MASTER THESIS

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DEVELOPING AN INVESTMENT PROCESS FOR THE PROCESS OF INVESTING IN DEVELOPMENT

- A CASE STUDY OF THE INTERNATIONAL FINANCE CORPORATION (IFC)

ABSTRACT

Purpose – The aim of this study is to illustrate a complete investment decision process and analyze what factors affects it. The overall research question is formulated as *"How can management control tools be used during the investment decision process to reach corporate missions in the financial industry?"*
Approach – The descriptive nature of the research question allows a qualitative approach, hence a case study of developmental bank International Finance Corporation (IFC) is carried out. In studying the investment decision-making, the role of measurement systems to reach corporate missions, personal motivation factors and management control systems are taken into consideration.
Empirical Findings – The empirical findings are analyzed through a theoretical framework based on previous research theories. Joseph Bower's 1970 *Resource allocation process*-model serves as a point of departure when exploring previously conducted investment process studies. The Bower model studies privately owned manufacturing companies doing capital investments. To fill out the research gap, our model studies a multi-government owned bank doing financial investments.
Conclusion – The Bower model is helpful when analyzing also financial institutions but four additional factors have to be taken into consideration when analyzing financial institutions:

1. **Complexity:** To make a financial investment requires a more complex investment decision process where decisions are taken on several instances than Bower's linear capital investment process.
2. **Accountability**: Evaluation of the investment and holding people accountable is critical for financial player but not for the manufacturing.
3. **Ownership**: The multinational ownership results in more multifaceted missions and than just financial profit to full fill. Also political conflicts have to be accounted for.
4. **Legitimacy**: Public pressure and the institutional environment affect what kind of management control systems a developmental bank can use.

It is also concluded that IFC has developed an investment outcome tracking system that can be useful for other developmental organizations and that it is difficult to implement a formal performance measurement system related to financial reward due to legitimacy issues from the institutional environment.

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1. Introduction

The introduction aims to clarify the purpose and the background of the study. Firstly the research gap is examined, thereafter the aim, research question and study object are presented, and finally findings are revealed.

1.1 "Save your notes!"

Hong Kong, February 2009

"I'm going to give you a piece of advice. Those notes from classes in management control you probably got lying around somewhere – don't ever throw them away." The words belong to the Regional Manager of the International Finance Corporation, IFC that the authors had lunch with in Hong Kong. From his middle management position he observes the difficulties in maneuvering a 3000-employee organization with operations in 130 countries towards the same goal. He explains to us the complexity in which IFC, a developmental oriented bank, undertakes investments in developing countries and how the organization's strategy thereby comes to life.

After the lunch, the authors were filled with even more questions. If defining management control as the process by which managers influence other members of the organization to implement the organization's strategies, then how does the decisions-making process look like? For a large organization like IFC, how much is already decided upon once the Board makes the final call? How are projects evaluated? IFC has got its own measurement system for measuring an intended outcome with an actual outcome, but what do they really measure? And when an investment opportunity is revealed at the hierarchical bottom, what forces are gathered to pull the investment upwards through the organization? The authors were exhausted with a lot of questions on that particular day, but few answers. The thought of a case study of IFC was emerging.

Stockholm, May 2009

This master thesis addresses financial players with long-term goals of achieving value-adding outcomes from investments. Theories, models and analyses presented are applicable for studies of all companies making financial investments in order to create value; from financial value i.e. financial profitability in Private Equity firms to developmental value i.e. developmental impact in governmentally owned organizations. We also believe that all private sector companies with increasing public pressure to meet multiple social demands can learn from the IFC and how they manage to incorporate the mission into the investment decision.

1.2 Research gap

This study aims to illustrate a complete investment decision process and illustrate what factors affects the process. In particular, this study will explore decision processes that intend to achieve corporate long-terms goals and strategic priorities; defined by several researches as strategic investment decision processes. *(Marsh et al., 1988; Bulter et al., 1991; Slagmulder, 1997).*

To reach strategic goals, management control systems are implemented to control the organizational behavior and decision-making. *(Merchant 1985).* Despite the frequent use of management control

systems, most research related to strategic investment explores specific strategies for *project selection*, often based on financial justifications like internal rate of return, discounted cash flows and net present value. *(Pike 1983; 1988; Haka et al., 1985; Klammer et al., 1991).* However, many researches claim that investment decisions can not be explained by only the financial rationalization *(Ahorni, 1966; Bower 1970; King 1975; Mintzberg et al., 1976; Hickson et al., 1986; Butler et al., 1991; Slagmulder, 1997).* The general conclusion is; investment decisions are more complex and less systematic in reality than implied by financial theories *(Brealey and Myers, 1988).* The first research gap is the limited amount of studies concerning management control throughout an investment decision process.

Even though most research about investment decision processes was conducted already in the 1980s, the research to date still reveals a gap between the simplified theories and its complex practice *(Northcott, 1991; Pike, 1996; Arnold and Hatzopoulos, 2000; Mouck, 2000; Sofian et al., 2004).* The few studies that actually have attempted to describe the problems have been conducted based on surveys *(Pike and Wolfe, 1988; Klammer et al., 1991; Pike, 1996; Farragher et al., 1999).* However, due to the complex nature of strategic investment decision researchers claim that the process can not be fully examined in surveys. *(Slagmulder, 1997)* To conclude, little is known about management control problems related to strategic investment decision, and since surveys are not complete, several researchers express a need for further case studies at managerial and behavioral level during an investment decision process. *(Marsh et al., 1988; Pike, 1996; Arnold and Hatzopoulos, 2000; Slagmulder, 1997)* The second research gap is the limited amount of *case studies* that explore investment decision processes.

There are a number of case studies that emphasize on organizational and behavioral issues of management control that affects the investment decision process. *(Ahorni, 1966; Bower, 1970; Carter, 1971; Marsh et al., 1988; Butler et al., 1993; Hickson et al., 1986)* However, all studies explore privately owned manufacturing companies exploring capital investment decisions related to production. The third research gap is the non-existence of studies that explore the investment decision processes in the financial sector.

1.3 Aim and research question

Our study aims to illustrate how an investment decision process can be constructed to reach organizational goals and what factors related to management control affects the process in the financial industry. Firstly, this is interesting due to an increasing global pressure on companies to fulfill social, political and environmental demands that should be taken into consideration when making decisions. Secondly, the research will be useful to receive a deeper understanding of decision making in the financial industry. Thirdly, this is interesting due to the research gap. The vast majority of pervious research focuses on resource allocation decision in manufacturing companies or the financial calculus as decision basis in financial companies. Little research focuses on the investment decision process as a whole in the financial industry. Therefore, this study aims to investigate and answer the following research question:

"*How can management control tools be used during the investment decision process to reach corporate missions in the financial industry?"*

1.4 Study object

This study will examine how the World Bank's arm for private sector investments, International Finance Corporation (IFC), has constructed their process of making investments. IFC is a developmental bank that provides financing to companies within the private sectors in developing nations. IFC do this in partnership with private investors, through loan and equity finance. The mission is to create new jobs and overcome poverty in emerging markets. The IFC is an appealing organization for this study due to four reasons:

1. **Mission**: A developmental bank with several conflicting objectives, in contrast to previous research's profit maximizing manufacturing companies.
2. **Ownership:** The bank is collectively owned by 179 governments, in contrast to previous research's privately owned companies.
3. **Process:** IFC has a well formalized investment decision process.
4. **Control:** IFC is a highly centralized global bank with offices in more than 80 countries.

1.5 Findings

The analysis shows four main findings in contrast to previous research. Firstly, the investment decision process in a developmental bank is much more complex than the equivalent in manufacturing companies. This since when evaluating a developmental project many factors have to be measured and decision are taken at several instances with many people advising on the decision. Secondly, the kind of ownership affects the process. The institutional legitimacy and political conflicts need to be taken into considerations. Thirdly, the intention with the investment whether it shall improve operating activities or be a financial investment also affects the process. For a capital investment, accountability is not important. For a financial investment it is important to have an appropriate performance measurement system to evaluate the investment and to hold people accountable since the goal is to add value and divest the investment. Fourthly, the institutional environment affects the choice of management control systems.

Moreover, the study finds that IFC has developed an investment evaluation system that takes more aspects than just financial into consideration. The tracking system is appreciated at the IFC and the authors believe both developmental organization and corporations that are concerned about stakeholder can learn for it.

1.6 Limitations

This thesis will look at the internal investment decision process and not evaluate it from the client's point of view. Due to confidentiality we have not been allowed to interview IFC clients. Also, the IFC is undergoing changes in organizational structure but this thesis analyzes IFC as of today.

2. Method

This part aims to explain the research method used to answer our research question. We will start by explaining the choice of field and research problem and thereafter describe our method for data collection and processing. Finally we will discuss the study's validity and reliability.

2.1 Choice of field, organization and research problem

2.1.1 Field

The first choice to consider when writing a Master Thesis is what field to study. Since both authors have enjoyed management control courses, writing a Master Thesis within this area was the natural choice.

2.1.2 Organization

The majority of management control thesis are qualitative studies of human behavior were case studies are the most appropriate method. When finding a research problem, Booth et al. (2008) recommend asking ourselves what organization we would like to be "an expert" on? One of the authors did an internship at the IFC Beijing office and dreams about a future career within the organization. The other has a strong interest in Asia. We therefore wanted to study the IFC. Also, the already established contact with IFC Asia Pacific granted us access to the otherwise restricted organization. Finally, the authors were aware of that the IFC recently implemented a formalized investment decision process.

2.1.3 Research problem

The research problem was identified after choosing field of study and organization. What critically determined our research problem was that little research had been conducted on investment decision processes. We identified appealing research gaps to fill. As Booth et al. (2008) recommended, we formulated out research problem as following:

1. **Topic**: *We are studying how decisions are taken within the IFC*
2. **Questions:** *because we want to find out how an investment decision process can be constructed to reach multiple organizational goals,*
3. **Significance**: *in order to help our reader understand how to control an organization to fulfill its mission.*

2.2 Choice of method

2.2.1 Theoretical and empirical findings

The aim of the study is to illustrate a complete investment decision process and illustrate what factors affect the process. The study will analyze the empirical findings through a theoretical framework based on pervious research theories. By revising previous research we will gain a deeper understanding about the subject while presenting a detailed academic framework that will be used as foundation for our analysis. *(Trost, 2002)* Our empirical findings will contribute to research by filling out existing gaps and adding new knowledge.

2.2.2 Qualitative or quantitative methods

The next question is the choice of method; qualitative or quantitative? Due to the nature of our descriptive research question – a qualitative approach is most suitable. *(Merriam, 1994)* Qualitative

research methods give a more detailed analysis with wider interpretation than quantitative methods that aim to accept or reject quantifiable hypotheses. *(Alvesson & Sköldberg, 1994)*

2.2.3 Case study

Finally, our research question asks "How" a decision process can be constructed. Case studies are preferred when analyzing present events asking "Why?" and "How?". *(Merriam, 1994)* The advantages with case studies are firstly that complex phenomenon can be illustrated. Secondly, several kinds of empirical material can be used. Thirdly, case studies are preferred when exploring an area in which theory is undeveloped. *(Merriam, 1994)* The IFC investment decision process is a complex procedure where both interviews and written documentation will be used to describe the investment process and filling research gaps.

There are disadvantages with case studies. The authors' objectivity can be harmed. *(Merriam, 1994)* This will be discussed in the reliability section. A second disadvantage is that general conclusions are hard to draw out of one single case. *(Dyer & Wilkins, 1991)* However, investigating only one setting better fulfills the objectives of a credible and coherent case study. *(Dyer & Wilkins, 1991)* Due to the limited size of this Master Thesis we prefer investigating one case in depth than scratching several cases on the surface.

2.3 Connecting method to theory

When relating method to theory an inductive, deductive or abductive approach can be used. The inductive approach uses multiple case studies; hence general conclusions can be made. The deductive reasoning, starts with theories that are later applied on a case study. The third method, abductive, combines the above methods, hence starts with empirical findings but uses a theoretical framework as basis. *(Alvesson & Sköldberg, 1994)* Our chosen case study allowes us to use the abductive approach by collecting empirical data and analyze the findings using our comprehensive model for investment decision processes.

2.4 Method for data collection

Using a case study method opens up for several approaches to collect data. Interviews are the main sources of information for qualitative studies. *(Merriam, 1994)* Further, interviews are important for case studies since the majority deals with human interaction. *(Yin, 2003)*

2.4.1 Direct observations

The two researchers have jointly visited a regional office and performed interviews during two weeks in February 2009. Further, one of the researchers has spent six weeks at a local office during the summer 2007 doing an internship. The direct observations facilitated our understanding of the process and helped us ask sharper questions during the interviews.

2.4.2 Choice of respondents

When conducting a qualitative study, respondents should be selected based on information they can provide. *(Langemar, 2005)* As we are investigating a full investment process, from initiating to board approval, it has been important to interview people on all hierarchical levels due to their ability to influence decisions. Additionally, all the respondents have worked for IFC many years and at different offices across the world. Interviews were made with respondents working at local

offices, regional offices and headquarters. For our case study this means in Beijing, Hong Kong and Washington. The authors made a field study of the regional office in Hong Kong since that office has strong decision power and good insight in the entire process. Interviews with the Beijing office and the headquarters in Washington were made over the phone.

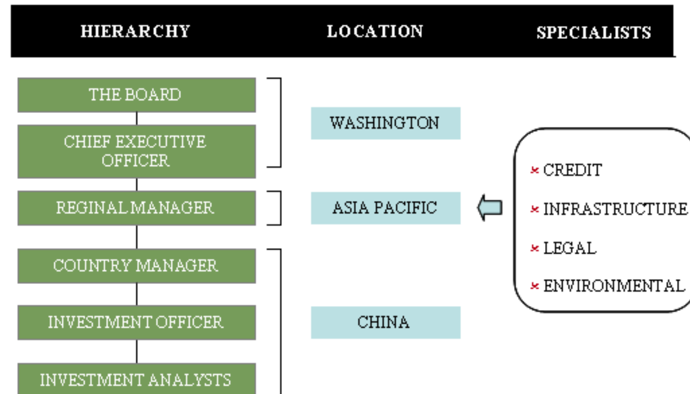

Figure 1. Respondents

To understand the Board's and senior management's corporate point of view we interview the Chief Executive Officer of the IFC. We also interviewed a special advisor in Washington who works closely with the senior management. At the regional office in Hong Kong, we first interviewed the Regional Manager of East Asia Pacific to understand the middle manager's situation. Thereafter we interviewed five key persons who influence the investment decisions; a regional investment officer, a credit officer, a legal consultant, an environmental specialist and a business developer. The Country Manager of China at the Beijing office was interviewed over the phone, also to understand middle managers view. Additionally two investment officers in Beijing provided us with information about the sub-units needs and told us about a specific project. The officers were chosen since they were responsible for a project that one of the authors participated in during the internship at the Beijing office. That project will be further analyzed in this case study. Moreover, we chose to interview two investment analysts who have left the IFC to work in the private sector.

2.4.3 Performing the interviews

Booth et al. (2008) recommends that the more the researchers plan by determining exactly what one want to know before an interview, the more efficient and more precise data one will. But he warns to be too specified in the preparation. Therefore, we used a semi-structured approach and planned interviews by determining topics to discuss, without stipulating specific questions. Both authors participated in all interviews except for one. Some researchers may argue that it was unfortunate that we were not allowed to record the interviews, since recording guarantees that the data is correct. *(Alvesson & Sköldberg, 1994)* Other researcher claims that not recording enhances the quality of the data and makes the interview more informal and accurate.

2.4.4 Written documentation

The third source of data used in this study is written documentation. Annual reports, external independent investigations by different organizations and published reports by the IFC enhanced our understanding of the organization. Also, IFC has a comprehensive homepage with useful information and inclusive data. We have also had access to a few internal documents, among one a detailed description of the instances of the formalized investment decision process.

2.5 Processing the data

During the internship at the local office, the author took extensive notes that helped the authors to formulate interview questions and identify issues with IFC's investment decision process. Notes

were taken during the interviews. Straight after the interview we discussed our impressions and wrote down our findings. Thereafter we categorized interview topics and made a comprehensive computerized matrix over our findings to get a clear overview to assist comparisons. We did a similar matrix based on the theoretical data and merged the two models when doing the analysis. Together we scrutinized the IFC homepage to ensure we did not miss any valuable information.

2.6 Quality of the Study

When conducting a qualitative study the quality of the study is determined by its validity and reliability. *(Yin, 2003; Malterud, 1998)* Validity verifies how well our study measures what it intends to measure. Reliability relates to how the data collection and processing is conducted and if the same result would be reached if performed again *(Yin, 2003).*

2.6.1 Validity

Enhance validity means minimizing subjectivity of the study *(Yin, 2003.)* To handle internal validity we performed three actions. Firstly, we discussed the same questions, using our interview guide based on our empirical framework, with several people to ensure we understood the situation correctly. Secondly, we made interviews with people with different amount of responsibility during the decision process. This kind of triangulation, where the respondents represent different levels of the investment process, gave the authors different angles of the same problem. *(Yin, 2003)* Thirdly, we used triangulation by cross checking interview data with written documentation. *(Scapens, 1990)* Fourthly, the respondents were given anonymity to create a more open discussion and to reduce subjective behavior. Fifthly, the insight in IFC during the author's internship facilitated a valid picture of the corporation.. We believe we were given an honest picture of IFC's investment decision process and therefore understand its benefits, conflicts and problems.

External validity relates to a discussion about whether case studies are generalizable or not. As discussed above, the aim of a case study is to in depth study a certain phenomenon, which may not result in a general conclusion. *(Merriam, 1994)* However, validity determines whether findings are generalizable or not *(Yin, 2003),* hence suggesting that case studies lack validity. We are aware of this criticism and have taken the above stated actions to improve validity. Moreover, we believe that knowledge obtained from case study interviews is interesting since it may offer a foundation for more generally applicable theories.

2.6.2 Reliability

Reliability aims to ensure that the same findings would be obtained if doing the research again to minimized biases and errors.

Anonymity causes some problems to reliability. To mitigate this, both researchers have participated in all interviews except for one. *(Yin, 2003)* Notes were taken during all interviews and rewritten and discussed jointly straight after the interviews to ensure we understood the situation correctly. When any diverting views occurred, we contacted the respondents again to ensure its correctness and objectivity. Moreover, the interviews were semi-structured based on theoretical findings. Problems regarding reliability and validity can be minimized by stating the main conceptions of the study as well as how the data has been collected, analyzed and interpreted. (*Merriam 1994)* We hope that this above section has clarified our research approach for the reader and enhanced the study's reliability.

3. Theory

We start the theory section with a revision of previous research of investment decisions processes and a motivation of our choice of model. Thereafter the model is presented and other theories are added to it

3.1 Previous research

Most descriptive research about investment decision processes were conducted during the 1960s. The breakthrough came in 1970 when Joseph Bower published his "*Resource allocation process*"-model, which established the foundation for later research in this field. Bower analyzed the decision process through three perspectives; *definition, impetus* and *context*. Among Bower's followers were Ackerman (1970) who added a decentralization perspective, Steen Hemmingsen (1973) who developed the importance of control systems, Christian Junnelius (1974) who contributed with a system for following up investments and finally Paul King (1975) who stressed that corporate management needs to develop the process to entirely reflect the corporate strategy.

What all previous research about the investment decision processes have in common is that case studies are made on privately owned, profit maximizing manufacturing companies. Our study aims to fill out a research gap by examining an investment decision process in a developmental bank, owned by multiple nations.

Our study will use Bower's (1970) model since it describes three processes that we believe are essential to understand the investment process. First of all, our findings illustrate that investment projects are selected based on factors that financial models cannot assess, like reward systems and organizational culture. Therefore we believe that portfolio based financial models, based on an investment's Net Present Value of cash flows, are not enough to analyze how investment projects are selected. Secondly, in line with Bower (1970) our case study shows that project selection is an inseparable part of the strategic process carried out through the entire corporation. Investment decisions are taken at all levels of the organization and not only top-level management. Thirdly, both Bower's (1970) and our case study show that managers on different levels in the firm respond to different personal and unique set of incentives. The Bower Model (1970) helps us illustrate these facts.

Since our study intends to describe a developmental bank, contrary to previous manufacturing companies, we will expand the theoretical framework and integrate descriptive research into the Bower model.

3.2. The Bower Model Structure

Bower (1970) developed the model to help top management analyze the investment decision process so that strategic objectives and corporate missions are more efficiently achieved. The model highlights the individual forces that affect the investment process.

The model is based two on sub-processes and one contextual framework. The first process is project *"definition"* which examines how the project is measured in technical and financial terms. The second process *"impetus"* is how interpersonal or political factors move the project towards

funding. Both processes are influenced by a set of forces, called the *"Context"*, based on organizational structural and management control systems.

PROCESSES →

PHASES ↑

		DEFINITION	IMPETUS	CONEXT
CORPORATE		*Defining a project that reach the corporate mission*	*Personal motivation*	*Influence behavior by management control systems*
	Top Management	Reaching the mission	Gaining top management support; yes or no?	Implementing management control systems
INTEGRATION	*Middle Management*	Communicating the project	From idea towards funding by top management support and maximize their personal benefits	How can we change existing systems to reach corporate mission?
INITIATION	*Subunits*	Finding a project	Identify project they are willing to support	Do we need to change subunits behavior?

Figure 2, The Bower Model

Bower (1970) analyzed these processes in three phases of the investment decision cycle. In the *initiating phase* a potential projects is identified at the sub-unit. In the *integrating phase* the project is evaluated by middle managers in different instances throughout the organization. The *corporate phase* is when the investment is getting the board's final approval after top-management's recommendation. For each process there is one phase that is more distinctive than the others, hence more dominating.

In order to understand the model better, we start by distinguishing the characteristics of each process and thereafter describe what characterized each phase.

3.3 Definition process

Definition is the process by which the basic technical and economic characteristics of a proposed investment project are determined. (Bower, 1970, p. 67) During the definition process the firm identifies investment projects to invest resources in – to achieve strategic objectives. The project is thereafter defined in several measures to communicate the project through the organization. *(Bower, 1970)*

PROCESSES →

PHASES ↑

		DEFINITION	IMPETUS	CONTEXT
		Project defined in financial and technical terms		
CORPORATE	*Top Management*	▪ Aims to define top management's mission. ▪ Concerns triggered by discrepancies between company and environment.		
INTEGRATION	*Middle Management*	▪ Project transmitted upwards through organization. ▪ Support given if corporate missions are reflected through investment. ▪ Triggered by inconsistencies between sub-unit's and corporate needs.		
INITIATION	*Subunits*	× DOMINANT PHASE ▪ Identify need for resources to improve operating activities. ▪ Project defined in attractive measures to get approval. ▪ Triggered by discrepancy in product-market terms.		

ADDITIONAL THEORIES
▪ Strategy must be communicated to all individuals for appropriate decisions to be taken.
▪ Link between mission and every day operations.

Figure 3. Summary of key elements within the Definition process

3.3.1 Initiation Phase

The initiation phase aims to describe the process of identifying a project. The initiation phase is the dominant phase of the definition process. Often, a project is identified at the organization's subunit

since they are closest the market and to the information required for strategic investments. A project is initiated where the subunit identifies a need for resources to improve the operating activities. The definer must get his project approved by his division's general manager and he therefore defines the projects in attractive operational based measures. Measures are both quantitative and qualitative measures – for example operating efficiencies, technological competitiveness, higher output, market share, reduced cost and margins. Bower (1970) concludes that the initiating process is triggered by a discrepancy defined in product-market terms.

3.3.2 Integrating Phase

The integrating phase aims to communicate the project through the organization using different measurements. Bower (1970) says that the project is integrated through quantifiable measures that communicate sub-unit's needs and opportunities. During the integrating phase, the project is transmitted upwards through the organization to the top management. Top management's support is given to projects that manage to reflect corporate missions through the measures. There is thus a pressure on sub-units to propose projects that meet corporate goals in financial measures and at the same time reflect corporate needs. Otherwise, the project will not receive support through the integration. Moreover, the financial measures identified during the integrating phase will be the foundation for evaluating performance when the project is completed. The discrepancies that trigger action in the integrating phases are inconsistencies between the needs of sub-units and the corporate concerns. *(Bower, 1970)*

3.3.3 Corporate Phase

The corporate phase aims to determine how top-management evaluates projects and what measure they value the most. The top managers are concerned about their mission and translate it into measures of for example anxiety about corporate shares, cash flows and dividend policy. Also, top management is concerned about business government relations, policy towards labor force and international growth. Bower (1970) concludes that corporate management's concerns are triggered by discrepancies between the company and its environment.

3.3.4 Additional theories on Definition Process

The aim of the Definition process is to analyze how the organization makes decisions based on how projects are defined and related to corporate objectives.

By studying 25 investments decision processes Mintzberg *et al.* (1976), stresses the importance that strategy must be communicated to all the individuals in the organization to reinforce the organizational strategy. Firstly this is important since strategic decision processes are complex and open endless. Secondly, decisions are not made in one place, but through a diffuse and complex organizational process. Thirdly, in more than half of the study's 25 processes evaluated projects through bargain in group discussions where decision-makers had conflicting goal systems. Therefore, all individual must understand the corporate mission to take appropriate decisions. *(Mintzberg et al., 1976)*

Also Kaplan and Norton (1992) identifiy the importance of linking corporate mission to practical measures that could be used every day operations. Firstly they identify a need of a standardized set of measures to apply on all operational levels expressing the corporation's vision and strategy. Secondly, they notice the importance of communicating and linking manager's strategy up and down the organization by connecting top management objectives to individual goals. *(Kaplan and*

Norton, 1996a) They claim that shared understanding is important since individuals can distinguish how personal contribution affects the whole organizational success. (*Kaplan and Norton, 1996b)* Thirdly, they note that quantifiable measures provide the company with information and feedback, which can be used in the evaluation process. Finally Kaplan and Norton (1996a) conclude that by getting managers to think systematically, using a formal set of measures, the assumptions of the underlying strategy and decision-making is improved.

3.4 Impetus process

The rate of progress of a project up the hierarchy of management through various stages of approval to final authorization depends on the impetus given to the project. (Bower 1970, p. 57)
Impetus is the force that moves a project toward funding, hence the willingness of a general manager to commit him to sponsor a project. The in the model Bower (1970) assumes the general manager is rational with personal goals of economic wealth and power to influence affairs. A manager sponsors the projects that maximizes his own personal interest. How a manager anticipate that his superior manager will reward him is called "the rules of the game" in Bower's model.

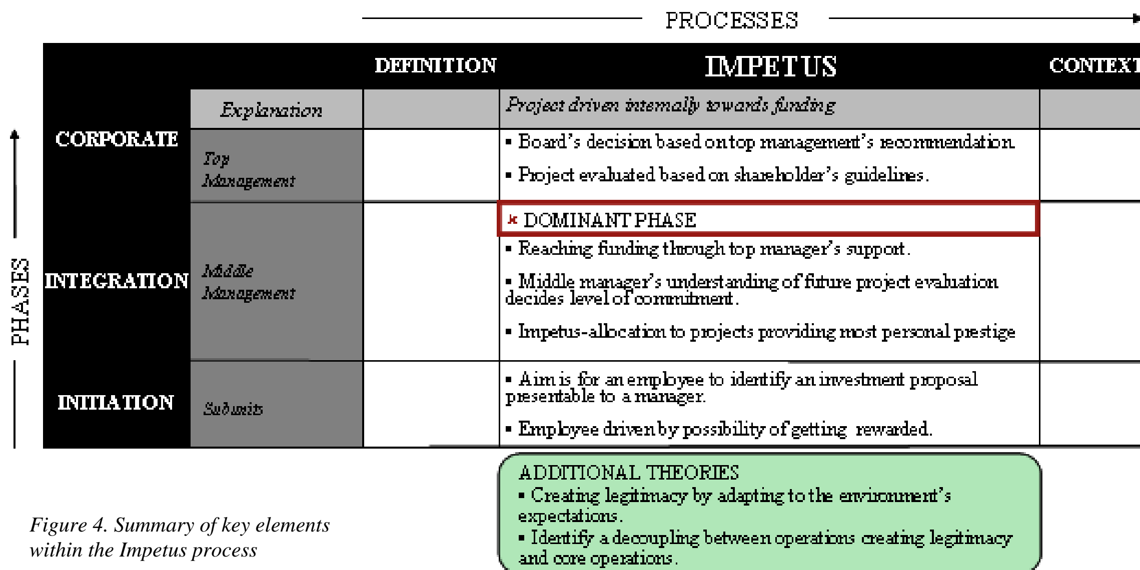

Figure 4. Summary of key elements within the Impetus process

3.4.1 Initiation Phase
The aim of the initiation phase is for sub-units to identify an investment proposal that they are willing to present to the middle manager. The first phase of the impetus process is a sub-unit employee stating: "I have an idea". He should believe that the idea is so good that by presenting it to the middle manager, he will be rewarded. *(Bower, 1970)*

3.4.2 Integrating Phase
The aim of the integrating phase is for middle managers to move the project from "idea" towards funding by gaining the top manager's support. The integrating phase is the dominant phase of the impetus process. Middle managers support projects according to their perception of the corporate "rules of the game" for evaluating managers. Firstly, middle managers are evaluating the quality of the project. This is determined by the middle managers' local expertise and market judgment. Secondly, the middle managers are estimating the "benefits of being right" versus the "costs of being wrong" for his personal benefits before making the sponsoring commitment. In a

commitment, the middle managers put his reputation, confidence and good judgment with his superiors, colleagues and subordinates on the line. Also, the middle manager knows that he will be evaluated and rewarded according to his performance. He will thus allocate the impetus to the projects that provide most personal prestige, reputation and financial compensation. Therefore, “the rules of the game” are seen as downward communication from top management in how the top management are judging performance. *(Bower, 1970)*

3.4.3 Corporate Phase

The corporate phase is the ultimate approval from the board and the “yes” or “no” decision is made. The final decision is based on the top management’s recommendation to the board. The board evaluates the project based on guidelines given by the shareholders. Often approval decision is delegated to a finance or appropriations committee. Thereafter, the project receives funding. *(Bower, 1970)*

3.4.4 Additional theories on Impetus Process

One may summarize Bower’s (1970) impetus process as the factors that drive a project towards funding by motivating managers to support a project. These factors can be both financial and related to personal influence. Other researchers claim that the force that drives a project towards funding can be explained by institutional theories.

Jansson (1990) stresses the importance of corporate culture as a factor within the investment process. Firstly Jansson (1990) analyses *why* there is a culture by tracing back corporate traditions. Secondly he analyzes *how* the culture is linked to individual’s actions.

Meyer & Rowan further analyze corporate legacy. The institutional environment is characterized by the rules and demands that the individual organization need to adapt in order to receive support and legitimacy from the environment. The underlying assumption is that all companies strive for creating maximum legitimacy and efficiency. The long-term effect of these actions of homogeneous behavior is called an isomorphic tendency among organizations. Meyer & Rowan refer to the actions that the organization is forced into as *rationalized myths*. The actions are rational since the environment experience them leading to maximum efficiency and myths since they are based on tradition rather than a proven effect. If a company is not viewed as legitimate they will, consequently, be forced out of a market. Therefore rational institutions create formal myths which outlines the shape of the organization. Meyer & Rowan conclude that organizations are institutions and subsequently subject to external effects and therefore the formal structure is in this sense nothing but a for ceremonial purposes implemented myth. *(Meyer & Rowan, 1977)*

Decision processes are often presented as “choices”. A way of understanding decisions is by looking at them as expressions from the institution to make decision that increase legitimacy and isomorphic behavior. This means that the decision-makers freedom of choice is limited since they have to adapt to current trends and procedures that create most legitimacy. In a wider perspective this limit implies a tendency not to follow the rational decision in achieving highest benefit for the organization, and instead but going along with unfavorable actions solely to confirm and create a myth. *(Meyer & Rowan, 1977)*

DiMaggio & Powell uses another way of analyzing the corporate culture and the formal structure. They start by distinguishing between institutional and technical environment and thereafter analyze

if a both activities improve the company's operating performance. The institutional environment consists of norms, rules, standards, regulations and the way the company presents itself. The technical environments are the production system, resources and practical factors directly related to the operating activities. Decoupling can be identified where actions to create legitimacy do not improve operating activities. Actions taken to create a formal structure do not necessarily improve the company's performance but are purely of ceremonial nature when communicated externally. *(DiMaggio & Powell, 1983)*

3.5 Context

Context has been examined as the set of forces, subject to management control, which are the principal influences on the processes of definition and impetus. (Bower, 1970, p. 78)
According to Bower (1970), there is a process by which organizational structure is developed, which is associated with management control systems. By successfully implementing control systems, top management is able to influence behavior during the definition and impetus processes. *(Bower, 1970)*

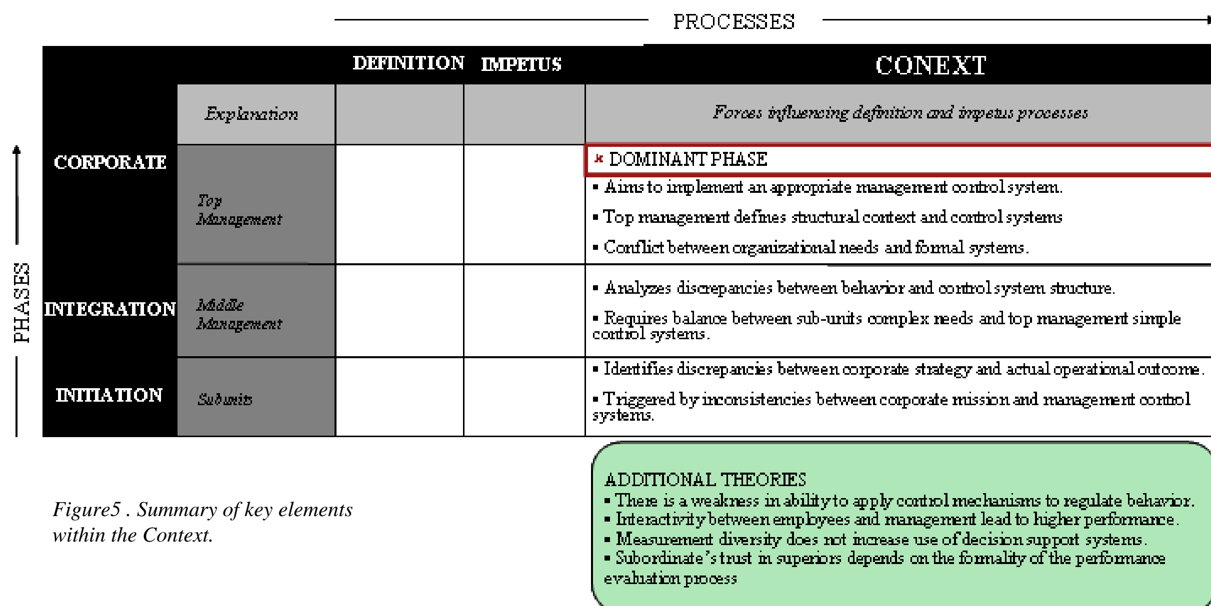

Figure5 . Summary of key elements within the Context.

3.5.1 Initiation Phase
The initiating phase aims to identify discrepancy between corporate strategy and actual operational outcome. The phase is triggered by inconsistencies between corporate mission and the management control systems aiming to affect sub-units behavior. *(Bower, 1970)*

3.5.2 Integrating Phase
The integrating phase aims to analyze the discrepancies in control systems between desirable behavior and the control systems structure. This integrating phase requires a balancing of the sometimes complex needs of sub-units, with the need for simple control system for the top management. *(Bower, 1970)*

3.5.3 Corporate Phase
The corporate phase aims to implement appropriate management control systems. The corporate phase is the dominant phase of the context. It is mainly the top management who defines the

context and the management control systems since all of its elements are subject their control. There is a balancing of the sometimes conflicting needs of the organization with the formal systems. *(Bower, 1970)*

3.5.4 Additional theories on Context

Bititci *et al.* (2004) conclude that measurement systems, organizational culture and management control systems are related to each other. This is in line with Bower's model since it connects definition processes of measurement systems and impetus processes of organizational culture to the context of performance measurement systems.

In 1980 Otley and Berry identify control procedures as essential features of organizations. In addition, Otley and Berry (1980) proclaim that there should be a tight link between a company's measurement systems and its strategy since organizational objectives often are vague an ill implemented into the performance measurement systems. This way more effective control over investments will be achieved.

The first aim of formal management control systems is to control organizational behaviour by a performance measurement system. To start, Tenhunen *et al.* (2007) say that the main purpose of performance measurement systems is to create reliable information that supports decision and affects behaviour. Secondly, Tenhunen *et al* (2007) declare that it is important that the employees understand *why* something is measured as well as *how* personal goals are related to the corporate objectives. When implementing reward systems related to personal goals, it is important for sub-unit employees to understand the link to personal performance and that the reporting systems are uncomplicated. Tenhunen *et al.* (2007) conclude that when operating with a performance measurement system, the increased interactivity between the management and the employees leads to higher performance.

The second aim of formal management control systems can be the headquarter's aim to monitor local offices and thereby influence the local offices decisions. *(Dossi and Patelli, 2008)* One may argue that the more factors an organization measures, the better foundation for evaluating investments, hence the better decision making. However, Dossi and Patelli (2008) conclude that measurement diversity does not increase the manager's use of the systems.

The third aim of formal management control systems can be to enhance trust between superior and subordinated managers by a performance measurement system. Hartmann and Slapnic (2008) argue that subordinate's trust in superior managers depend on the formality of the performance evaluation process. They distinguish between superior's informal control, in form of social norms and corporate culture, and formal control, in form of performance measurement systems. Hartmann and Slapnic (2008) claim that superiors who express clear performance targets, measured by simple metrics will deliver more consistent and accurate performance evaluation, than superiors who rely on subjective targets and personal judgment.

Scholars have however discussed the effect of formal investment planning systems upon financial performance. Stagner (1969) found that formal planning and control was related to profitability.

4. Empirical Findings

The following section is a presentation of the empirical findings i.e. a detailed description of the IFC as a company and the IFC investment cycle. The investment cycle is presented in chronological order – from project identification to closing – by for each part of the cycle providing a picture of the formal guidelines, employees' general description and employees' description of a specific case.

4.1 IFC

The International Finance Corporation (IFC) was established in 1956 and is part of the World Bank Group. Today, IFC is the largest multilateral financial institution investing in private enterprises in emerging markets. IFC has activities in 130 countries with more than 3000 employees in over 80 countries. *(Annual Report, 2008)* In 2008 IFC made a net income of USD 2 billion, and reinvested the profit into the organization by financing IFC's growth. *(CEO)*

4.2 IFC Mission and Strategy

The IFC strategy is determined by the World Bank and IFC standards. The Group's 181 member countries provide IFC with capital and the member countries collectively determine IFC's standards through country representatives in the Board of Directors. IFC share the mission with the World Bank: *To fight poverty with passion and professionalism for lasting results. To help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors. (IFC Mission)*

To reach the mission, IFC's strategy is to provide long term loan and equity finance as well as advisory service for private sector companies in developing countries within the World Bank Group. By doing so, IFC promote sustainable development, helps to expand developing countries economies, create jobs and give people the opportunity to escape poverty to improve their lives. *(CEO)* Investments typically range in size from $1 million to $100 million. *(IFC's Role and Additionality)* But IFC does not want tight control of the company and never invest in more than 10%-20% of the shares. Moreover, they never invest in governmentally owned companies to avoid corruption, which is large problem in the developing countries where IFC operates. *(CEO)* The IFC strategy is to make more equity investments. Out of IFC's total investment portfolio today, 25% is equity investment and 75% long term loans. *(CEO)*

The role of IFC is to provide financing and services to companies that would otherwise not be able to receive financing from commercial financiers. IFC calls the value they add *additionality* and is created in four different ways. The first way is *financial risk mitigation.* IFC supply the client with financial products and services that are not readily available elsewhere in the country. Examples are longer term financing, local currency financing, and tailored structured financing products. The second way to create *additionality* is through *knowledge and innovation.* IFC provide global expertise and sector knowledge to improve the client's operations. The third way is *standard setting.* IFC advise the client to fulfill global environmental and social standards like for example corporate governance, energy efficiency and emission reduction. IFC aims to act as a standard setting. The fourth way to create *additionality* is through *policy work;* IFC improve the investment climate for the private sector through advice to governmental units, which can help strengthen regulatory foundations and relevant laws. *(IFC's Role and Additionality)*

To reach the mission IFC has two strategies. Firstly, each country has developed their own strategy on how to increase development based on country specific needs. For example, China's main focus is reducing emissions to address climate change, increase investment in western, rural China, to reduce regional inequalities and support small and medium sized enterprises. *(Country Manager)* The regional manager prefers making many investments that reduce emission a lot to get a very high number rather than doing a little of everything. This will give him a higher hit rate during the evaluation process. Secondly, each country has a volume-target in terms of dollars to invest per year. *(Regional Manager)* To have a volume target is a debated and sensitive question at the IFC. Some employees claim that that the volume targets can be helpful since country managers can plan their own budget to reach the country developmental goals. *(Special Investment Advisor)* Other claims that large projects in urban areas are chosen to easily fulfill the volume targets. These are necessarily not the projects with the most developmental impact. *(Environmental Advisor)*

4.3 The trade-offs

As illustrated above – there is always a trade-off between the sustainable development and the profitability of a project that affect the IFC investments. To understand IFC, we have identified three concerns that are affecting the choice of investments

Firstly, there is a trade-off between *sustainable developmental and profitability.* Making money while helping poor is sometimes seen impropriate by the public *(CEO),* and in the IFC Annual Report 2008 the word "profit" is not even mentioned. But the country manager says that project needs to be profitable to be developmental and good practice. *(Country Manager)* Also the regional director says that if a project is unviable, it gives low return, eventually closes down and people loses their jobs – therefore good projects are profitable. *(Regional Manager)* But some employees feel that IFC sometimes priorities the financial stability to the developmental impact. *(IO A, BJ; Environmental Advisor)* This is unfortunate, since when IFC takes risk and invests in frontier regions it both creates strong developmental impact and being first often means making a lot of money. *(Environmental Advisor)*

Secondly, there is tradeoff between *urban and country side efficiency.* The IFC strategy is to focus more on the poorest countries. *(CEO)* Projects with large development impact are usually situated in frontier markets, and are both risky and not very efficient to implant due to lack in infrastructure. *(Credit Risk Advisor)* The local Investment Officers prefer doing 10 developmental projects in the most needed, poor areas in Mongolia than one very profitable big investment in Shanghai. *(IO B, BJ)*

Thirdly, there are concerns regarding *shareholder country interests*. There are also political concerns to consider. Each shareholder country's Board representative reflects his country policy. A former investment assistant say that: "*Sometimes a project is surprisingly rejected for a political reason that does not become known until much later". (Investment Analyst A).* But the regional manager points out that he is reluctant to support politically sensitive projects, since he knows most will be rejected by the board later on. *(Regional Manager)* And the investment officers say that people at IFC "know" what is politically accepted or not. *(IO, HK)* However, the country manager claims that most political issues are mitigated already in the country strategy. *(Country Manager).* The infrastructure advisor points out that he is *"too low in the organization to be affected by political issues" (Infrastructure Advisor).*

4.4 IFC investment Cycle

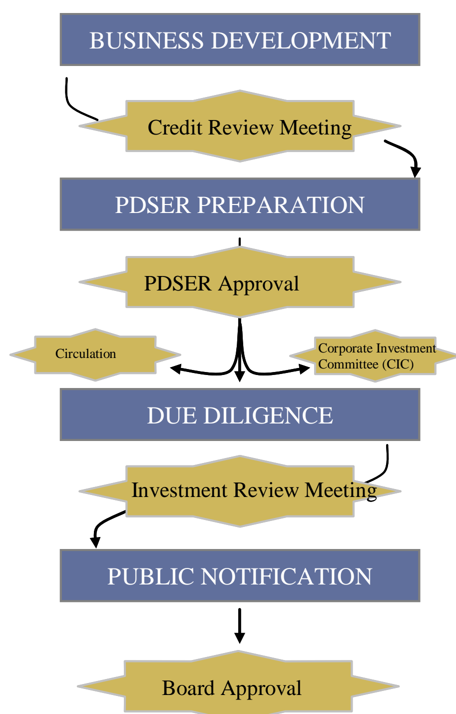

Figure 6. The IFC project cycle

IFC has a formal investment decision process. Over the last couple of years the CEO of IFC has strived to delegate more authority to field offices. IFC used to be a highly centralized organization, with all decision made at the headquarters in Washington. With the new IFC investment cycle, which is presented below, the project cycle time is now reduced from 240 days to 140 days. *(Country Manager)*

4.4.1 Business Development Process

With guidance from IFC strategic goals, investment officers at the local offices identify suitable projects and creates a two page concept note. Project are identified either by investment officers actively searching for projects, by professional investment brokers coming to IFC or by the client seeking IFC financing directly. *(IO A, BJ)* The first client contact is a low-level conversation to understand the client's needs and to make a first assessment of the company as a potential investment. It is at this stage important that the investment team is aware of the IFC strategic goals to reject bad projects early on. *(Credit Risk Advisor)* For the investment teams, this is a time consuming part of the investment cycle since a lot of projects have to be screened. *(IO A, BJ)* Before the meeting, a two-page concept note has been distributed to decision makers. The note is written by the investment officer and communicates the client's background and how the project fits IFC's strategy. *(IO, HK)* A local investment officer estimates that out of 100 projects that he screens every year, he rejects 80, and only takes 20 to the *Concept Review Meeting. (IO B, BJ)*

4.4.2 Concept Review Meeting

The investment officer signs up his project for the weekly *Concept Review Meeting*. The meeting takes place at the local office with the country manager and investment team. The regional director, credit managers and industry specialists from Washington are also participating on the phone. *(Infrastructure Advisor)* What they look for in a project is that it meets the IFC *additionality* objectives to make sure IFC take a role no other investor can play. *(Country Manager)* The meeting takes around 20 minutes and the local investment officer estimates that half the projects are approved. *(IO B, BJ)*

4.4.3 Project Data Sheet Early Review (PDSER) preparation

After approval, the local investment officer, together with one or two assistances, prepares an 8-12 page document called *Project Data Sheet Early Review (PDSER).* The PDSER contains a detailed description of the project that explains IFC's role, the anticipated contribution to development and benefits to stakeholders and any potential deal-breakers. Lessons from previous projects are considered and sometimes a pre-appraisal visit is carried out. *(IO, HK)* Moreover, the general DOTS have to be filled out. *(See Appendix 1)*

IFC has developed a standardized system of measuring and quantifying a set of key indicators systematically – *Development Tracking Outcome System* (DOTS). The aim is for the IFC strategy to

systematically be implemented downwards the corporation to ensure investments are consistent and in line with the mission. *(Credit Risk Advisor)*

Basically DOTS consists of five categories of indicators set up track and measure what management wants to get measured. The investment team at the local office has to fill out the scorecard in cooperation with industry, environmental and social advisors. Firstly, the investment team estimates financial indicators since a project has to be commercially viable and sustainable. Secondly, they measure indicators for developmental impact to estimate value-adding effects that would not have occurred if the project was never done. Thirdly, the team estimates the environmental impact like pollution and CO_2-emissions. Fourthly, the social impact is measured in terms of how many skilled/unskilled jobs will be created. Fifthly, other project specific outcomes should be measured. *(IFC's Role and Additionality)*

One can say that there are two levels of how DOTS works – on project level and corporate level. On a project level DOTS tracks projects throughout the entire process. On a corporate level DOTS is a tool to make sure the projects meets IFC standards. *(Environmental Advisor)* The purpose is also to measure investment officers promises to the board since it is easy to make promises but hard to keep them. *(Legal Advisor)* The system is unique to IFC and even the World Bank is impressed by it and learning from it. *(Regional Manager)*

However, IFC employees express concerns regarding the actual benefits and daily usage of DOTS. One investment officer calls DOTS to be "*a pain for the investment officer"* since the advantages and benefits do not cover up the amount of time and effort vested into getting it properly filled out. He believes senior managers take DOTS more importantly than the investment officers do. Moreover, some of the measures are not related to developmental impact and sometimes it feels like people are running around looking collecting numbers with out seeing the whole picture. *(Environmental Advisor)* On the other hand the investment officer concludes that, "*filling out DOTS is a useful exercise view of how the project fits the larger perspective.*" *(IO, HK)* DOTS is a step in the right direction but much work is yet to be done. *(Environmental Advisor; Legal Advisor)* The Special Investment Advisor at the headquarters conclude:*" I think we can proudly say that this is the best development outcome tracking system available in the world and IFC has been a front-runner on this." (Special Investment Advisor)*

4.4.4 Project Data Sheet Early Review (PDSER) approval

When a PDSER is filled out, the decision has to be taken whether to authorize project appraisal or not. This can be done in two ways. If the project is controversial, a Corporate Investment Committee (CIC) in Washington has a meeting to make the decision. The CIC consists of vice presidents for different areas; risk, advisory, financial, the region, infrastructure, environmental and social as well as the CEO. The second way of approval is by regional delegated authority, which means that industry director, regional mangers and chief credit officer approves the projects. This approval is the most common. The local investment officer anticipates that out of the 10 projects he brings through PDSER each year, about five of the projects are approved. *(IO B, BJ)*

4.4.5 Appraisal (Due Diligence)

During the *appraisal*, the goal for the local investment team is first of all to produce a multi-hundreds ages investment review binder (Decision Book) consisting of client background check, project description, financial projections, audit report, industry expert report and environmental

report. *(Credit Risk Advisor)* Secondly, the project team negotiates the term sheets with the client for IFC's participation in the project. These include conditions of disbursement and covenants, performance and monitoring requirements, agreement of action plans and resolution of any outstanding issues. The term sheet needs to be agreed by the client after the *Investment Review Meeting*. *(Infrastructure Advisor; IO, HK)* The investment team must be confident that the client is able and willing to meet IFC standards and work with them to improve the sustainability of their enterprise. *(IFC Annual Report 2008)* Therefore the IFC investment team has close contact with the client and visits the company frequently. *(IO A, BJ)*

Moreover, the local investment team has to complete the full DOTS. The investment team is supported by a lawyer, an environmental and industry specialist and an engineer. Industry and market specialists are consulted and technical specialists from Washington are called in to give their opinion on issues in areas not covered by local officers. The regional director is aware of that DOTS is easy to manipulate and hard to measure due to the facts that DOTS is based on a subjective evaluation. *(Regional Manager)* However, the regional investment officer claims that credibility is achieved through accuracy. "*It is possible to manipulate DOTS to show strong developmental impact but you don't want to be too far off in your predictions since it shows when the project is evaluated later on. At IFC you are rewarded by credibility and not financial benefit – Reputation counts for a lot.*" *(IO, HK)*

4.4.6 Investment Review Meeting

At the *Investment Review Meeting*, the project team presents the project to IFC's management, who will decide whether to approve the project or not based on the information presented in the project binder. For the managers, this is the key stage in the investment cycle since their recommendation often results in board approval. *(Special Investment Advisor)* The meeting also takes place in the head quarters chaired by the Industry Director, with the investment team, country and industry managers, credit officer, equity department, legal advisors, environmental and social advisors. During the meeting, which usually lasts for three hours, all details regarding the proposed investment are presented. *(IO, HK)* Final equity and loan term sheets are agreed upon. If the client lack some of the things specified in the agreements, the investment team goes back to the client with compliance steps that the client has to fulfill. *(Credit Risk Advisor)* Out of the five projects the investment officer present at the *Investment review meeting* every year, he estimates that four are approved. *(IO B, BJ)*

4.4.7 Public Notification

If the project is accepted during the *Investment Review Meeting*, a *Summary of Proposed Investment* (SPI) for the project is published on the IFC homepage before the project is submitted to the Board. The reason is to let the public, and especially NGOs, have time to analyze and examine the project. However, during his 10 years at the IFC, the investment officer has only received six phone calls regarding his projects. *(IO, HK)*

4.4.8 Board Approval

The project summary report is submitted to IFC Board of Directors and approved by either circulation among board member or by full board approval. The full board approval by voting is for projects that are controversial or politically sensitive. *(Special Investment Advisor)* Few projects are put to vote, the majority approved by circulation. The legal advisor says that he "*is not aware of projects not getting approved*" *(Legal Advisor)*, although changes sometimes are made to the terms

of the project. Also, the *Investment Review Meeting* is more crucial and the Board usually follows that recommendation of senior management. All in all he concludes that out of the 100 projects he screens every year, only two or three receive funding. *(IO B, BJ)*

4.4.9 Commitment and disbursement

After the Board approval, IFC and the client company sign the legal agreement for the investment. Funds are paid out in different stages when the client has fulfilled the IFC criterion stipulated in the agreement. (IFC *Annual Report 2008)*

4.4.10 Project Supervision and Development Outcome Tracking

IFC monitors investments to ensure compliance with the agreement. The client submits regular reports on financial as well as social and environmental performance. IFC tracks the project's contribution to development against key indicators identified by the DOTS at the beginning of the investment cycle. *(IFC Annual Report 2008)* By tracking the developmental outcome in DOTS, the investment analyst says that IFC is good at fulfilling their mission. *(Investment Analyst B)*

4.4.11 Evaluation

IFC evaluates projects on a regular basis. Firstly, to help improve the operational performance, annual evaluations are conducted based on a random sample of projects that have reached more than five years. Secondly, to further track project outcomes, IFC has involved *an Independent evaluation group* that is not within the IFC. The group reports directly to the Board and is also involved in the development of DOTS. *(IFC Independent evaluation group)*

Even though projects are evaluated thoroughly, the general opinion among IFC employees is that the corporation lacks a system to hold people accountable for decisions. The IFC consider themselves a bank, but the environmental specialist believes IFC does not act like a bank. Commercial banks have goals to maximize shareholder value and bonuses are paid out related to financial performance of the investments they were accountable for. *(Environmental Advisor)* IFC have the DOTS system to track the investment's outcome though several indicators, but the DOTS are not connected to the evaluation of individual performance. The credit manager concludes: *"Today, no one bears the responsibility over an investment. No one can be held accountable for a decision. More formal policies and tighter control have to be established." (Credit Risk Advisor)*

No one has ever been fired due to poor performance. *(Environmental Advisor)* Today, only a small amount of flexible monetary compensation is paid to investment officers and manager. The small bonus is however something investment officers seems to be reluctant and a little embarrassed to talk. *(Special Investment Advisor; IO, HK; IO A, BJ; Regional Manager)* The compensation is based on a "Deal Sheet", which is a list of all projects the investment officer has been involved with. *(Special Investment Advisor)* The compensation is linked to performance 4-5 years after closing and vaguely connected to level of participation within the project. *(Regional Manager; Environmental Advisor)* The Environmental specialist says IFC investment staff have little incentive to work hard since there is no flexible salary related to performance of past investments. Consequently, since IFC compete with high-bonus investment and private-equity player, IFC are not likely to attract the best investment staff. Over the last booming years many investment staff have left IFC for better-paid jobs in the private financial sector. *(Environmental Advisor)*

But the investment officer in Beijing stresses that the main motivation and evaluation basis should be the developmental impact. He says, *"if monetary reward is the main reward, you should be working somewhere else." (Special Investment Advisor)* The general conclusion is that the credibility that come from the reputation of a manager's investment is what determines rewards at the IFC. *(IO B, BJ; Credit Risk Advisor; IO, HK)* The Environmental specialist claims that *"IFC need to figure out how to use DOTS more efficiently"* but he conclude that it probably would be hard to change the IFC to established bonus programs like the private bank. *(Environmental Advisor)*

4.4.12 Closing
IFC closes their books on the project when the investment is repaid in full or when they exit by selling their equity stake. The goal is to help the client reach a high level of sustainability that will continue long after IFC involvement has ended. *(IFC Annual Report 2008)*

To summarize, IFC's investment cycle have four instances where decisions are taken; *Concept Review Meeting*, *PDSER, Investment Review Meeting* and *the Board Approval*. Before each approval the local investment team, led by an investment officer, investigates the project, negotiates investment terms with the client and prepares the documents that the decision makers base their decision on. To communicate the IFC mission and strategy, the Developmental Outcome Tracking System (DOTS) is used throughout the process. A disadvantage is that the system is not related to personal evaluation, which reduces accountability. To understand how the process works in reality, the following part is a case study of an IFC investment.

4.5 A Case Study of the Salt Project

The Salt Project was found in September 2007 when an IFC employed read a news paper article about the Salt Company. The employee had been asked to map China's top 10 salt producers in terms of revenue and profitability. The Salt Company was China's fourth largest salt producer, and had recently been privatized. Additionally, it was the largest privately owned company and the most profitable Chinese salt producer. Moreover, it was located in the rural parts of the Sichuan province in western China. The competitive landscape was good with China as world's second largest salt producer with large salt resources. The salt demand was huge with 80% of the world's produced salt used in the chemical industry and China's construction industry was booming. Both Investment Officers in Beijing realized that *"the deal fitted very nicely into the IFC investment strategy". (IO B, BJ)* They made a field visit to the company in Sichuan in December 2007 to understand the company and its needs. Thereafter they decided to bring the Salt Project to the *Concept Review Meeting*. *(IO A, BJ)*

At the *Concept Review Meeting* in February 2007 two concerns were brought up. Firstly, the company was recently privatized and the IFC decision-makers wanted to make sure that the privatization process was done in a transparent and professional manner. Secondly, extracting salt requires a drilling process, hence environmental and social concerns were raised. However, the project created *additionality* since jobs were created directly, it had strong development impact in the region and the company was profitable. The Salt Project was accepted. *(IO B, BJ)*

Thereafter the investment officers completed the *PDSER.* The project was not controversial, so the PDSER approval was made by circulation to the people that have been attending the *Concept*

Review Meeting. The issues brought up were settled through informal negotiations. In April 2007, the Salt Project got the green light for *Appraisal. (IO A, BJ)*

When the PDSER was approved the Salt Company management was invited to Beijing to sign a mandate letter that they commit to pay IFC for receiving both equity and long term debt finance. In May 2007 the investment team made a field *appraisal* to the production site in Sichuan. A few issues were brought up; firstly, the Salt Company used accounting standards according to the China GAAP, but the IFC standards required IFRS accounting. It turned out that the Salt Company was not as profitable when analyzed through IFRS accounting. The client was not pleased, since it resulted in a new, lower price for the equity stake. Secondly, IFC required the company to install expensive heat reduction machinery to reduce energy usage, as stipulated in the IFC China Strategy. Thirdly, the Salt Company had an ambitious and aggressive expansion plan but the investment officers required the Salt Company more prudent, take several insurances to ensure sustainable development inline with the IFC standards. The Salt Company were questioning the importance since insurance and careful energy usage is not standard in western China, but agreed upon the requirements since they realized IFC would not finance the project otherwise. After the negotiations the financial modeling was done and the DOTS was filled out in the Appraisal Binder. *(IO A, BJ)* The investment officers believed in the project, hence brought the Salt Project to the *Investment Review Meeting. (IO B, BJ)*

The *Investment Review Meeting* went smoothly. The meeting was a half day meeting and took place by the end of June. The managers approved the investment officer's term sheet and the debt and equity document. Thereafter, legal documents were created and signed.

In August the company got an urgent need for capital injection and required a quick board approval. This was a problem since IFC board approval cannot be made until 30 days after the public announcement. One of the authors to this thesis also participating in the meeting remembers the client's frustration over the restricted IFC standards and slow process. However, the project was not controversial and the *circulation board approval* went fast. The money was disbursed in September 2007. *(IO A, BJ)*

The country manager of China says that the Salt Project is a success story, and that the best part of his job is when he hear that "*the heat-recovery equipment in the new salt plant and it has reduced the energy usage by 32 percent.*" *(Country Manager)* The Salt project has received attention on a corporate level as well and in the Annual Report 2008 it can be read: *"The earthquake that hit China's Sichuan Province in May 2008 resulted in 69,000 casualties, 5 million people homeless, and economic losses of $86 billion. During project appraisal, IFC had advised the Salt Company, western China's largest salt producer, to buy earthquake insurance and set up business recovery and continuity plans. The Salt Company's chairman notes that the Salt Company has been able to restart its business "much faster than enterprises of comparable size."(IFC Annual Report 2008)*

However, the investment officer has not been in contact with the Salt company since disbursement and he does not know how the Salt Company is doing now, when the financial crisis has hurt the salt demand. But the investment officer also says he is proud to have closed it and feels rewarded to have done a project with positive developmental impact. He finalizes by saying: *"I think the Salt Company has really a good chance of becoming a global player in salt industry, and I think it will be proved over next coming four to five years." (IO B, BJ)*

5. Analysis

We will apply the extended Bower model to the IFC and identify similarities and discrepancies. Firstly the definition and its phases, thereafter impetus and finally context

5.1 Analyzing the IFC

In Bower's *initiating phase* a potential project is identified. For IFC the initiation takes place at the local office, through the investment officers. In Bower's *integrating phase* the project is evaluated at different instances throughout the organization. For the IFC, this phase consists of three critical meetings: *Concept Review Meeting*, *PDSER* and *Investment Review Meeting.* The regional and country managers have the decision power and receive support from advisors from different sectors. Bower's *corporate phase* is when the investment is getting the board's final approval, which for IFC takes place in the headquarters. Contrary to Bower's linear model, the IFC investment cycle is a complex process like Mintzberg suggest. The project and its related decisions move up and down the corporation as is illustrated below. (Figure 5)

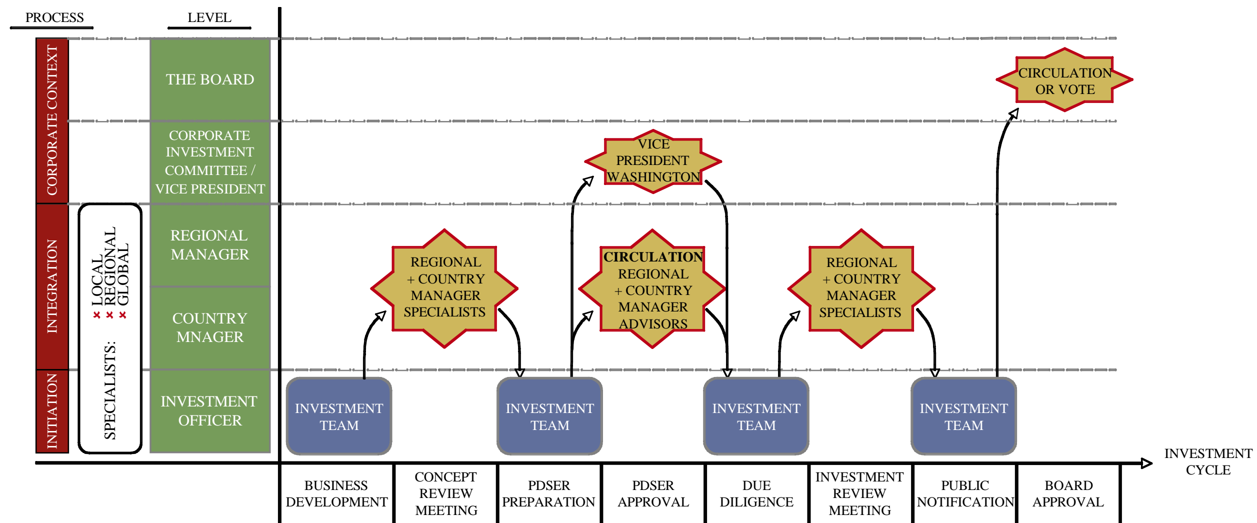

Figure 7 . IFCs complex Investment Cycle

5.2 Definition process analysis

Definition is the process by which the basic technical and economic characteristics of a proposed investment project are determined. (Bower, 1970, p. 67) For IFC this refers to the documents prepared for managers to base their decisions on during the three decision meetings and before board approval; *the concept review note*, *the PDSER*, *the Appraisal Binder* and *the public notice*. All the documents are prepared by the investment team.

5.2.1 Initiation phase analysis

In the Bower model, the initiation phase aims to describe the process of identifying a project. Bower says that a project is initiated where the subunit identifies a need for resources to improve the operating activities. In IFC this phase take place during the *Business Development Process* where projects are identified by an investment officer, before taken to the *Concept Review Meeting*. It is, according to Bower, important for subunits to understand what managers are looking for in

order to define the project in attractive measures. The *Business Development Process* is time consuming and therefore crucial to understand the IFC mission and what managers are looking for to increase efficiency. The developmental impact versus profitability tradeoff is apparent here. The country manager says he is only looking for *additionality* at this stage. However, the investment officer's main concern is the developmental impact and thus prefers doing several small projects in frontier regions. The Salt Project reveals that the employee was ordered to map China's top 10 most profitable salt companies – thereafter it was found that the company fitted the IFC strategy. This implies that the financial profitability is a dominant criterion among decision-making managers at the IFC, even though it is not stipulated in the IFC mission.

5.2.2 Integration phase analysis

In the Bower model, the integrating phase aims to communicate the project through the organization using different quantifiable measurement. For the IFC, the integrating phase takes place in preparation for the three decision-making meetings. Firstly, the investment officers must communicate the project to gain the decision manager's support. Secondly, the managers must figure out what the board is looking for when making decision. Like Bower's theory, decision maker's support is given to projects that reflect IFC missions through the measures.

Bower also points out that quantifiable measures should communicate the sub-units opportunities to reach the mission. The DOTS indicators play an important role when investment officers communicate the project. With the guidance of DOTS it is easy for an investment team to reflect and communicate the IFC mission by measuring developmental, financial, environmental and social impact. Even though some indicators are not clearly linked to developmental outcome, the IFC staff is proud of the system and believes it fulfills the aim to communicate IFC mission throughout the corporation. Furthermore Bower claims that manager's support will be given to projects reflecting the mission the most. This is also true for the IFC and the managers and the Board takes the measurement that the investment team measure in the DOTS seriously by when decision are made. The managers appreciate this since developmental output is clearly qualified and IFC mission communicated.

Bower suggests the same measurement systems should be used for project evaluation when completed. The investment officers are not willing to manipulate the DOTS numbers since DOTS is measuring what the investment team promises the board – the developmental outcome is tracked afterwards. The employees agree on DOTS as a good system for project evaluation and supervision.

The country strategy and volume target plays an important role as measuring systems when decision managers figure out what the Board is looking for. Herein, the urban versus rural trade-off is apparent. Investment officers feel that large urban projects with limited developmental impact are prioritized to efficiently fulfill volume targets. In the China Strategy the country manager has tried to reduce this behavior by promoting investment in small and medium size companies especially in western rural China in the country strategy. The investment team has therefore a target to fulfill, inline with the IFC mission, as Bower suggests

5.2.3 Corporate phase analysis

In the Bower model, the corporate phase aims to define the top management's mission. As mentioned above, this is done through the DOTS, country strategy and volume targets. As Bower, says also the IFC board's main concerns are political conflicts in governmental relation between

shareholder countries, social conflicts in the area they are investing. But on lower levels in the IFC this is a smaller problem than one may expect. The Board has to accept the Country Strategy and would not accept strategies that promote politically controversial investments.

5.2.4 Additional theories on Definition Process analysis

As Mintzberg suggests, it is important that strategy is communicated to all individuals at the IFC. Since decisions are not taken in one place, but during a complex process, the investment officers must be sure what projects are in line with the IFC standards to reject such projects early on. Moreover, Mintzberg says the clients have different purposes with the investment, hence the investment offices needs to be sure of the IFC mission during negotiations. The Salt Company management who did not understand the IFC standard policy of taking insurances, nor appreciated the innovation with the energy reduction at first, have now realized the IFC-created *additionality*. Like Mintzberg suggests, it is therefore important for investment officers to understand the IFC mission in order to make good investment proposals.

Kaplan and Norton encourage linking the corporation's vision to strategy like the IFC have done with the DOTS. Through DOTS the IFC strategy is communicated through indications that investment offices use as goals when searching for a good investment. Even though investment officers believe the DOTS is a pain to fill out, they also say that it is a useful exercise to systematically review the project. The decision-making is thus improved, like Kaplan and Norton said. However, what the DOTS system lacks is something that Kaplan and Norton points out as important; linking quantifiable measures to feedback during the evaluation process. There is no connection to personal evaluation and individual goals since DOTS was only designed for project evaluation. This will be further discussed in the Context.

5.3 Impetus process analysis

The rate of progress of a project up the hierarchy of management through various stages of approval to final authorization depends on the impetus given to the project. (Bower 1970, p. 57) For the IFC, firstly this means the willingness for an investment officer to take on a project to the *Concept Review Meeting* and secondly gaining a manager's acceptance at all the three decision-making meetings and finally board approval. Bower assumes that managers are driven by economic wealth and power, but the many investment officers and managers claim they are rather driven by the developmental impact of a project and helping the poor.

5.3.1 Initiation phase analysis

In the Bower model, the aim of the initiation phase is for sub-units to identify an investment proposal that they are willing to present to the middle manager. At the IFC the local investment officer find a good project that he is willing to be responsible for during the *Business Development Process.* As Bower suggests, an investment officer backs his idea up with strong arguments. Since investment officers reject about 80% all projects screened, receiving the investment officers support is the most critical and time consuming phase within the impetus process at IFC. In contrary, the Bower model states that the integration phase is the dominant in the impetus process. However, the authors identify that the investment officers have same behavior during the *Business Development Process* as Bower identifies during the integration phase.

Like Bower's model, firstly the investment officer evaluates the project based on his own judgment and knowledge about the country and industry. This was illustrated in the Salt project where the investment officer expertise believed in increasing demand for the salt in the chemical industry and strong competitive advantage due to salt resources in China. Secondly, according to Bower, the investment officer weights the "benefits of being right" versus the "costs of being wrong" for his personal benefits. By supporting a difficult project and getting it rejected at any of the three decision meetings – several months of work will be wasted. Consequently, an investment officer supports projects that he thinks will be easily accepted by the managers, hence in line with the officer's anticipation of "the rules of the game" set by the managers. The salt project fitted IFC strategy well; it was located in an undeveloped area and was one on China's largest and the most profitable, privately owned company in the salt industry.

Bower concludes that the officer will allocate the impetus to projects that provide most personal prestige, reputation and financial compensation. The investment officer who lead the salt project however strongly claims that his motivation does not arise from the monetary contribution but from comes from the developmental impact the project has on the region. The small bonus contribution is related to performance is something all investment officers as well as managers neglect and are reluctant to talk about.

5.3.2 Integration phase analysis

In the Bower model, the aim of the integrating phase is to move the project from "idea" towards funding by gaining the top manager's support. At the IFC the integrating phase moves the investment officer's project towards funding by gaining managers' support at the three decision meetings. The impression the authors get of the IFC is that this a checking process by the manager that the project fulfill the IFC criterion rather than a process where managers commit personal prestige to the project as the investment officer does during the initiation phase. Therefore, this is not the dominant phase of the impetus process for the IFC.

Bower says that a manager will give impetus to projects based on their anticipation of the "the rules of the game" in how the managers are evaluated. At IFC there are five "rules" that characterize the manager's decisions. Firstly, the regional and country managers know they are evaluated on a project level how well the investments in their area they fulfill the DOTS targets. Secondly, the regional and country managers base their acceptance on the board's dollar denominated volume target for the country. By investing all the money allocated for the area, they fulfill the Board's volume target. Thirdly, the managers promote project that benefit the country specific strategy and by making many investments that fulfill the strategy gives him a higher hit rate during the evaluation process. Fourthly, the regional manages said that he will not approve projects that may give political conflicts for the IFC shareholding countries. This is since there is an unofficial consensus that the board will reject politically sensitive projects, hence allocating resources that will be rejected at the end is not beneficial for the manager. Fifthly, both the regional and country manager strongly points out that they do not support projects to earn more money since the flexible salary is not strongly correlated to project. Like the Bower model suggests, the managers will finally make a recommendation to the board based on the manager's understanding of the "rules of the game".

5.3.3 Corporate phase analysis

In the Bower model, the final phase is the ultimate approval from the board and the "yes" or "no" decision is made. This is however not a crucial step for the decision making at the IFC. The vast majority of the projects presented to the board after getting managers approval at the *Investment Review Meeting* are accepted by the board. It could therefore be argued that most decision power is contributed managers during the integration phase. However, the managers are well aware of "the rules of the game" and recommend the project that maximizes their personal benefits according to Bower. Moreover, Bower says, managers do this by following guidelines given by shareholders, hence fulfilling volume target and country strategies and rejecting controversial projects.

5.3.4 Additional theories on Impetus Process analysis

The impetus process can be further explained by institutional theory and the effect of a corporate culture. Jansson's framework analyze *why* and *how* the culture affect the investment decision process. *Why* IFC has a corporate culture can be traced back to the IFCs origin i.e. being a developmental bank for the private sector within the World Bank Group. The general public opinion is that governmentally subsidized organizations should not make money on helping the poor. *How* the culture affects the process is linked to IFC employees being driven by developmental impact and profit maximizing personal benefits.

Using DiMaggio & Powell's way of analyzing the corporate culture, IFCs institutional environment consists of norms of developmental sustainability and not being driven by money, the IFC *additionality* standards, and the way the company presents itself by for example not mentioning the word "profit" in the Annual Report. The technical environments are the formal decision making process, the flexible salary related to the Deal Sheet and DOTS to evaluate the projects.

At the IFC decoupling is evident in two ways; on a individual basis and project basis. Firstly, the institutional environment by not being money driven and not having bonus related to performance results in that IFC does not necessarily attract the best investment staff. Also valuable investment staff has left IFC recently, which leads to less efficient operational performance. On project basis, the managers claim that highly profitable projects have strong sustainable developmental impact and want to promote this to maximize operational output. But the institutional environment does not accept prioritizing profitable investments and low level managers are driven by culture to do more small and difficult project to helping the poorest. Moreover, at the IFC it is seen as inappropriate, almost embarrassing to talk about that IFC profitable. However, by being profitable, IFC reinvests in their own organization and can improve their operations by helping even more people. To conclude, like DiMaggio & Powell says, actions taken to create a formal structure do not necessarily improve the IFC performance but are purely of ceremonial nature to full fill public demand on developmental organizations.

Meyer & Rowan further analyze corporate legacy and refer to the actions the organization is forced into as *rationalized myths*. At the IFC this occurs both internally and externally. Internally, the rational myth is that the IFC employees are driven by developmental impact. This is communicated as the reason why one shall work for the IFC and the staffs pointing this out are proud that they are not money driven. To not have The IFC myth is rational since with out the developmental myth of doing good for the poor, IFC would find it hard to attract investment staff due to the relatively low salary compared to the private sector. In line with Meyer and Rowan, IFC would be forced out of a market if IFC did not have the rational myth that created legitimacy. The myth has thus outline the shape of the internal corporation.

Externally IFC creates *rationalized myths* by calling themselves “a developmental bank”. IFC is owned by governments and thus invests public funds. The shareholding countries provide IFC with funds to help people escape poverty. They would not tolerate if the IFC paid out huge bonus like the commercial, privately owned bank. The myth is thus rational since IFC would not receive funds otherwise. Inline with Meyer & Rowan, the formal structure of a developmental bank is a ceremonial reason to implement a rational myth.

Finally, Meyer and Rowan says that decision processes are often presented as “choices” where the current trends to create legitimacy determines which choice to make. At IFC the choices are concerning the tradeoffs. Which tradeoff managers promote for the moment being is stipulated in the country strategy and reflects the country’s current trend in demand. The managers decision choice is thus limited since are evaluated how well country strategy is reached. The managers therefore prefer supporting many projects that fulfill current trends, which creates isomorphic behavior with in the IFC. The investment staff at IFC claims that some good developmental projects are rejected to fulfill other country demands. Based on Meyer and Rowan, it can be said that there is a risk that decisions taken to fulfill isomorphic behavior does not achieve the highest benefit for the organization, and the organization instead make investment to solely confirm an isomorphic trend and create legitimacy.

5.4 Context analysis

Context has been examined as the set of forces, subject to management control, which are the principal influences on the processes of definition and impetus. (Bower, 1970, p. 78)
For the IFC this means the systems implemented to affect behavior to reach the IFC mission.

5.4.1 Initiation phase analysis
In the Bower model, the initiating phase aims to identify discrepancy between corporate strategy and actual operational outcome. The IFC have implemented two systems to reach and evaluate the IFC mission while being a long term investor. From a project selecting and evaluation point of view IFC has implemented the DOTS, The Development Outcome Tracking System. For personal evaluation IFC uses “the Deal sheet”.

5.4.2 Integration phase analysis
In the Bower model, the integrating phase aims to analyze the discrepancies in the existing control systems between desirable behavior and the control systems structure.

The DOTS is considered a good and clear system for project evaluation at the IFC. However, from a personal evaluation point of view the IFC respondents on all levels of the organization point out the lack formal accountability. The project outcome is not formally linked to managers and investment officer’s evaluation and they are not held responsible for their investment. No investment officers have ever been fired for making bad investments. The Deal Sheet is not sufficient and the correlation to individual performance is said to be low. The only factor that holds people accountable at IFC is the informal reputation.

5.4.3 Corporate phase analysis

In the Bower model, the corporate phase aims to implement an appropriate management control systems. The corporate phase is the dominant phase of the context since performance evaluation systems are implemented by managers at the IFC headquarter. Also the managers at the IFC stressed the lack of personal accountability and express a need to enhance responsibility.

5.4.4 Additional theories on Context analysis

The above analysis point out that it is evident that Bititci *et al.* (2004) conclude that measurement systems, organizational culture and management control systems are related to each other. Moreover, inline with Otley and Berry, the general opinion at the IFC is that there should be a tighter link between operational measurement systems and performance rewards, hence connection between DOTS and individual performance. Several researchers points out benefits with tighter performance measurements. The following part will thus illustrate benefits and disadvantages for IFC if implementing a formal performance measurement system.

Tenhunen *et al* says that performance measurement systems should create reliable information to supports decision, which DOTS definitely fulfills. Moreover DOTS is comprehensible and uncomplicated which Tenhunen *et al.* also encourage. The DOTS system measures multiple indicators, however Dossi and Patelli warn that measurement diversity does not increase the managers' use of the systems for evaluation. But IFC have not managed to communicate the meaning of all DOTS indicator nor have they managed to relate it to personal goals as Tenhunen suggests. This is unfortunate since Tenhunen *et al.* believe that the interactivity between the management and the employees when using a performance measurement system leads to higher performance.

Today at the IFC accountability is achieved only by the reputation. Hartmann and Slapnic warns that informal control delivers less consistent an accurate performance evaluations. Therefore employees demand a formal system. Moreover Hartmann and Slapnic argue that subordinate's trust in superior managers is enhanced when the subordinate is evaluated by formal performance measurement systems.

Finally, IFC is undergoing a decentralization process, moving decision power to the field office. Dossi and Patelli thus say performance measurement systems help the headquarters' to monitor an influence local offices decision making.

6. Conclusion

Compared to Bower's model four differences have been identified that the authors believe are related to that we are analyzing a developmental bank and not a manufacturing company.

Complexity
Firstly, the developmental banks investment process is not linear as Bower's manufacturing process implies. The financial institution's process is more complex and decisions have to be evaluated different advisors over and over again before the projects receive funding. This has to with the kind of operations the developmental bank does. They have a long-term interest with a mission that implies that multiple goals have to be fulfilled; developmental, social, environmental, sustainability and financial. From project evaluation point of view, the IFC has developed a system that is highly appreciated by the users, and believed to be standards setting in other developmental organizations. The system manages to communicate the corporate mission and measure developmental impact which facilitate decision taking. The complexity is factor that is missing in the Bower model.

Ownership
Secondly, ownership affects the decision process and makes it more complex since the multiple shareholder countries interests have to be accounted. A privately owned company only needs focus on financial profitability. Moreover, since there are so many shareholder in the developmental organization they have vague requirements and demand that the organization has to fulfill a certain measure each year. A privately owned company requires certain return on investments; otherwise the management is held responsible. The ownership issue is factor that is missing in the Bower model.

Accountability
Thirdly, a manufacturing company makes capital investment to by assets that will improve operating performance. The value of a capital investment decreases over time and is finally written off. Contrary, a financial investor wants to sell the investment to a high value. The developmental bank makes investment with the mission to improve the private sector hence the goal is to do investments in assets that increase in value over time. If a financial investment is not profitable, it is hence not sustainable and does not improve developmental impact. This long term goal of strong financial performance makes it important for developmental banks to follow up and evaluate the investment both for the developmental and the financial. To have someone accountable for the investment is there fore crucial. The accountability issue is factor that is missing in the Bower model.

Legitimacy
To link performance to reward is harder than anticipated for a developmental bank. The institutional legitimacy is hurt if large monetary rewards are connected to performance. On the other hand it can be hard to keep and attract good investment staff since they are financially much better off doing almost the same job in the private sector. However, researches believe informal evaluation based on internal reputations is not enough and proclaim that formal performance systems can increase operational performance. However, even though a developmental bank is reluctant to increase financial benefits other benefits can be related to a performance measurement systems like promotion, education, business trips and more responsibility. The legitimacy issue is factor that is missing in the Bower model.

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Stockholm, May 18th 2009

Remember that piece of advice given the authors at the beginning of this report? Well, we never threw our notes on management control away, and are not planning on doing so. But for those of you who did – whether you are a student, a bank or a Private Equity firm – don't worry, you find it all in here.

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Respondents at the IFC	**Location**	**Reference**	**Date**
Chief Executive Officer	*Washington*	*(CEO)*	2009-05-02
Regional Manager of East Asia Pacific	*Hong Kong*	*(Regional Manager)*	2009-02-24
Country Manager of China	*Beijing*	*(Country Manager)*	2009-03-07
Special Investment Advisor	*Washington*	*(Special Investment Advisor)*	2009-03-05
Investment Officer	*Hong Kong*	*(IO, HK)*	2009-02-25
Investment Officer	*Beijing*	*(IOa , BJ)*	2009-03-05
Investment Officer	*Beijing*	*(IOb, BJ)*	2009-04-15
Investment Analyst	*Beijing*	*(Investment Analyst, a)*	2009-03-10
Investment Analyst	*Beijing*	*(Investment Analyst, b)*	2009-03-14
Credit Risk Advisor	*Hong Kong*	*(Credit Risk Advisor)*	2009-02-25
Infrastructure Advisor	*Hong Kong*	*(Infrastructure Advisor)*	2009-02-27
Legal Advisor	*Hong Kong*	*(Legal Advisor)*	2009-02-24
Environmental Advisor	*Hong Kong*	*(Environmental Advisor)*	2009-03-20

8. Appendix

8.1 Development Outcome Tracking System

(IFC Standards Indicators)

Oil, Gas, Mining & Chemicals - COC

Development Outcome Component	Stakeholder	Outcome	Indicator Name
Financial Performance	Financiers	Return to all Capital Providers	Life of Project - FRR (%)
			Project Cost ($) and Completion date
			Life of Project - ROIC (%)
			Annual ROIC (%)
Economic Performance	Employees	More Employees	Total employment - sex disaggregated (#)
			Indirect jobs (#)
			New jobs (#)
			Temporary jobs (#)
		Increased Wages	Wage (wage+benefits, $) [Compare to alternative, $]
			Wage bill - sex-disaggregated (annual wage+benefits, $)
		Training	Training Outlays ($)
	Government	Transfers to Government	Taxes and other payments ($)
	All of Society	Returns to Society	Life of Project - ERR (%)
			Life of Project - EROIC (%)
			Annual EROIC (%)
	Customers	Lower Price for Product	Price ($) [Compare to alternative, $]
	Suppliers	Increased Demand	Purchases from local suppliers ($)
		New Suppliers	Regular suppliers (female) engaged (#)
Environmental and Social performance	Neighbours	Environmental effects	Improvement in pollution control (Y/N)
			Improvement in E&S Management System (Y/N)
			Improvement in Occupational Health and Safety (Y/N)
			Energy Efficiency component (Y/N)
		Infrastructure	Increased infrastructure (Y/N)
			Roads built (km)
		Community Development	Community Engagement (Y/N) and Outlay ($)
			Involuntary resettlement (Y/N)
			Contributions to community development programs (exc. health and education spending) ($)
			Contributions to local educational facilities ($)
			Contributions to local health facilities ($)
			People receiving company organized Voluntary Counseling & Testing (VCT) (#)
			People with access to healthcare and/or treatment (#)
			Project addresses HIV/AIDS among labor force and/or affected communities (Y/N)
			School places supported (#)
Private Sector Development	Competitors and new entrants	Corporate Governance	Greater Commitment/Improvement to Corporate Governance (Y/N)
			Improvements in the Structure and Functioning of the Board of Directors (Y/N)
			Enhancement of the Control Environment (Y/N)
			Improved Transparency and Disclosure (Y/N)
			Better Treatment of Shareholders (Y/N)
		Demonstration effects	New entrants (#)
			First in technology transfer (Y/N)
			Other firms introducing technology (#)
			Nationals in top management (%)
			Women in top management (%)
		Linkages	Assistance provided to suppliers (Y/N), ($)
			Assistance provided to buyers (Y/N), ($)
			Assistance provided to Producers of Complementary Goods (Y/N), ($)
			Female-owned business supported (#)
			Local Suppliers / SME Development programs (Y/N)