



## **Why do microfinance institutions go green?**

**M. Allet**

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JEL Classifications: G21, Q01, Q56

Keywords: Microfinance, Ecological responsiveness, Environmental motivation, Organizational decision making, Corporate Social Responsibility

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# Why do microfinance institutions go green?

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## **Abstract**

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# 1. Introduction

In recent years, the microfinance sector, like many other industries, has started to look at its environmental impact. In addition to their financial and social objectives, a growing number of microfinance institutions (MFIs) are now aiming at an environmental bottom line. These 'green' MFIs opt for different strategies: screening loans according to environmental criteria, offering microcredit to support clean technologies, or training their clients on pro-environmental practices. Yet, the relevance of a third bottom line is still subject to debate in the microfinance sector, with some professionals arguing that environmental management is burdensome and would make MFIs drift away from their objectives.

The objective of this article is to analyze why microfinance institutions decide to go green. Understanding the motives of ecological responsiveness in microfinance is important for various reasons. First, this understanding can help assess whether MFIs consider it relevant to add an environmental bottom line and why. Do they go green only due to outside pressure but actually estimate that they are not in a position to tackle environmental issues? On the contrary, do they go green because they consider that they have a comparative advantage and the capacity to protect the environment? Do they go green because they see synergies between their financial, social and environmental bottom lines? Or do they decide not to go green because they identify important trade-offs between these three bottom lines? Furthermore, this understanding could reveal whether the choice of one environmental management strategy over another (i.e. adopting an exclusion list, providing green microcredit, raising awareness on environmental issues, etc.) is influenced by the type of motive driving the MFI. Assuming that not all strategies may have the same effectiveness and impact, it could help practitioners identify the mechanisms that would foster the implementation of the most effective and suited green microfinance strategies.

This study is the first that seeks to empirically identify the motives that lead MFIs to go green. We conducted a quantitative survey of 160 MFIs, to identify their environmental attitude, motives and practices, and a qualitative study, with semi-structured interviews of 23 MFIs' top managers, to understand the determining processes in the decision to go green.

The analysis is based on the model of ecological responsiveness developed by Bansal & Roth (2000), which identifies three main drivers: legitimation (stakeholder pressure), competitiveness (strategic and economic benefits), and social responsibility. Applying their model to the manufacturing sector, they discover that firms are motivated "largely by concerns for legitimacy, less by competitiveness, and even less by ecological responsibility" (Bansal & Roth, 2000, p.733). These findings are confirmed by other studies, such as that of Céspedes-Lorente et al. (2003) and Williamson et al. (2006), which identify regulations and business performance as the main drivers of ecological responsiveness in their respective samples of manufacturing firms. Furthermore, González-Benito & González-Benito (2005), who conducted interviews with 186 manufacturing companies, found that firms motivated by economic competitiveness tend to carry out deeper environmental transformations than firms

motivated by social responsibility. Interestingly, our study reveals the opposite for the microfinance sector. We find that MFIs that are the most proactive in environmental management are primarily motivated by social responsibility, additionally by competitiveness, and to a lesser extent by legitimation. By 'proactive', we mean that these MFIs do more than what is required by regulations, investors and donors<sup>1</sup>; they engage in more positive and deeper strategies to manage environmental issues. In opposition, we use the term 'reactive' to qualify MFIs that only adopt minimal measures to reduce risks for themselves and comply with regulations and stakeholders' requirements. In our study, we find that MFIs for which legitimation is the dominant driver tend to adopt a reactive posture and set up more superficial negative strategies to appear green. In contrast, MFIs for which social responsibility is the dominant driver tend to be more proactive and develop adapted financial and non-financial services to promote environmentally-friendly practices. While Bansal & Roth (2000) identify regulations and pressures as a key mechanism to foster ecological responsiveness in the manufacturing sector, results from our study thus suggest that a different approach should be favored in the microfinance sector: an approach based on technical support and exchange of experiences.

The rest of the article is structured as follows. Section 2 introduces the model for ecological responsiveness that has been adapted to the microfinance sector. Section 3 explains the methodology used in this study. Section 4 analyzes empirical results in the light of our model of ecological responsiveness. Section 5 provides some concluding remarks.

## 2. Drivers of ecological responsiveness

During the last two decades, many researchers have investigated why firms or organizations decide to engage in environmental management. Various factors, drivers or motives have been identified: legislation (Céspedes-Lorente, et al, 2003; Sohn, 1982), stakeholders' pressure (Buysse & Verbeke, 2003; Eljido-Ten, 2007), economic motives (Aragón-Correa & Rubio-López, 2007; Castelo & Lima, 2006), leadership (D'Amato & Roome, 2009; Hemingway & Maclagan, 2004; Logsdon & Yuthas, 1997; Rok, 2009), organizational context (López Rodríguez, 2009), ethics (Garriga & Melé, 2004; Mostovicz, et al, 2009), etc. Among the different models of corporate ecological responsiveness proposed in the literature, the one developed by Bansal & Roth (2000) seems particularly appealing. Bansal & Roth (2000) conducted a qualitative study with fifty-three manufacturing firms in the United Kingdom and in Japan. Applying analytical induction to their data, they identified three motives for ecological responsiveness: legitimation (stakeholder pressure), competitiveness (strategic and economic benefits), and social responsibility. Their model is particularly interesting in that it builds on the existing literature and encompasses the major drivers identified in previous studies. It is simple and general enough to be applied to different sectors, and it has been empirically tested and used in other studies (Gadanne et al., 2009; González-Benito & González-Benito, 2005). Bansal & Roth (2000) emphasize that the three motives of ecological responsiveness can be combined and interrelated. Their

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<sup>1</sup> For more details on 'proactive' vs. 'reactive' postures in Corporate Social Responsibility, see Aragón-Correa et al., 2008; Buysse & Verbeke, 2003; Clarkson, 1995.

cumulated influence can lead a company to engage in environmental management. Nevertheless, they identify for most companies a 'dominant' driver and relate each dominant driver with a type of approach (more reactive or more proactive), which was confirmed by González-Benito & González-Benito (2005).

So far, empirical studies looking at corporate drivers for ecological responsiveness mostly focus on the manufacturing sector, where environmental impact is the most direct and visible (Céspedes et al., 2003; Williamson et al., 2006). For the first time, this paper will apply Bansal & Roth's model of corporate ecological responsiveness to the microfinance sector, where environmental impact is more indirect but nonetheless exists. This section introduces the three motives for ecological responsiveness identified by Bansal & Roth (legitimation, competitiveness and social responsibility) and proposes a model adapted to the microfinance sector (Figure 1).

### *Legitimation*

Bansal & Roth (2000) identify legitimation as a first motive for corporate ecological responsiveness. For them, the legitimation driver is the "desire of a firm to improve the appropriateness of its actions within an established set of regulations, norms, values, or beliefs" (Suchman, 1995). In other words, firms feel compelled to go green in order to respond to stakeholders' expectations and gain the legitimacy necessary to their long-term survival.<sup>2</sup>

In the microfinance sector, there seems to be a growing interest from various stakeholders in the environmental responsibility of MFIs. An increasing number of investors and donors are now adopting a triple bottom line approach in their funding policies. According to the Microfinance Investment Vehicles (MIVs) Survey held by Symbiotics in 2011, 45 per cent of interviewed MIVs seek to integrate environmental issues in their investment decisions (Symbiotics Research & Advisory, 2011). Peer-to-peer platforms, such as Kiva, are also starting to promote 'green microentrepreneurs' on their websites. The interest of some microfinance investors and donors in environmental issues thus exists. However, this issue is not taken under consideration uniformly across investor types. International donors and socially responsible investors may be concerned with environmental issues, but it is less prevalent for more commercially-oriented investors or local banks. Even the investors and donors that demonstrate interest in environmental performance do not seem yet to assign a high priority to the issue. Some of them claim that they are still in the reflection process for the inclusion of environmental performance criteria. Some others have started to adopt environmental exclusion lists and reporting requirements, but MFIs, for the limited amount of investment they represent, usually fall below the limit set out for systematic environmental evaluation. As for the investors and donors that have developed environmental performance criteria and are asking MFIs to report on them, these criteria represent a relatively minor part of due diligence requirements and are not accompanied, in practice, by any real sanction, reward or technical assistance.

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<sup>2</sup> This driver is at the heart of various theories and models on corporate decision making, such as stakeholder theory (Freeman, 1983, 1984; Clarkson, 1995; Donaldson & Preston, 1995; Fineman & Clarke, 1996) or convention theory (Labie, 2005).

Microfinance rating agencies also look at the environmental performance of microfinance institutions. As part of their Social Performance rating products, PlaNet Rating, M-Cril and MicroFinanza have defined some specific indicators for assessing MFIs' responsibility to the environment. Nonetheless, the level of importance that rating agencies give to environmental performance remains low. Environmental performance indicators are not always clearly defined, and their evaluation is usually quite brief, leading to a maximum of one or two short paragraphs, at the very end of rating reports. Their weight in the total rating grade appears as marginal. Furthermore, environmental performance is only measured so far as part of Social Performance ratings, which still remain secondary in the microfinance rating industry.

As for governments, some of them have started to express an interest in promoting green microfinance through the adoption of specific regulations (Burkina Faso) or incentive mechanisms (Bangladesh). In a context of growing concerns about climate change, governments can be interested in piggybacking on MFIs' networks for the enforcement of environmental standards or the promotion of environmentally-friendly technologies and practices (Hall, et al., 2008). There are, however, very few countries today that have adopted national regulations or policies that would effectively tackle the issue of environmental management by financial institutions. When there are specific regulations regarding environmental risk management for SMEs and microenterprises, enforcement is often lacking. The decision to abide by these regulations still depends primarily on the willingness of individual MFIs.

In the microfinance sector, a certain number of microfinance stakeholders have started having expectations regarding MFIs' environmental responsibility, even though pressures do not seem very strong yet. To what extent could this have some influence on MFIs' decision to go green? In various studies (Bansal & Roth, 2000; Céspedes et al., 2003; Williamson et al., 2006), legitimation is identified as the most influential driver for ecological responsiveness in the manufacturing sector. Furthermore, Bansal & Roth (2000) emphasize that manufacturing companies for which legitimation is the dominant driver only adopt a reactive approach in order to comply with regulations; they seek to minimize the risks and costs that they could face (by conducting environmental audits for instance) and usually imitate what their peers do. To assess whether the same results apply to the microfinance sector, our first research questions will be the following:

*Q1: Is legitimation a driver of ecological responsiveness in microfinance?*

*When it is the dominant driver, does it lead to more reactive or proactive strategies?*

### *Competitiveness*

Bansal & Roth (2000) identify competitiveness as a second driver for corporate ecological responsiveness. For them, firms motivated by competitiveness expect that environmental management will lead to economic benefits and improve their long term profitability.

In the grey literature on the topic, promoters of green microfinance also identify competitiveness as a major motive for MFIs to engage in environmental management. According to different authors, going

green would entail clear strategic and financial benefits for microfinance institutions themselves. First, by tackling environmental issues, MFIs could gain access to new funding from socially responsible investors or environmentally-sensitive donors, which could help them expand their activities and eventually reduce their capital cost (GreenMicrofinance, 2007; Pikhholz, et al., 2005; SEEP Network, 2008; UNEP-FI, 2006). Second, they could diversify their offers, explore niche markets, differentiate from competitors and attract clients by proposing appealing 'credit + services' packages; for instance, by assisting clients to increase their productivity through access to energy-efficient technologies or training in sustainable production techniques (Araya & Christen, 2004; Hall, et al., 2008; Schuite & Pater, 2008; SEEP Network, 2008). Third, they could improve the public image of their institution, and thereby foster staff motivation, enhance market expansion, improve external relations and avoid bad reputation risks that could negatively impact their activities (Hall, et al., 2008; Rippey, 2009; SEEP Network, 2008; Van Elteren, 2007; Zutshi & Sohal, 2004). And fourth, MFIs could reduce their credit risk thanks to the management of clients' environmental risks. The argument here is that environmental risks can reduce the solvency of the client. Business may become unsustainable due to the depletion of natural resources; reputational problems could arise that will affect activity; fines could be imposed for not respecting environmental regulations; health problems may emerge due to pollution, etc. Managing the environmental risks of the clients would then avoid that they directly translate into credit risk for the MFI (Coulson & Dixon, 1995; FMO, 2008; Triodos Facet, 2009; UNEP-FI, 2006; Van Elteren, 2007).

However, on the other hand, the economic benefits of environmental management may be perceived as limited. Reputation risk, for instance, may not be so high in a context where microentrepreneurs will never be responsible for large-scale contamination accidents and where MFIs are not yet held accountable for the environmental behaviour of their clients. Employees may not feel more motivated if their workload is increased because they are asked to assess the environmental performance of their clients while maintaining the same level of productivity. As for credit risk, its link with the environmental risks of microfinance clients seems very indirect, and research in this area would have a hard time proving any correlation, due to attribution problems and time mismatch.

Furthermore, going green may be perceived as particularly costly (Araya & Christen, 2002; Coulson & Dixon, 1995; Wenner, 2002). Indeed, an MFI willing to identify its clients' environmental risks and train them on mitigation solutions needs to acquire new competences and develop new procedures. Including environmental appraisal and follow-up may slightly decrease staff productivity. Offering innovative products, such as long-term loans for solar home systems, may also entail higher credit risk for the institution. The decision to go green will therefore depend on the cost/benefit analysis that the MFI will do.

In their study, Bansal & Roth (2000) identify competitiveness as a secondary driver for ecological responsiveness in the manufacturing sector. When competitiveness is the dominant driver, they find that companies tend to focus on energy and waste management, which can bring clear economic returns. In their study of 186 manufacturing firms, Gonzáles-Benito & Gonzáles-Benito (2005) identify that companies that are primarily motivated by cost reduction and improved efficiency tend to carry out

deeper environmental transformations in product conception and manufacturing. To assess whether the same applies to the microfinance sector, our research questions will be the following:

*Q2: Is competitiveness a driver for ecological responsiveness in microfinance?*

*When it is the dominant driver, does it lead to more reactive or proactive strategies?*

### *Social responsibility*

The third driver identified by Bansal & Roth (2000) in their model is that of social responsibility. It refers to the concern that a firm has for its social obligations and values, for the social good. The firm decides to go green out of a sense of obligation, responsibility, or philanthropy, rather than self-interest (L'Etang, 1995). The motivation is more ethical, whereas the legitimation and competitiveness drivers are more pragmatic motives (Bansal & Roth, 2000).

One specificity of the microfinance sector is that social responsibility is already at the core of its *raison-d'être* and actions. Beyond financial objectives, MFIs are expected to fulfill their social mission: to provide financial services to vulnerable populations that are excluded from traditional banking and potentially contribute to poverty alleviation and development. MFIs are thus supposed to be driven by ethical concerns<sup>3</sup>, even before we start considering ecological issues. Promoters of green microfinance usually emphasize that ecological responsibility is closely intertwined with the MFI's social mission. According to these authors, MFIs should manage environmental issues in order to effectively contribute to poverty alleviation and sustainable development (FMO, 2008; GreenMicrofinance, 2007; Hall, et al., 2008; Triodos Facet, 2009; Van Elteren, 2007). Ecological responsiveness is thus promoted as the 'right thing to do' not only for the planet, but also for the people, and in particular, for microfinance clients.

These authors emphasize that microentrepreneurs can be engaged in activities that entail environmental risks, in terms of pollution (chemical use, soil and water contamination, etc.) or unsustainable use of natural resources (deforestation, soil degradation, overexploitation, etc.). Risks are particularly present in some specific activities, such as leather tanning, brick making, metal working, textile dyeing, small-scale mining, charcoal making, food processing, crop growing, animal husbandry, fishery, etc. (Blackman, 2000; BRAC, 2006; Hall, et al., 2008; Pallen, 1997; Wenner, 2002). Environmental risks can translate into direct threats to the livelihoods of microentrepreneurs and that of their relatives and surrounding communities. The contamination or overexploitation of natural resources can directly translate into the loss of inputs for their various activities, the loss of an income-generating opportunity (Benjamin & Wilshusen, 2007), the loss of a risk-coping mechanism (natural resources are often used by poor households as a safety net in case of shocks), increased conflicts over scarce resources (Pallen, 1997) or increased vulnerability to natural disasters. Furthermore, unsafe environmental practices can represent direct threats to people's health and life. Inappropriate use and management of chemicals, machines or waste can generate significant health and safety hazards that can be harmful for the microentrepreneur, his family, and even the

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<sup>3</sup> For a discussion on the social mission of MFIs and ethical issues, see Armendáriz & Szafarz (2011) or Hudon (2011).



surrounding communities in case of air, soil or water contamination (Pallen, 1997; Redmond, et al., 2008; Wenner, et al., 2004).

Managing environmental issues could thus help microentrepreneurs improve productivity and grasp business opportunities. Environmental management often entails reducing inefficiencies in the production process: reducing chemical use to the minimum level necessary, using energy-efficient technologies (such as improved cook stoves, solar dryers, energy-saving light bulbs), limiting or recycling wastes, etc. All these improvements in the production process not only limit environmental risks, they also allow cost savings for the microentrepreneurs. Moreover, environmental management can also help improve working conditions and therefore reduce the risk of accident (and its adverse economic impact) and increase productivity and profits. Finally, environmental management can lead microentrepreneurs to explore new business opportunities with a clear added value, such as ecotourism, waste management and recycling, agroforestry, solar panel installation and maintenance, etc. According to the existing literature, adapted green microfinance programs that help microentrepreneurs identify and manage environmental risks and opportunities could thus bring them benefits on a triple bottom line: environmental (reduction of environmental risks), social (improved working conditions, reduction of health and safety hazards) and economic (sustainability of livelihood, improved efficiency, new business opportunities). MFIs' rationale for going green would thus follow an ethical commitment: that of fulfilling a social mission of poverty alleviation and sustainable human development.

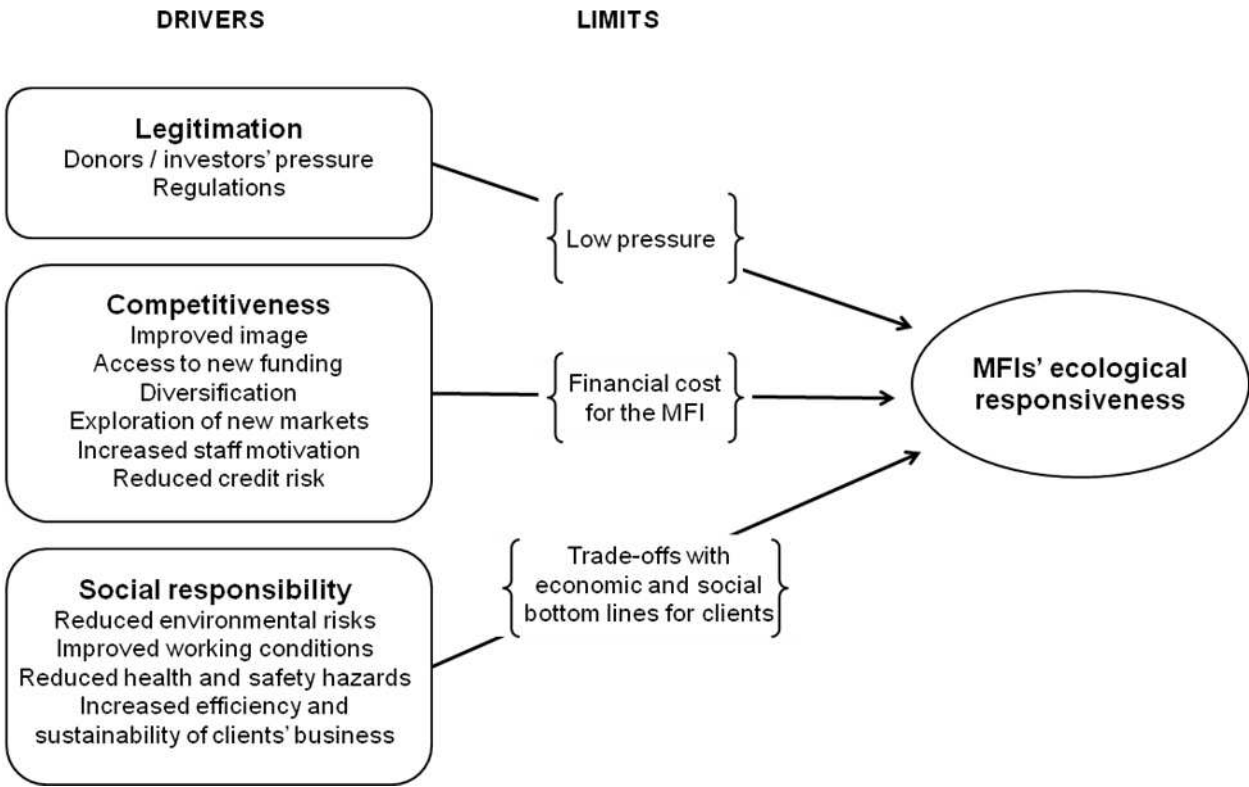
However, the 'win-win' situation described by green microfinance promoters may also be questioned. Can all types of green microfinance programs automatically reach their objectives of poverty reduction and sustainable development? Can they be efficient in reducing environmental risks without implying some social or economic trade-offs for the microentrepreneurs? One could think, for instance, that a microfinance institution adopting environmental criteria in its loan screening process may end up excluding poor people just because they lack the knowledge or capacity to upgrade their business environmental practices. Alternatively an MFI imposing specific environmental contract clauses may oblige a microentrepreneur to adopt a new technology or practice that is not seen as culturally acceptable or that entails important economic costs (cost of upgrading production equipment, cost of learning new processes, etc.). MFIs may eventually refrain from engaging in environmental management because it would imply too many trade-offs on the economic and social bottom lines of the microentrepreneurs.

In their study, Bansal & Roth (2000) identify social responsibility as the least influential driver for ecological responsiveness in the manufacturing sector. When social responsibility is the dominant driver, Bansal & Roth (2000) find that companies tend to develop more independent and innovative course of action, by developing green products or making donations. In contrast, González-Benito & González-Benito (2005) show that manufacturing companies for which social responsibility is the dominant driver tend to act only at the management or commercial level (not at the operational one), in a more superficial way. They explain it by the "need of those more environmentally conscious managers to distance themselves from social critics, thus striving to demonstrate their environmental

commitment through transformations which are easily perceivable from outside the company” (González-Benito & González-Benito, 2005, p.474). The situation might be different for the microfinance sector. Because the microfinance industry aims at a double bottom line, the social responsibility motive may have a greater influence in their ecological responsiveness. To test whether different results apply to the microfinance sector, our research questions will be the following:

- Q3: *Is social responsibility a driver for ecological responsiveness in microfinance?*
- When it is the dominant driver, does it lead to more reactive or proactive strategies?*

**Figure 1. A model of ecological responsiveness in microfinance**  
(based on Bansal & Roth, 2000)



### 3. Methodology: combining quantitative and qualitative studies

This paper seeks to identify what drivers of ecological responsiveness actually apply in the microfinance industry. For the first time, empirical research has been conducted to contribute to a very theoretical literature in the sector. In order to provide a rigorous analysis of the phenomenon, we combined two approaches: (a) a quantitative survey of 160 MFIs, to identify their environmental attitude, motives and practices; and (b) a qualitative study, with semi-structured interviews of 23 MFIs' top managers, to understand the determining processes in the decision to go green.

## *Quantitative study*

The main objective of our quantitative study was to (1) identify the motives for going green that are the most often acknowledged by MFIs, and (2) assess the link between stated motives and actual environmental practices. In this perspective, we designed a survey to be submitted to a wide range of MFIs. In order to identify the motives of MFIs regarding green microfinance, we asked them whether they agree or not on a list of statements reflecting legitimization, competitiveness, and ethical responsibility motives. They could answer using a five-point Likert scale (from Strongly agree to Strongly disagree). In order to assess the level of environmental practices, we used a new methodological tool that we had previously developed (Allet, 2012): the Microfinance Environmental Performance Index (MEPI). This tool is based on environmental management indicators and built around five dimensions: Environmental policy, Ecological footprint, Environmental risk assessment, Green microcredit, and Environmental non-financial services. For research purpose, an equal score of four points has been given to each dimension, making a total MEPI score out of twenty.

The survey was submitted to a sample of 426 MFIs from the MIX Market<sup>4</sup>. We selected all MFIs rated with 4 and 5 diamonds in February 2011, which guarantees access to quality data on control variables. MFIs were contacted individually by email in March 2011. Two reminders were sent to the ones that had not responded yet in April 2011. The survey was to be filled in online and was available in English, French and Spanish. By the end of April 2011, the survey had been answered by 165 MFIs. After clearing the database from questionnaires that could not be used (incomplete), we ended up with a total number of 160 surveys, equating to a response rate of 38%.

As detailed in Table 2, our sample of 160 MFIs is well representative of the microfinance sector in terms of regional location, legal status and size (number of borrowers). Our sample only has a slightly higher proportion of large MFIs compared to the distribution of MFIs in the MIX Market.

Even if we carefully sought to avoid any selection bias, it is likely that our sample is slightly biased towards MFIs with greater environmental commitment. Indeed, MFIs that already have an interest in environmental issues are the ones that will feel more concerned by the survey and will take time to answer it. However, among our respondents, there are also MFIs that expressed no interest or very little interest in environmental issues. Even if the sample is likely to be slightly biased towards environmentally-committed MFIs, it is not a central problem for this study, since we do not aim to assess the environmental performance of MFIs in absolute terms. We rather seek to relate their level of practices (MEPI score) with their stated motives for going green.

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<sup>4</sup> The MIX Market ([www.mixmarket.com](http://www.mixmarket.com)) is a website that provides access to operational, financial and social performance information on more than 1,900 MFIs, covering 92 million borrowers globally.

**Table 2. Profiles of respondent MFIs and their representativeness of the microfinance industry**

		Sample (160 MFIs)	MIX Market <sup>5</sup> (1019 MFIs)
<b>Region</b>	Latin America & the Caribbean	34%	34%
	Africa	21%	15%
	Asia (South & East Asia)	20%	27%
	Eastern Europe & Central Asia	18%	19%
	Middle East & North Africa	8%	5%
<b>Legal status</b>	NGO (non-governmental organization)	45%	37%
	NBFI (non-bank financial intermediary)	34%	35%
	Credit union / coop	12%	14%
	Bank	9%	8%
	Rural bank	0%	6%
<b>Size (outreach)</b>	Small (<10,000 borrowers)	33%	49%
	Medium (10,000 to 30,000 borrowers)	23%	21%
	Large (>30,000 borrowers)	44%	29%

### *Qualitative study*

To complement our quantitative results, we conducted a second study based on an inductive, qualitative approach. This methodology is well adapted to reveal decision-making processes, diversity of rationales and perceptions. The microfinance literature usually highlights the determining role of managers in strategy design, especially in setting up core values and goals and a long term vision (Copestake, et al., 2005; Labie, 2005). It was thus decided to explore decision-making processes for engaging (or not) in green microfinance by looking at the perceptions of MFIs' top managers.

In this perspective, extensive interviews were conducted between November 2009 and June 2011 with twenty-three MFIs' executive directors or deputy-executive directors, from eighteen different countries (Bosnia & Herzegovina, Burkina, Cambodia, China, Egypt, El Salvador, Ethiopia, Indonesia, Kenya, Mali, Madagascar, Mexico, Morocco, Pakistan, Peru, Philippines, Tanzania, Uganda). Our objective was to identify what determines the decision to engage (or not) in green microfinance. Consistent with a qualitative approach (Pratt, 2009), a sample of institutions with diverse profiles in terms of geographical location, legal status, age, size, and above all level of involvement in green microfinance were interviewed. Some were chosen because they are already involved in green microfinance, while others were selected because they are not. Even though this sample may seem limited, it

<sup>5</sup> Data comes from the 2009 MFI Benchmarks available on the MIX. The 2009 MFI Benchmarks are based on the most recent data from microfinance institutions throughout the developing world. This data set includes information from 1019 MFIs reaching over 85% of known microfinance borrowers. (<http://www.themix.org/publications/mix-microfinance-world/2010/10/2009-mfi-benchmarks>)

nevertheless allowed us to reach saturation and identify the diversity of rationales behind engaging (or not) in green microfinance.

We made a deliberate choice to privilege face-to-face interviews, since this format creates trusting and information-rich exchanges. This decision logically induced some data collection constraints, since it was not possible to travel extensively to meet a wide range of MFIs' managers in their countries of operation. Seven interviews were actually conducted in-country during professional field visits (Egypt, El Salvador, Mali, Morocco), while the other sixteen were undertaken in Europe, at the occasion of international conferences.

An open, semi-structured protocol was established to guide the interview. The protocol specified a flexible list of topics to be tackled, among which were: definition of the MFI's mission, perception on the importance of clients' impact on the environment, opinion on the role of MFIs in tackling an environmental bottom line, capacity of MFIs to implement environmental management programs, level of engagement in green microfinance, history of engagement in green microfinance, strategic interest for going green, and potential pressures from stakeholders. Specific attention was given to the formulation of the questions in order to avoid any bias. The interviews were conducted in English, French or Spanish, according to the language spoken by the interviewee. Some of the quotations used in this article were thus translated from French and Spanish to English by the author. The interviews lasted on average thirty minutes. They were all recorded and fully transcribed.

In order to avoid introducing any preconceived analytical bias, the collected information was first clustered to identify emerging themes in an inductive approach. Then, a dialogue was initiated between our results and our theoretical model of ecological responsiveness.

The combination of a quantitative and qualitative approach<sup>6</sup> enabled us to get complementary information on the overall motives and practices of a representative sample of MFIs and the precise decision-making processes at stake. A limit of this study is that, as we did not have the resources and time to go and visit each respondent MFI, we rely on managers' declarations. Direct observation of actual practices was only feasible for two MFIs from our qualitative study (one in Mali and one in El Salvador). Similar to González-Benito & González-Benito (2005), we could only interview one top manager in each MFI and therefore have to assume that the point of view of this top manager adequately reflects the position of the microfinance institution.

In the following section, any result based on statistics derives from our quantitative study, while results based on quotations and process analysis come from our qualitative study.

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<sup>6</sup> The complementarities of qualitative and quantitative studies have also been promoted in other microfinance studies (Guérin, et al, 2009; Sorvant, 2009)

## 4. Findings

Contrary to what is found in studies on the manufacturing industry (Bansal & Roth, 2000; Céspedes-Lorente et al., 2003; Williamson et al., 2006), our analysis reveals that ecological responsiveness in the microfinance sector is primarily driven by social responsibility, additionally by competitiveness, and to a lesser extent by legitimation. We also find that, even if all three motives can have a cumulated influence on MFIs' decision to go green, most MFIs that engage in environmental management follow a dominant driver, and each dominant driver leads to a specific type of strategy (similar to Bansal & Roth, 2000, and Gonzáles-Benito & Gonzáles-Benito, 2005). This section presents the results of our quantitative and qualitative studies for each driver of the ecological responsiveness model.

### *Legitimation*

The first driver of ecological responsiveness tested in our study is legitimation. As detailed in Table 3, the majority of the 160 respondent MFIs consider that developing green microfinance programs enables them to respond to stakeholders' expectations. 77 per cent state that it enables them to respond to investors' or donors' expectations and 59 per cent say that it allows them to comply with national regulation requirements. In line with this data, some interviewed managers clearly mentioned that they started to look at environmental issues to respond to regulations or stakeholders' pressure:

*It was [a donor] that set this criteria, this is why MFIs started to look closer at people's activities in relation with the environment. (Director, MFI 7, Madagascar)*

*In Burkina, there are laws on environment protection, and these laws say: 'Here are the activities that you should not conduct because it destroys the environment.' So, at the time of financing, we have to respect these laws. We look whether these activities that [the client] wants to conduct do not fall into the activities that destroy the environment. If it is the case, we do not finance. (Director, MFI 8, Burkina Faso)*

For these MFIs, legitimation is the dominant driver of ecological responsiveness. However, our study reveals that MFIs that follow a legitimation motive engage in environmental management in a minimal way: they only adopt an exclusion list, screening out activities identified as too environmentally risky. This practice is the easiest for MFIs to implement, as it does not incur important costs and does not require very specific technical skills. Nevertheless, its impact on microfinance clients and on the environment can be seriously questioned. Either the exclusion list is not respected and stands as an ineffective 'greenwashing' tool. Or the exclusion list is enforced and may compromise the social mission of the MFI by excluding people from access to financial services, while failing to mitigate the environmental risks of the excluded activities.

On the other hand, MFIs that are the most proactive today in environmental management (adopting a positive approach of environmental management by offering green microcredit or training) strongly claim that they did not decide to go green in order to respond to stakeholders' pressure. Rather, they assert that their own motivation and commitment drove the decision to go green:

*What makes sense to me is what I see of value: to the community, to the society and to humanity. I don't operate by pressure!* (Director, MFI 16, Tanzania)

*If I hadn't had my own opinion or interest, I could not be pressurized by their money.*  
(Director, MFI 19, Ethiopia)

We also identified MFIs that are highly engaged in green microfinance but are totally financially independent from donors and investors (it is the case of cooperatives such as MFI 11 in Mali and MFI 23 in El Salvador). Their decision to go green could not be driven by stakeholders' pressure. In any case, apart from the few MFIs that have adopted exclusion lists to respond to stakeholders' demands, most interviewed managers stated that they do not yet feel any strong pressure from stakeholders.

Contrary to results for the manufacturing sector (Bansal & Roth, 2000; Céspedes-Lorente et al., 2003; Williamson et al., 2006), legitimation does not appear as the most influential driver of ecological responsiveness in microfinance. Some MFIs adopt minimal environmental management standards to comply with stakeholders' requirements. However, pressure is still low today, and MFIs that are the most active in environmental management are not primarily driven by a legitimation motive.

**Table 3. Drivers of ecological responsiveness acknowledged by MFIs**

<b>Drivers</b>		<b>Percentage of MFIs</b>
<b>Legitimation</b>	Investors' or donors' expectations	77%
	National regulation requirements	59%
<b>Competitiveness</b>	Differentiation from competitors	88%
	Access to new funding	74%
	Expansion of the client base	60%
	Improvement of portfolio quality	51%
<b>Social responsibility</b>	Protection of the planet	93%
	Achievement of the MFI's social mission	86%

### *Competitiveness*

The second driver of ecological responsiveness tested in our study is competitiveness. As shown in Table 3, a significant majority of the 160 sample MFIs associate the development of green microfinance programs with clear strategic and economic benefits. The most cited benefits are differentiation from competitors (mentioned by 88 per cent of respondents), access to new funding (74 per cent), and expansion of the client base (60 per cent). Even though the links between credit risk and environmental management are quite indirect, 51 per cent of respondents still consider that going green can help improve portfolio quality. Respondent MFIs thus appear rather optimistic on the economic benefits that can be brought by environmental management. Several MFIs that are already

active in environmental management indeed confirmed during our interviews that they identify clear benefits to going green:

*It is an opportunity in the sense that it provides avenues for me to do business.*  
 (Director, MFI 16, Tanzania)

*I think that in terms of competition, we will be one step ahead. It is a plus for us.*  
 (Director, MFI 11, Mali)

Moreover, these MFIs do not consider financial cost as a barrier. In our model, we emphasized that the decision to go green depends in part on the cost/benefit analysis that the MFI does. Even if they identify some economic benefits, MFIs may still be hesitant to develop environmental management programs because of the costs implied. Table 4 indeed demonstrates that MFIs that are the least engaged in environmental management (lowest MEPI scores) are the ones that consider going green to require financial resources that are hard to obtain for an MFI. During our interviews, managers that are not engaged in green microfinance often mentioned that developing environmental programs would entail expenditures that they cannot afford at the moment. They often talked in terms of priorities, with risk management and financial sustainability as their major objectives. These managers thus believe that there is a trade-off between their financial and environmental bottom lines. On the other hand, managers that are engaged in green microfinance do not seem to consider the financial costs as an obstacle. The relation may be interpreted in two ways: either it is because they did not see any strong financial obstacles that they engaged in environmental management, or it is because they are already engaged in environmental management that they realized that financial resources were not such an important barrier. Indeed, as we will see in the following section, MFIs who decide to go green usually have strong leaders. Financial resources may not be seen as an important issue because these leaders are able to raise additional funding from investors and donors. Most MFIs that are proactive in environmental management thus identify clear benefits for going green and do not consider financial cost as a significant barrier.

**Table 4. Comparison of MEPI mean scores according to stated barriers**  
 (MEPI: Microfinance Environmental Performance Index)

	MFIs stating that it IS a barrier		MFIs stating that it is NOT a barrier		t-Test
	MEPI mean	Std.	MEPI mean	Std.	
<b>Financial cost</b>	<b>3.97</b> (N=77)	4.01	<b>5.39</b> (N=38)	4.48	<b>-1.718*</b>
<b>Technical expertise</b>	<b>3.97</b> (N=88)	3.92	<b>5.75</b> (N=36)	4.58	<b>-2.187**</b>

Significance levels: \*10%; \*\*5%

When competitiveness is the dominant driver, MFIs tend to engage in the development of green microcredit to promote renewable energies and energy efficiency. These MFIs see the provision of



energy microcredit as a new business opportunity and do not always relate it clearly to environmental issues. Indeed, they offer these specific financial products to respond to a demand linked to energy or electrification needs and would offer such credit even if there was no positive environmental impact.

However, for a number of proactive MFIs, the decision to go green did not seem to be based on economic motives. As we will see in the next section, the primary motivation they expressed is social responsibility. Competitiveness only appears as secondary in their declarations: they go green because they feel responsible to contribute to environmental protection and sustainable development, and this decision additionally brings them clear strategic and financial benefits. This is, for instance, the case for MFI 11 in Mali: after developing environmental programs, the manager realized that these helped him improve staff motivation and attract a growing number of clients (including drop-outs who decided to come back thanks to the added-value of the environmental program). Of course, MFIs do not engage in green microfinance if they do not identify or foresee any strategic or economic interest. However, competitiveness only appears as a secondary, additional driver of ecological responsiveness in many cases.

### *Social responsibility*

The third driver of ecological responsiveness tested in our study is social responsibility. As detailed in Table 3, 93 per cent of our surveyed MFIs agree that developing green microfinance programs is the right thing to do to ensure the protection of our planet. 86 per cent identify a clear link between environmental management and the achievement of their social mission. These high percentages are only based on declarations regarding perceived motives for ecological responsiveness and are far from reflecting the actual environmental practices of MFIs. Yet, they show that MFIs broadly make a link between their environmental responsibility and their social mission. The percentages of MFIs agreeing on these social responsibility drivers are actually the highest compared to legitimation and competitiveness motives.

MFIs that are the most proactive in environmental management are first aware that microfinance clients are concerned by environmental issues, both as actors (because they may be engaged in environmentally-risky activities) and victims (because they live and work in unsustainable and hazardous conditions):

*Yes, there may be a negative impact on the environment. For instance, we finance textile dyers. And dyers, as you know, are polluter agents! (Deputy Director, MFI 9, Mali)*

*I think that they [microfinance clients] not only can, they DO have a very big impact on the environment, and to a very large extent.[...] Most of them use processes and systems that, often, are not very friendly to the environment. (Director, MFI 6, Kenya)*

Generally, managers tend to be most sensitive to one or two specific environmental issues that are closest to their daily concerns<sup>7</sup>: deforestation in drought-prone rural areas in Mali (MFI 11), agro-

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<sup>7</sup> This is what Jones (1991) identifies as the moral intensity of an issue.

chemical use in old cotton-producing areas in El Salvador (MFI 23), or waste management in periurban slums in the Philippines (MFI 15).

In addition to being aware of their environmental impact, proactive MFIs consider that tackling this issue is part of their role and mission. Our study confirmed that this vision is far from being shared by all MFIs. Indeed, engaging in green microfinance turns out to be strongly conditioned by the position chosen by the MFI which varies between a minimalist and an integrated approach.<sup>8</sup> For MFIs with a minimalist approach, the role of the microfinance industry should be limited to providing excluded populations with access to financial services, and not engaging in supporting business development or livelihood improvement through capacity-building or any other additional services. For such MFIs, engaging in environmental management is thus perceived as being out of their scope, and even as constituting a mission drift:

*What we look first is the financial interest that we can get from this financing. But we little worry about the consequence that can be linked in terms of environmental destruction following our client's activity.* (Deputy-Director, MFI 9, Mali)

*Our role is limited to financing. Environmental pollution is devoted to other services, other technical structures that handle it. [...] When you enter into environmental protection, you drift from your objectives.* (Head of credit service, MFI 10, Mali)

This vision directly relates to the functionalist argument often heard in the Corporate Social Responsibility debates. This argument states that the primary function of a business is to provide goods and services to clients and profits to investors. Other types of functions, such as social and environmental ones, are devoted to other actors which have the skills or time required to implement them (Jones, 1999; Sohn, 1982).

On the other hand, MFIs with an integrated approach usually define themselves as development institutions with a clear social mission. In a more holistic vision, they consider that they have a role to play to ensure that access to financial services effectively leads to livelihood improvement for their clients. In addition to facilitating financial inclusion, these MFIs provide business development services and additional support programs. Such institutions could therefore be more likely to consider that they also have a role, and even a responsibility, in promoting a sustainable human development, respectful of the environment. Not all MFIs with an integrated approach decide to engage in environmental management. However, some of them clearly emphasize that environmental management is part of their holistic approach:

*For me, microfinance is a means which should enable us to develop. And if today we want to develop in a responsible and sustainable way, I think we need to integrate the environmental component.* (Director, MFI 11, Mali)

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<sup>8</sup> The debate around the mission definition and the position between the minimalist and integrated approaches is not new in microfinance (Servet, 2006). As highlighted by Labie (2005), such controversial debates around mission definition are actually typical of non-profit organisations, which pursue several simultaneous objectives and have to define their priorities, the missions that they want to handle themselves, and the ones that they would better leave to others.

*For us, the microcredit program is important, but it is not the ultimate goal. Our objective is the holistic development of rural communities. In this perspective, environmental issues cannot be ignored.* (Director, MFI 23, El Salvador)

MFIs that see a role for microfinance in environmental management usually call for partnerships with specialized environmental organisations (NGOs or public entities). They do not question the functionalist argument. Rather, they agree that they do not have all the skills and resources needed to tackle environmental issues on their own. Yet, in contrast to MFIs with a minimalist approach, some of these institutions identify both a responsibility and an opportunity (for themselves and for their clients) in environmental management. They consider that they have a comparative advantage, their embeddedness within local communities, which puts them in a good position to promote environmental protection. They are therefore ready to obtain the needed skills and resources through partnerships:

*I am not saying that [microfinance] has the capacity. But, somehow, we have to find the capacity. [...] It is only microfinance that touches the grassroots, that will actually interact with a vast proportion of the people. Now, that in itself is an opportunity. If we use this opportunity, we will be able to sensitize people and provide a kind of intervention that will ensure that environment is conserved.* (Director, MFI 16, Tanzania)

*I have this social basis in this area, [...] I know about microfinance. And the one who knows about sustainable development is someone else, another group, another association, another foundation. For me, we have to find social alliances, conventions, networks, so that we can start working on the issue through the groups and relations that we already have.* (Director, MFI 2, Mexico)

Overall, while MFIs with a minimalist approach define engagement in environmental management as a mission drift, MFIs that are the most engaged in environmental management consider that not addressing social and environmental issues would actually constitute the mission drift. During our interviews, managers that are the most active and innovative in environmental management kept emphasizing that their primary motive for going green is to fulfill their social responsibility:

*We strongly believe that this is what we have to do.* (Director, MFI 22, China)

*It is fundamental for us. We do not do it upon request. It is rather a moral obligation that we feel we should fulfill.* (Director, MFI 23, El Salvador)

Contrary to what is found for the manufacturing sector (Bansal & Roth, 2000; Céspedes-Lorente et al., 2003; Williamson et al., 2006), social responsibility thus appears as the most influential motive of ecological responsiveness in microfinance today. While González-Benito & González-Benito (2005) find that manufacturing companies primarily motivated by social responsibility only engage in environmental management in a superficial way, our findings are closer to those of Bansal & Roth (2000), who showed that companies for which social responsibility is the dominant driver engage in more independent and innovative course of action. This is the case for MFI 11 in Mali, which organizes regular awareness-raising campaigns on deforestation and waste management issues, and for MFI 23 in El Salvador, which trains its farmer clients on agro-ecological practices.

## 5. Discussion and conclusion

Why do microfinance institutions go green? Basing our analysis on the model of ecological responsiveness developed by Bansal & Roth (2000) and on the results of quantitative and qualitative studies, we found that MFIs that are the most proactive in environmental management are primarily motivated by social responsibility, additionally by competitiveness, and to a lesser extent by legitimation. We defined as 'proactive' the MFIs that go beyond what is required by legislation, investors, and donors and develop innovative environmental management strategies, with a more holistic and positive approach (in opposition to more 'reactive' postures). The most proactive MFIs indeed consider that environmental management is required to reach their social mission. They believe that they have a comparative advantage in tackling the issue thanks to their embeddedness within local communities. They are convinced that they have the capacity to contribute to environmental protection, especially by building partnerships with specialized organizations. Furthermore, they identify clear strategic and economic benefits for their institution. Even though competitiveness did not always appear as a sufficient driver of ecological responsiveness in microfinance, it still comes as an additional motive for these proactive MFIs.

These results are interesting in that they differ from those identified in different studies on manufacturing firms (Bansal & Roth, 2000; Céspedes-Lorente et al., 2003; Williamson et al., 2006), where ecological responsiveness is largely driven by legitimation and competitiveness. The contrary holds for the microfinance sector today. This may be explained by the specificity of the microfinance industry: in addition to its financial bottom line, MFIs are strongly expected to fulfill a social mission. In recent years, the microfinance community has put a strong focus back on microfinance clients' needs and interests, by promoting social performance and client protection practices (Doligez & Lapenu, 2006; Gutiérrez-Nieto, et al., 2009; Schicks, 2010). More than in other industries, MFIs are concerned with their social mission and ethical responsibility.

Results from our study thus entail very different policy implications. In their article, Bansal & Roth (2000) identify that regulations and stakeholder pressure can be effective mechanisms to foster ecological responsiveness in the manufacturing industry, a sector where environmental impact is directly linked to production processes and can more easily be constrained by adequate rules. In the microfinance industry, similar to the overall finance sector, environmental impact is indirect, less visible, and therefore more difficult to track through regulations. Our study revealed that when MFIs go green only to respond to stakeholder pressure (legitimation as the dominant driver), they usually opt for a minimal and negative approach: adopting an exclusion list. The risk is that these MFIs engage in environmental management by mere compliance, without putting clients' interests at the heart of their approach. They could start implementing some quickly-designed, one-size-fits-all, green(washing) strategies, that at best will turn out ineffective to reach an environmental bottom line, and at worst,

could entail some counterproductive economic, social and environmental effects.<sup>9</sup> Increasing pressure on MFIs may therefore not be the most adequate mechanism to foster a positive ecological responsiveness.

On the other hand, MFIs for which social responsibility is the dominant motive tend to engage in a more positive approach (offering green microcredit, raising clients' awareness, organizing trainings, etc.). Two contextual elements play a key role in fostering this type of ecological responsiveness: the influence of leadership and access to technical expertise. Similar to what is often emphasized in the literature on Corporate Social Responsibility<sup>10</sup>, MFIs that follow the social responsibility driver in our sample are institutions that count with charismatic leaders pushing their individual social values forwards. Interestingly, these leaders are not always active ecologists initially. However, they are somehow concerned with the environmental risks of their clients and, when an opportunity arise, they are not afraid to innovate within their institutions. Furthermore, MFIs that followed the social responsibility driver are the ones that were able to mobilize technical assistance from external partners (donors, NGOs, consulting companies, public entities, etc.). Engaging in green microfinance indeed implies management innovation. Tailoring financial products to promote environmentally-friendly technologies and practices, or developing environmental non-financial services, all require acquiring specific technical skills and setting up new management procedures (Wenner, 2002). Yet, access to technical expertise appears as a limiting factor for MFIs' environmental engagement today. As detailed in Table 4, MFIs that are less engaged in green microfinance (low MEPI score) are the ones that consider technical skills hard to obtain. In our interviews, MFIs' managers often expressed that they lack the knowledge and expertise to engage in environmental management:

*There is a trend that is propping up the issue, and I think that in the microfinance sector we could do something. But we lack orientation, we do lack orientation.* (Director, MFI 2, Mexico)

Microfinance stakeholders could therefore play a key role in fostering a positive ecological responsiveness by facilitating the exchange of experiences and providing interested MFIs with the technical expertise that is needed to tackle this third bottom line.

Nevertheless, the microfinance sector should still be cautious when promoting environmental management programs. There is still very little knowledge on the actual effectiveness of green microfinance programs and on their impacts on microfinance clients. Further research is thus needed to assess whether microfinance can contribute to environmental protection, which strategies are effective, and what the impacts of green microfinance programs on clients are.

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<sup>9</sup> The Corporate Social Responsibility literature already emphasizes that, when Corporate Social Responsibility is viewed as a constraint, there is a high risk that the organisation implements incongruent or counterproductive CSR programs, which produce no social value and even hurt core strategic objectives (Mostovicz, et al., 2009). When talking about Social Performance of MFIs, Copestake, et al. (2005) also argue that social performance is most successfully implemented when there is an internal buy-in of the importance of the issue (may it both for social and financial reasons), and that external demand for Social Performance may actually inhibit internal ownership. The same scenario could apply to green microfinance.

<sup>10</sup> For more details on the role of leadership in Corporate Social Responsibility, see Aragón-Correa & Rubio-López (2007); D'Amato & Roome (2009); Hemingway & Maclagan (2004); Husillos & Álvarez-Gil (2008); Logsdon & Yuthas (1997); Maon, et al. (2009); Nidumolu, et al. (2009).

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