage 2	Stage 4
801	Not app.	Not app.	No
802	No	No	Yes
803	Yes	No	Yes
900	Stage 1	Stage 1	Stage 2
901	Yes	No	No
902	Yes	No	No
903	Yes	Yes	Yes
1000	Stage 2	Stage 1	Stage 3
1001	Yes	No	Yes
1002	No	No	No
1003	No	Yes	No
1004	Yes	Yes	Yes

Nro.	FIE	ECOFUTURO	BANCO LOS ANDES
1005	No	No	No
1006	No	No	Yes
1007	No	No	No
1008	No	No	No
1009	No	No	No
1010	No	No	No
1011	Yes	Yes	Yes
1012	No	No	No
1013	No	No	No
1014	No	No	No
1100	Stage 3	Stage 2	Stage 3
1101	No	Yes	No
1102	Yes	No	No
1103	Yes	No	No
1104	No	No	Yes
1105	No	No	No
1106	No	No	No
1107	No	No	No
1108	Yes	Yes	Yes
1109	Yes	No	Yes
1110	Not app.	No	No
1111	No	No	No
1112	Yes	No	No
1200	It was not considered	It was not considered	It was not considered
1201	No	No	No
1202	No	No	No
1203	No	No	No
1204	No	No	No
1205	No	No	No
1206	No	No	Yes
1207	No	No	No
1208	No	No	No
1209	No	No	No
1210	No	Yes	No
1300	Stage 3	Stage 2	Stage 3
1301	Not app.	No	No
1302	Yes	No	No
1303	No	No	No
1304	Yes	Yes	Yes
1400	Not applicable	It was not considered	Stage 2
1401	Not app.	Yes	Yes
1402	Not app.	No	No
1403	Not app.	Yes	Yes
1404	Not app.	Yes	No
1405	Not app.	Yes	No
1500	It was not considered	Stage 1	Stage 2
1501	No	No	No
1502	No	No	No
1503	No	No	No
1504	No	No	No
1600	Not applicable	It was not considered	Stage 4
1601	Not app.	No	Yes
1602	Not app.	No	No
1603	Not app.	No	No
1604	Not app.	Not app.	Yes
1605	Not app.	No	Yes
1606	Not app.	Not app.	No

Nro.	FIE	ECOFUTURO	BANCO LOS ANDES
1700	It was not considered	It was not considered	Stage 2
1701	No	No	No
1702	No	No	No
1800	Not applicable	Not applicable	Not applicable
1801	Not app.	Not app.	Not app.
1802	Not app.	Not app.	Not app.
1803	Not app.	Not app.	Not app.
1804	Not app.	Not app.	Not app.
1805	Not app.	Not app.	Not app.
1806	Not app.	Not app.	Not app.
1900	Not applicable	Not applicable	Not applicable
1901	Not app.	Not app.	Not app.
1902	Not app.	Not app.	Not app.
1903	Not app.	Not app.	Not app.
1904	Not app.	Not app.	Not app.
1905	Not app.	Not app.	Not app.
1906	Not app.	Not app.	Not app.
2000	It was not considered	Stage 2	Stage 1
2001	Yes	Yes	Yes
2002	No	No	No
2003	No	No	No
2004	No	No	No
2005	No	No	No
2006	No	No	No
2007	No	Yes	Yes
2100	It was not considered	It was not considered	It was not considered
2110	No	No	No
2200	It was not considered	It was not considered	It was not considered
2201	No	No	No
2300	It was not considered	Stage 2	Stage 2
2301	No	Yes	No
2302	No	Yes	Yes
2303	No	Yes	No
2400	Stage 1	Stage 1	Stage 1
2401	Yes	Yes	No
2402	No	No	No
2403	No	No	No
2404	No	No	No
2405	No	No	No
2406	No	No	No
2407	No	No	No
2500	Stage 2	Stage 1	Stage 3
2501	Yes	Yes	Yes
2502	Yes	No	Yes
2503	No	No	No
2504	Yes	No	Yes
2505	Yes	No	No
2506	No	No	No
2507	No	No	No
2508	Yes	No	Yes
2600	Stage 3	Stage 2	Stage 4
2601	No	No	No
2602	Yes	Yes	Yes
2603	Yes	No	Yes
2604	Yes	No	Yes
2605	Yes	Yes	Yes
2606	No	No	Yes

Nro.	FIE	ECOFUTURO	BANCO LOS ANDES
2607	Yes	Yes	Yes
2700	It was not considered	Stage 1	Stage 1
2701	No	No	No
2702	No	No	No
2703	No	No	No
2704	No	No	No
2705	Not app.	Not app.	Not app.
2706	Yes	Yes	Yes
2707	Yes	Yes	Yes
2708	Yes	Yes	Yes
2709	Yes	Yes	Yes
2710	Yes	Yes	Yes
2711	Yes	Yes	Yes
2800	It was not considered	It was not considered	Stage 1
2801	No	No	Yes
2802	No	No	No
2803	No	No	Yes
2804	No	No	No
2805	No	No	No
2806	No	No	Yes
2807	No	No	No
2808	No	No	Yes
2809	No	No	No
2810	No	No	No
2900	Stage 2	It was not considered	Stage 2
2901	No	No	Yes
2902	No	No	Yes
3000	Stage 1	It was not considered	Stage 1
3001	No	No	No
3002	No	No	No
3003	No	No	No
3004	No	No	No
3005	No	No	No
3100	Stage 1	It was not considered	Stage 2
3101	No	No	No
3102	No	No	No
3103	No	No	Yes
3104	No	No	Yes
3105	No	No	No
3200	Not applicable	Not applicable	Not applicable
3201	Not app.	Not app.	Not app.
3202	Not app.	Not app.	Not app.
3203	Not app.	Not app.	Not app.
3300	Not applicable	It was not considered	Stage 4
3301	Not app.	No	No
3302	Not app.	No	Yes
3303	Not app.	No	Yes
3400	Stage 1	Stage 2	Stage 2
3401	No	No	No
3402	No	Yes	Yes
3403	No	No	Yes
3500	Stage 1	Stage 1	Stage 2
3501	No	No	Yes
3502	No	No	No
3503	No	No	No