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Sustainable banking in Latin American developing countries: Leading to (mutual) prosperity

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This article examines multinational banks' (MNBs) approaches to corporate social responsibility (CSR) in developing countries' subsidiaries, particularly in Latin America. Building on in-depth case studies of two MNBs that are based in Europe and market leaders in Latin America, we analyze their CSR motivations and outcomes in host countries. We examine institutional environments by applying the national business system framework, and we suggest missing categories in its financial and educational dimensions. We theorize how institutional necessity determines MNBs' CSR in developing countries. Finally, we examine the CSR outcomes in Latin America, where banks' responsible conduct has led to major improvements in educational levels and financial inclusion. These improvements alleviate poverty and enhance both country's social wellbeing and MNBs' legitimacy, leading to mutual prosperity.

1 | INTRODUCTION

Although corporate social responsibility (CSR) is increasingly viewed as a global issue, there remains tremendous variation in both the focus and the level of CSR across countries, especially in developing countries (Yin & Zhang, 2012). There is a growing stream of literature that argues that CSR is institutionally bound and culturally specific (Aguilera, Rupp, Williams, & Ganapathi, 2007; Frynas & Yamahaki, 2016; Jamali & Karam, 2016; Joutsenvirta & Vaara, 2015; Khanna, Kogan, & Palepu, 2006; Marquis, Glynn, & Davis, 2007). This question is particularly relevant for the CSR of multinational companies (MNCs), which face different institutional environments. The international business literature provides compelling evidence for the global diffusion of CSR practices and the key role that MNCs play in this process (Griffith, Tamer Cavusgil, & Xu, 2008; Marano & Kostova, 2016).

Developing countries[1] show specific CSR challenges that differ from those in the developed world (Visser, 2008). With globalization and internationalization strategies that seek new markets and cost efficiencies that can lead to negative environmental impacts and human rights abuses, CSR becomes a powerful instrument for reducing these externalities (Jamali & Neville, 2011). In these countries, governments are decreasing their dominance and influence in favor of MNCs (Joutsenvirta & Vaara, 2015; Levy, 2008; Scherer, Palazzo, & Baumann, 2006). MNCs in developing countries tend to increase their responsibilities by providing government services such as education (Scherer & Palazzo, 2011). Thus, MNCs adapt their CSR to this reality (Zhao, Tan, & Park, 2014).

An increasing number of studies use Institutional Theory to study MNCs (Kostova, Roth, & Dacin, 2008). These authors identify some applications of Institutional Theory in the international management literature, such as the analysis of national environments using country institutional profiles. These elements are key to the analysis of CSR in MNCs, particularly in developing countries. Conversely, Jamali and Karam (2016) review the literature on CSR in developing countries and find that the analysis of complex institutional antecedents within the national business system (NBS) is a key factor that serves to explain the differences in CSR across countries. However, Jamali and Karam (2016) note the need to develop NBS configurations that are tailored to developing countries.

There is still limited evidence related to the CSR strategy of MNCs' subsidiaries (Reimann, Rauer, & Kaufmann, 2015; Yang & Rivers, 2009). However, its study is relevant because responsible practices are typically adopted by MNCs prior to adoption by small and medium enterprises, and as such, they often introduce CSR strategies into local markets (Zhao et al., 2014) and can stimulate responsible practices at local firms (Guler, Guillén, & Macpherson, 2002). Specifically in the banking industry, CSR strategies are particularly relevant as banks allocate resources and may promote the adoption of responsible strategies to potential borrowers (Dorasamy, 2013), contributing to the

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diffusion of CSR practices, which makes the banking sector unique (Forcadell & Aracil, 2017). The financial sector has been intensively involved in the development and adoption of CSR policies (Pérez, García, & López, 2015; Pérez & Rodríguez del Bosque, 2012). Carnevale and Mazzuca (2014) suggest that the effect of banks' sustainability practices varies across countries depending on the institutional context. However, banks' CSR activity in emerging markets has scarcely been explored, with a few exceptions (e.g., Hu & Scholtens, 2014; Jain, 2015), and there is an absence of research devoted to this topic in Latin America, with the exception of the work of Arenas and Ayuso (2016), who examine transnational CSR strategy for a multinational bank. Banking in Latin America is particularly interesting due to the business opportunities offered in a region with a nearly 50% unbanked population.

We make several contributions to the existing literature. First, we analyze banks' CSR in developing countries, particularly in Latin America. A few studies examine banks' responsible conduct in Asia (i.e., Azim, Ahmed, & D'Netto, 2011; Chaudhury, Das, & Sahoo, 2012; Khan, 2010; Poolthong & Mandhachitara, 2009), and one study focuses on Africa (Amaeshi, Adegbite, & Rajwani, 2016); however, with the exception of Arenas and Ayuso (2016), to the best of our knowledge, there are no previous studies of banks' CSR in Latin America. We focus on the specific institutional challenges in Latin America, where education and financial inclusion are major issues, and the impact that banks' CSR policies may have in these areas. Second, for this purpose, we investigate host countries' institutional environment using the NBS framework, which has not been applied in the CSR literature in Latin America, with the exception of Sá de Abreu, da Cunha, and Barlow (2015). We propose some additional indicators to measure the financial and educational dimensions of NBS, which can contribute to better diagnose the motivations and external outcomes of banks' CSR in developing countries. Thus, we extend the prior research on NBS applied in the analysis of CSR (Baughn, Bodie, & McIntosh, 2007; Ioannou & Serafeim, 2012) to the case of Latin America. Third, we propose the concept of institutional necessity as a determinant of CSR in developing countries. Based on the notion of institutional necessity, we identify the CSR approaches of MNBs according to the categories suggested by Jain and Jamali (2015) for developing countries—philanthropy, CSR integration, and CSR innovation—and further confirmed by Arenas and Ayuso (2016) in their study of an MNB's social conduct in Latin America. We find that a company that addresses institutional necessities through its CSR will produce a dual benefit to both business and society. In particular, banks' CSR actions have a significant potential to contribute to the advancement of the institutions in developing countries in the financial and educational dimensions.

The remainder of this paper is structured as follows. First, we suggest the notion of institutional necessity and its predictive role in CSR activity in developing countries. Second, we elaborate on the external outcomes of banks' CSR and how it responds to institutional necessities. The third section includes our empirical investigation of MNBs' CSR strategy in Latin American branches. The discussion and conclusions are presented thereafter.

2 | INSTITUTIONAL NECESSITY AS A DETERMINANT OF A FIRM'S CSR IN DEVELOPING COUNTRIES

Country contextual variables influence CSR (Arya & Zhang, 2009; Brammer, Pavelin, & Porter, 2009), including the institutional conditions (Campbell, 2007). Based on Institutional Theory, some authors, such as Jamali and Neville (2011), Matten and Moon (2008), and Sá de Abreu et al. (2015), have developed a model of institutional analysis that includes the interrelationships of institutional dynamics and organizations, which is useful in explaining the differences in CSR across countries. These models are based on the multilevel model criterion of institutional flows by Scott (1995), who makes a distinction between different levels of analysis in Institutional Theory. Firms' CSR is the result of coercive, normative, and/or cultural/cognitive forces derived from the NBS, the organizational field to which they belong, and pressures from individual actors. Firms support the isomorphic pressures from the institutional environment and relate these forces to their corporate policies and resources. In this model, the NBS plays a fundamental role in characterizing the institutional environment. Thus, we take the NBS as a starting point (Whitley, 1999) to characterize institutional settings, in line with Ioannou and Serafeim (2012).

In general terms, the NBS is composed of the following: the political system, the financial system, the educational and labor system, and the cultural system. Nevertheless, the NBS configurations of developing countries do not neatly fit within the standard NBS framework (Jamali & Karam, 2016). Although recognizing important differences across developing countries, the literature assumes that this is the result of malfunctioning and/or underdeveloped subsystems. Additionally, Jamali and Karam (2016) note the need to identify how pressures for CSR that stem from outside the NBS interplay with different NBS configurations. Consequently, some studies propose new categorizations for NBS in developing countries—for example, Wood and Frynas (2006) in East Africa, Baughn et al. (2007) in Asia. Interestingly, to the best of our knowledge, except for Sá de Abreu et al. (2015), there is no previous literature that adopts the NBS framework in Latin America.

Frequently, developing countries are characterized by weak institutions, which often leads to responsibility being delegated "to private actors, be they family, tribal, religious, or, increasingly, business" (Matten & Moon, 2008, p. 418). There is ample evidence of an intensification in CSR in developing countries, which means that companies are increasingly occupying the space of formal institutions (Chakrabarty & Bass, 2014; Donaldson & Dunfee, 1994). According to a "substitute" view of CSR (Preuss, Barkemeyer, & Glavas, 2016), countries with institutional weaknesses have a greater need for CSR, and firms in such countries are more likely to engage in CSR activities to fill these institutional voids (Hiss, 2009; Jackson & Apostolakou, 2010; Jamali & Karam, 2016).

Normally, studies that examine institutional weaknesses refer to formal institutions (governments, regulatory agencies, the judicial system, stock exchanges, rating agencies, and auditing firms). These missing or weak institutions generate institutional voids, which are typically filled by informal institutions (Mair, Martí, & Ventresca, 2012; Puffer,

McCarthy, & Boisot, 2010). Institutional voids may hinder market functioning (product, capital, and labor markets), hamper market development and impede market participation (Mair & Marti, 2009). These late institutional voids constitute an important source of market exclusion (Mair et al., 2012). Specifically, the lack of financial credit availability in a country can be considered an institutional void (Chakrabarty, 2009) because it hinders economic development and prosperity.

The institutional void is a concept that is typically applied to developing countries in the international business, entrepreneurship, and CSR literature. International business studies claim that MNCs in developing countries should fill some institutional voids to operate in those markets (Khanna & Palepu, 1997). The entrepreneurship literature suggests that institutional voids constitute opportunities for institutional entrepreneurship (e.g., entrepreneurial processes at the "base of the pyramid"). In the literature on CSR, companies try to fill institutional voids through their CSR actions (Jackson & Apostolakou, 2010).

A company can try to fill the institutional voids seeking to better develop its economic activity or because doing so will produce a positive external impact on the country. For this latter purpose, we suggest the concept of institutional necessity. Thus, institutional necessity can be considered a particular institutional void in relation to which a company's CSR may generate positive external outcomes. Thus, the concept of institutional necessity is linked to the CSR actions that fill an institutional void to obtain positive social outcomes. Its ultimate consequence will be to generate institutional change in the developing country (Lawrence, 2010). We find only two papers that refer to the concept of institutional necessity: Yin and Zhang (2012), who note that, in China, the adoption and diffusion of CSR is mainly driven by moral leadership and institutional necessity, and Jamali and Mirshak (2007, p. 258), who, in the Lebanese context, find motivations for CSR that are driven "by a sense of institutional necessity, and a desire to seek social betterment in their local communities."

An important institutional necessity in developing countries is the exclusion of the poor from the markets (Mair et al., 2012), for example, by preventing access to financial resources, which are needed to fund microenterprises (Chakrabarty & Bass, 2014). In this regard, the role of banks' CSR may be essential because their microfinance initiatives seek to satisfy the institutional necessity of financial exclusion. Financial access has been pushed to the top of the sustainable development agenda by being noted in the UN's 2030 Agenda for Sustainable Development because it improves living conditions and, hence, prosperity. Thus, banks can pursue the fulfillment of this institutional necessity in developing countries through their CSR actions.

In light of the above discussion, we propose the following research question:

> **Research Question 1:** Are MNBs' CSR strategies in subsidiaries in developing countries (particularly in Latin America) motivated by institutional necessity?

3 | EXTERNAL OUTCOMES OF CSR AS A RESPONSE TO INSTITUTIONAL NECESSITY

As outlined above, institutional necessities can act as determinants of banks' CSR in developing countries. In addition, their fulfillment constitutes an outcome of banks' responsible conduct. Newell and Frynas (2007) link business and poverty through the engagement of CSR as a *tool of development* that tackles poverty in contexts in which the state is unable to provide basic services. Therefore, institutional weaknesses in developing countries are rooted in governments' inability to confront social needs (Sá de Abreu et al., 2015). CSR produces varied institutional consequences (Jamali & Karam, 2016) that have an impact on countries' welfare because it addresses social issues and benefits thousands of people (Rodrigo, Duran, & Arenas, 2016). Scherer and Palazzo (2011) note that responsible businesses provide public goods, playing a state-role (Frynas & Yamahaki, 2016) in what they describe as "political CSR," which, according to Aguilera et al. (2007), can be encouraged by governments (i.e., promoting social inclusion). In the same line, Hollerer (2013) evokes the idea of CSR as institutionalized social solidarity that is related to processes of institutional change, or transformative CSR (Duarte, 2010). Furthermore, Blowfield and Dolan (2014) argue that firms that are true agents of development consciously deploy their capital for developmental goals, exceeding philanthropic orientations.

The effect of banks' sustainability practices varies across countries depending on the institutional context (Carnevale & Mazzuca, 2014). In developing countries, financial inclusion is a key issue and a major CSR external outcome. MNBs that are expanding to these markets create a bidirectional opportunity to build welfare for both the company and the host country. By committing to improve financial access, MNBs may benefit from a larger client base, and in turn, their CSR policies may enhance economic development in the recipient country, leading to mutual prosperity. That is, companies serving the poor or the population at the bottom of the pyramid (Prahalad, 2009) can achieve sustainable win–win scenarios.

There is a vast amount of literature that links financial sector development and economic growth (Levine, 2005) because banking business contributes to improving social conditions (Beck, Demirgüç-Kunt, & Levine, 2007; Demirgüç-Kunt, Beck, & Honohan, 2008; Honohan, 2004). This is particularly true in developing economies, where banks provide the main source of funding due to their bank-based financial systems (BIS, 2007). However, financial inclusion in developing countries is still scarce, which is identified as a source of poverty. Thus, enhancing financial access constitutes a major CSR strategy of banks by offering simple financial products that improve well-being, attenuate poverty, and influence economic development (Bencivenga & Smith, 1991). In fact, a strong correlation between bank funding and GDP per capita has been proven (Kiguel et al., 2005). Furthermore, education constitutes a main area of banks' CSR efforts. The attempt to improve literacy rates was already highlighted in Carroll's (1979) first conceptualization of CSR. Several authors (Krueger & Lindahl, 2000; Psacharopoulos & Patrinos, 2004) highlight the social returns of investment in education because it is a key element in development (Barro, 2013;

TABLE 1 Primary and secondary data for the case studies

Bank	Secondary data	Primary data: Topics addressed at interviews
Bank A	*Bank A* 2014 Annual Report	*I. Internal CSR conception and manifestations*
	Bank A 2014 Sustainability Report	How CSR is articulated within the firm and to what extent it is a transversal topic and through which specific agendas, policies, and programmes in the organization
	Bank A. Social & Environmental Policy	
	Bank A. Human Rights Policy	*II. Convergence/divergence of CSR*
	Bank A. General Code of Conduct	Forms or manifestations of CSR at headquarters and similarities or differences in CSR forms at subsidiaries in emerging countries
	Bank A. Code of Conduct in Securities Markets	
	Bank A. Climate Change Policy	*III. Prevailing institutional realities and implications for CSR*
	Declaration Universia. Key points and proposals for Ibero-American universities	Perceptions of prevailing institutional characteristics
Bank B	*Bank B* in 2014. Executive Summary	Implications for CSR at home and host countries
	Bank B Responsible Banking Report 2014	
	Bank B Responsible Banking. A different way of banking (November 2014)	
	Bank B 2014 Annual Report	

Psacharopoulos & Woodhall, 1993). Harbison and Myers (1965, p. xi) analyze data from 75 countries, including developing countries, and conclude that education determines prosperity and constitutes "the seed and the flower of economic development."

As a result of the above discussion, we propose the next research question:

> **Research Question 2:** Does MNBs' CSR tailored to host's developing country institutional necessities contribute to prosperity of the host country?

4 | CSR DETERMINANTS AND OUTCOMES AT MNBS' LATIN AMERICAN BRANCHES

4.1 | Research methodology

We use the case study methodology (Yin, 1994), which allows us to take into consideration the different business strategies related to various economic, geographical, and cultural contexts. Aguinis and Glavas (2012) claim that more qualitative studies are needed to improve the understanding of the underlying mechanisms of CSR. Because the extant literature on developing markets and CSR is scarce (Rodríguez, Siegel, Hillman, & Eden, 2006), a case study technique is suitable to further explore how MNCs address the implementation of sustainable practices across the world. We use primary and secondary sources of information (Eisenhardt, 1989), as indicated in Table 1. We conducted three in-depth interviews following semistructured questions with the Director of Corporate Sustainability in *Bank A* and the Head of Sustainability and the Director of Reporting and Stakeholder Engagement in *Bank B*. In addition, we met a top manager in *Bank B*'s Microfinance Foundation. By interviewing top managers who are responsible for CSR in each MNB, we accomplished the purposive sampling requirement of competence and experience (Hughes & Preski, 1997; Payne & Mansfield, 1973). Prior to the meeting and to gain cooperation (Lynn, Turner, & Smith, 1998), we sent the interviewees an interview guide. Conversations lasted an average of one hour each, and a total of 12,000 words were recorded. As is common in all case studies, to avoid biased answers, we triangulated the interviews with secondary sources of data. The information obtained shed light on the strategies, forms, outcomes, and motivations of banks when building CSR strategies overseas. In addition, we examined secondary information such as sustainability and annual reports, stock market indices, corporate communications, and academic publications, among others, because qualitative studies analyze social and material circumstances (Rialp, Rialp, & Knight, 2005).

4.2 | The MNBs and countries under study

We analyze two Spanish global banks (*Bank A* and *Bank B*) and their CSR activities in Brazil and Mexico, respectively. Both cases have some potentially significant differences and, simultaneously, intercase differences that could be minimized (Hamel, 1991). Accordingly, both firms under study have expanded into Latin America, and their main markets in the region are Brazil and Mexico, respectively. The choice of these two cases is based on the following reasons. First, Spain and Latin America have important ties, an interlinked history and a shared language in several countries. Both areas are important trade partners, with Spain being the third largest investor in foreign direct investment (FDI) in the region (ECLAC, 2015). Specifically, Brazil and Mexico are the two largest economies in Latin America (GDP, PPP), with 9% of the population of each country living on less than $3.1 a day. Second, the

TABLE 2 Banks' key figures and geographical interests, 2014

Key figures	Employees	Clients (mn)	Loans (mn €)	Market capitalization (mn €)	Net profit (mn €)
Bank A	185,405	117	734,711	88,000	5,816
Bank B	108,770	51	351,755	48,469	2,618
Geographical interests	Mexico	Brazil	Argentina	Chile	Spain
Population (mn)	123.8	202	41.8	17.8	47.1
No. of clients, 2014 (mn); country clients/total clients (%):					
Bank A	11.7 (10%)	31.1 (27%)	2.5 (2%)	3.6 (3%)	12.6 (11%)
Bank B	19.89 (39%)	–	15.3 (30%)[a]		13.77 (29%)
% of 2014 net attributable profit:					
Bank A	8%	19%	4%	6%	14%
Bank B	55%	–	1%	17%[b]	27%

Source: Company data.
[a]Refers to clients in Argentina, Chile, Colombia, Paraguay, Peru, Uruguay, and Venezuela.
[b]Refers to operations in Chile, Colombia, Paraguay, Peru, Uruguay, and Venezuela.

financial sector was chosen in light of its important social impacts on local society and the high pressure from stakeholders to embrace CSR policies following the recent economic crisis and damaged reputations. Finally, both MNBs are leading global banks from the same developed home market (Spain) and have focused their international strategy on expanding into emerging locations (Latin America) but are doing so in different countries and with distinct business models. Both are classified within the top 40 global banks by total assets and are top ranked in terms of their market share domestically and overseas[2]. The acquisition of existing local banks has been the main method for expansion adopted by both Spanish banks. Today, *Bank B* is the largest financial institution in Mexico, with a strong presence in other countries in Latin America as well as the United States and the rest of Europe. In turn, *Bank A* is the leading financial entity in Brazil with subsidiaries in Mexico, Chile, Argentina, and elsewhere in the world. Latin America accounted for 73% of *Bank B*'s attributable net profit in 2014, with Mexico at 54% of total profits and 39% of overall customers; in the case of *Bank A*, Latin America resulted in as much as 37% of 2014 net attributable result, with Brazil making up 19% of total profits and 27% of the bank's total clients[3]. Accordingly, the geographical breakdown of social investments favors those countries for each of the banks in this study. Table 2 shows the specific internal characteristics that make the two cases suitable for comparison.

4.3 | Latin American institutional context for MNBs

Latin America presents specific institutional weaknesses such as a lack of enforcement (Rodrigo et al., 2016), inequalities, and poor education (Lindgreen, Córdoba, Maon, & Mendoza, 2010). In Mexico, the government does not promote social protection (Weyzig, 2007), and churches have become less supportive (Viesca-Sada, 2004), with private companies (Becker-Olsen, Taylor, Hill, & Yalcinkaya, 2011) being the alternative provider of state services. Specifically, MNCs are the type of firms that engage in CSR (Blasco & Zølner, 2010) because they face social pressures to become good corporate citizens (Husted & Allen, 2009). By contrast, small, family-owned businesses in Mexico value discretion to avoid bribes (Meyskens & Paul, 2010), given the high corruption in the country. In fact, Weyzig (2007) notes that corruption and weak enforcement lead companies to seek broader goals by engaging in CSR activities with a philanthropic orientation (Blasco & Zølner, 2010). However, the stage of development of CSR in Mexico is still emergent compared to other Latin American countries (Blasco & Zølner, 2010).

By contrast, Brazil leads the CSR initiatives on the continent (Scharf & Samper, 2008). Because the government has failed to improve social issues (Sá de Abreu et al., 2015), firms are expected to provide social services, which strongly affect their reputation (Borda et al., 2017; Sá de Abreu & Barlow, 2013). Specifically, the banking sector in Brazil promotes the adoption of sustainable practices by the private sector (Sá de Abreu et al., 2015; Scharf & Samper, 2008). The orientation of these CSR initiatives is mainly philanthropic (Sá de Abreu et al., 2015), although Duarte (2010) claims that it has evolved from paternalistic to transformative, seeking a deep and enduring change in society (i.e., through education). Therefore, this transformative orientation of CSR addresses social inequalities (Duarte, 2010) that in many cases are rooted in the weak educational system.

Table 3 shows some NBS indicators for Brazil and Mexico categorized by economic, financial, political, and educational institutions that serve to identify major institutional necessities. Baughn et al. (2007) find that economic systems are positively related to the development of CSR policies. Brazil and Mexico have a GDP per capita of approximately 10,000 USD. Poverty and inequalities remain the major concerns in the region, both being more severe in Brazil than in Mexico. In turn, globalization indicators (Baughn et al., 2007) such as country openness as measured by trade openness and foreign direct investment inflows also favor Mexico over Brazil. Related to the political dimension, the potential institutional impediments that tend to

TABLE 3 Institutional indicators within NBS dimensions

Predictors of CSR	Hosts	
	Mexico	Brazil
Financial system		
Financial inclusion, 2014 (Financial institutions account holders as % of adults)	38.7	68.1
Domestic credit provided by financial sector (% GDP), 2015	52.7	108.7
SRI Index (launch date)	Yes (2012)	Yes (2005)
Financial literacy (% adults)	32	35
Economic system or indicators of development		
GDP per capita, current 2014 (USD)	10,334	10,887
Human Development Index Ranking (over 186 countries)	#72	#81
Gini coefficient, 2013	48.1	52.9
Poverty (% population living at poverty line, 2013)	2.7	4.9
Country openness or integration within the global economy or indicators of globalization		
Trade openness (imports + exports as % of GDP), 2014	67.67	26.95
FDI inward as % of GDP, 2013	3.04	2.85
Political system		
Government as a % of GDP, 2014	28.08	40.23
Economic Freedom Ranking 2016 (over 178 countries)	#62	#122
Corruption Perception Ranking (over 174 countries)	#107	#71
Doing Business Ranking (over 189 countries)	#39	#120
Educational & labor system		
Average years of education of population over 25 years old (ECLAC, 2015)	8	7
Student skills (PISA results, ranking over 65 countries, 2012)	55	59
Education expenditure as % of total government expenditure, 2013	19.2	15.57

Note. All indicators from World Bank except: Human Development Index (UN), Index of Economic Freedom (Heritage Foundation), Corruption Perception Index (Transparency International NGO), Trade openness (UNCTAD), Global Competitiveness Index (World Economic Forum).

marginalize the private sector are measured by the Index of Economic Freedom, which classifies Mexico as moderately free and Brazil as mostly unfree (Wall Street Journal and The Heritage Foundation). Finally, the lack of transparency (Casanova & Dumas, 2010) and the perception of corruption (Transparency International) are high in the region but worse in Mexico than in Brazil. However, when measuring the regulations that enhance or constrain business activity by the World Bank's Doing Business indicator, Mexico ranks better than Brazil. Despite the serious institutional issues that we have signaled, Table 4 presents an overall improvement in bank penetration, financial inclusion, economic development, and poverty in both countries in recent years. Specifically, we find a 41% progression in financial access in Mexico coupled with a 29% poverty reduction.

We focus our attention on financial and educational systems because they comprise institutional elements of interest regarding banks' CSR in developing countries. Furthermore, we suggest the inclusion of some indicators to improve the explanatory power of these specific NBS categories.

4.3.1 | The financial system

The financial system refers to whether the financing of companies is sourced mostly from banks (bank-based systems) or stock markets (market based). Latin American financial systems are mostly bank based (BIS, 2007; Kimber & Lipton, 2005; Yang & Rivers, 2009), which determines the importance of the banking sector in the region and hence the focus of our investigation. In line with the "substitute view" of CSR (Hiss, 2009; Jackson & Apostolakou, 2010), weaker financial market-related institutional structures should trigger higher levels of CSR engagement (Preuss et al., 2016) because companies will respond to these institutional voids. Financial systems are traditionally measured by domestic credit provided by the financial sector (Hu & Scholtens, 2014) and the existence of socially responsible local benchmarks, SRI Indexes (Ioannou

TABLE 4 Bank penetration and country's prosperity

Indicators	Mexico	Brazil	Latin America and Caribbean
Bank penetration: Credit to private sector/GDP (2010–2013, %)	11.69	10.71	n/a
Financial inclusion: Bank account holders (2011–2014, %)	41.24	21.82	30
Prosperity			
% inhabitants living below $1.9 a day (2010–2013, %)	−28.95	−15.52	−22.09
GDP per capita (2010–2013, %)	14.93	5.27	12.18

Source: World Bank.

& Serafeim, 2012). Regarding the first measure, Brazil doubles Mexico, and the same holds true for the earlier launch of sustainability indexes in Brazil than in Mexico. In addition, we note that financial inclusion is not incorporated in the existing NBS conceptualization despite being a factor that shapes the financial systems dimension in developing countries. Access to financial services "can have substantial effects on welfare and can contribute to the reduction of poverty" (Rojas-Suárez, 2010, p. 5) because it facilitates savings, reduces the dependence on informal, and more expensive, financing sources (Márquez, Chong, Duryea, Mazza, & Ñoro, 2008), and increases productive investments (Dupas & Robinson, 2012). In Latin America, 50% of the adult population is unbanked, increasing to 60% in Mexico and decreasing to 32% in Brazil. Thus, the low financial access level constitutes a major institutional necessity in Mexico that determines the CSR orientations toward microfinance. The Mexican microfinance market is one of the most prominent in the region (Kleynjans & Hudon, 2016).

A critical barrier to financial inclusion is poor financial education, which banks address through CSR. In Mexico and Brazil, only 32% and 35% of adults, respectively, are financially literate. Financial education that enables informed decisions is essential to expand financial services, and therefore, we suggest its inclusion as an indicator within the NBS' financial dimension. Financial literacy is relevant for people's well-being because it enhances their access to financial services and contributes to economic development.

4.3.2 | The education and labor system

The education and labor system refers to the production of human resources with the necessary skills to enter the labor market. Therefore, educational weaknesses are closely related to the limited availability of skilled labor (Ioannou & Serafeim, 2012), which entails difficult talent recruitment and future economic growth. Many developing countries face challenges in terms of labor market efficiency that are derived from weak educational systems. Following the "substitute view" of CSR again, we expect more CSR efforts devoted to education in countries where the educational system presents weaknesses. The measurement of this dimension is frequently based on indicators of the labor market itself rather than on the educational systems. Although this type of measure is appropriate in developed markets in which literacy rates are almost complete, low educational levels and competencies are definitely an issue in emerging markets. Therefore, we suggest measuring educational systems in emerging markets based on average years of education and the Program for International Student Assessment (PISA) results, which tests basic competencies for 15-year-olds. Levy and Shady (2013) note that, in Latin America, the number of schooling years is increasing but this rise is not accompanied by quality, as shown by the poor performance of students on the PISA exams. Hanushek and Woessmann (2008) highlight the role of cognitive skills in economic development and conclude that, in emerging markets, there is a lack of these skills and this lack is strongly related to a country's prosperity. Although Mexico and Brazil present high levels of illiteracy and/or functional illiteracy, the Brazilian situation is worse, as shown by the average years of education of the population over 25 years of age (Mexico 8, Brazil 7), and the 21% lag of Latin American students versus their European counterparts in the PISA qualifications (ECLAC, 2015). Therefore, we suggest that weak educational systems constitute a major institutional necessity in Brazil.

In summary, we conclude that, in addition to the existing indicators, the financial system should be measured by financial inclusion levels. In turn, the educational system should consider the years of education and its quality, as measured by standardized tests. In addition, both categories seem to be interconnected, as suggested by Rojas-Suárez (2010) in her analysis about access to financial services in developing countries. This study claims that financial exclusion is a symptom of a wider social exclusion, which involves low educational levels among others. According to our analysis, both countries under study show important institutional necessities in these categories, namely, low access to finance and high illiteracy rates, with Mexico being worse with regard to the former and Brazil to the latter. The existence of significant institutional necessities in both dimensions, financial and educational, reflects a weak institutional context that may be both a cause and a consequence of low development. By focusing on these institutional necessities through CSR actions, MNBs may potentially contribute to break the poverty trap in developing countries.

4.4 | MNBs' CSR activities

This section examines the findings from the in-depth interviews and secondary data regarding the CSR activities within each MNB. In particular, we investigate how institutional necessities in the host countries drive CSR actions. We are also interested in the internal and external outcomes that MNBs expect from CSR in developing countries.

4.4.1 | Bank A

Bank A refers to the concept of CSR as sustainability. The Director of sustainable policies considers that:

> Our focus on CSR is the result of identified increasing consumer demand, which has driven a change in our internal corporate culture. CSR has prompted us to re-examine the essence of banks by including as new goals some extra-financial criteria, such as the contribution to a better society.

As a result, the bank acknowledges that there has been a shift in its corporate culture supporting the adoption of sustainability as a key strategic element:

> Our bank's commitment to sustainable issues is such that it has even changed our mission, which stands for "we want to help people and businesses prosper." This means that CSR has contributed to a reconsideration of our bank's essence to the point that our mission, in addition to economic profits, is to promote better conditions for employees and communities.

A commitment to higher education is the priority of CSR activities at *Bank A* and is channeled through the *Universities* platform:

> The Universities platform differentiates ourselves from competitors in the CSR arena.

The *Universities* platform is the main CSR activity at *Bank A*, accounting for 75% of its social investments. The rising number of scholarships and the agreements with more than 1,000 universities constitute a public demonstration of engagement with society. By investing in education, *Bank A* considers that contributing to higher education is the best service that it can provide to society because it enables people to improve their future.

The internal motivation for CSR at *Bank A* includes extra-financial criteria:

> In addition to reaching a positive social impact, we look for enhanced reputation, customer loyalty, and talent attraction.

These expected CSR outcomes are strongly linked to its efforts in education, given that the people who benefit from the *Universities* program are expected to become future clients and/or may be hired by the company. To implement sustainability measures, a hierarchical model that separates corporate services from local branches, which have both geographical and functional reporting, is used. Central corporate services design major policies or prioritize issues, whereas subsidiaries implement specific responsible practices according to local demand.

> Sustainable policies are built around major areas of interest that are indicated by the Sustainability Committee in central corporate services. However, we empower international branches to adapt those major lines to specific local needs, since we acknowledge that country conditions differ, but always within a common action line.

Responsible business practices share common action lines that involve major objectives (i.e., promoting education) or specific exclusions and limitations (i.e., restricted financing of polluting companies). In fact, the bank's business model is a subsidiary model in which local branches are managed according to local criteria:

> The vast majority of countries have their own local sustainability committees chaired by the corresponding country head. Relying on common corporate frameworks, the units in each country roll out initiatives that target local needs. (*Bank A* 2014 Sustainability Report, p. 12)

Therefore, *Bank A*'s structure allows international branches to specifically design the measures that will be implemented locally. Thus, subsidiaries have CSR teams in place that report to the Sustainability Committee. This organization results in diverse CSR activities within the same MNB to recognize the different institutional environments.

4.4.2 | Bank B

Bank B places CSR as a key part of corporate strategy to the extent that it refers to "responsible" banking and responsible business plans. *Bank B*'s social investments budget has increased since the financial crisis:

> Bank B's troubles over the last cycle led to an overall loss of legitimacy. From that point, the financial services industry has been pressured by multiple stakeholders to adopt sustainable management. As a result, a responsible strategic approach is common across the entire organization. Put simply, responsible business is managing our business, assuming responsibility for our impact on society.

Therefore, *Bank B* believes that its social conduct must be related to its core activity:

> Bank B's responsible business plan includes responsible features and inalienable attributes that integrate responsibility with every aspect of banking routines in a single agenda.

The integration of sustainable banking practices into the core business is evidenced by the TCR (Transparent, Clear, and Responsible) approach, which applies to every single transaction, business area, and location (i.e., product design, marketing, web, and digital banking). This is the result of several focus groups conducted by *Bank B* with primary stakeholders to determine what constitutes responsible banking, and it denotes the public perception of distrust and confusion around financial products following the recent financial crisis.

> Our stakeholders had lost confidence in the sector overall and requested a trustworthy bank, calling for transparency. Clarity in both offers and fees are key areas for improvement according to customers. As a result, we designed the TCR plan, which involves the entire organization and is extended to every country in which we are present. In doing so, we show a distinctive approach to banking based on simplicity and responsibility.

In addition, *Bank B* builds its responsible business strategies around education, with outcomes measured "quantitatively and qualitatively." For example, it has been proven that credit card courses run in Mexico lead to higher loyalty in addition to lower delinquency rates.

> We are committed to better financial inclusion in the emerging market areas where we have expanded. We have witnessed improvements in the well-being of our new clients. However, we need responsible customers who are able to understand our services. Therefore, we are specifically committed to education initiatives.

The motivations for CSR activities range from external to internal factors:

> Educational projects present several returns. First of all, they improve financial literacy; second, they are a source of new clients with margins that are very often above the bank's average

> and a higher bank link (according to the number of products and cross-selling services). Finally, these initiatives provide better performance in some Reptrack indicators such as citizenship or better scores on Dow Jones Sustainable Indexes assessments.

Additionally, *Bank B* is the largest private microfinance institution in Latin America by number of beneficiaries.

> Microfinance is a broader concept than microcredits because it involves lending and deposits. We consider this activity under the umbrella of CSR because we work for the financially excluded. Our goal is to reach clients who have never had a banking product before. Typically, these customers are excluded, given their high risk and associated low income levels. We are their only financing provider, apart from the informal sector. Because we offer products at market prices, they save a significant amount of money by switching from local moneylenders to a formal provider.

Thus, financial inclusion decreases the cost of credit, alleviating poverty, and providing prosperity:

> Interest rates are in line with market prices because microfinance is not philanthropy and needs to generate operational profits. In addition, default rates are in line with those of traditional clients.

Consequently, *Bank B*'s CSR focus on microfinance consists of extending its banking know-how to a new client base. This is consistent with the bank's investment in education because bringing financial products to the poor requires informed clients. Therefore, the main modes of CSR within *Bank B* are financial literacy and financial inclusion through microfinance and TCR communication:

> The financial industry continued to be overshadowed in 2014 by the questioning of its social legitimacy. (...) Allowing customers to make informed financial decisions and offering solutions for customers in difficult situations (...) provide Bank B with the ideal opportunity to reinforce its differential Responsible Banking model with the aim of winning back the trust of society. (*Bank B* 2014 Sustainability Report, p. 8)

The analysis of CSR strategies performed by both banks lead us to conclude that CSR has evolved from a philanthropic orientation towards a progressive integration within the core business. Moreover, CSR actions can be considered to be innovative and focused on the host's country main institutional necessities. Therefore, *Bank A* and *Bank B* design their CSR strategies under a common umbrella that shares global policies but performs *ad hoc* specific responsible plans according to the local institutional environment.

The outcomes of banks' CSR and their specific effect on the host country's institutional necessities are shown in Tables 5 and 6. In Brazil and Mexico, the major institutional necessities are low educational levels and financial exclusion, respectively, which are addressed by virtually every MNB competing in these countries (Quinton, 2012). Specifically, *Bank A* sponsors the world's largest Spanish-speaking higher education platform, and *Bank B* runs the largest private microfinance institution in Latin America by number of beneficiaries. Both MNBs allocate nearly 4% of their attributable net profit (Table 5) to social programs. The impact of banks' CSR actions on institutional necessities over the 2014–2015 period appears in Table 6. *Bank A* presents an advancement of nearly 7% in scholarships in Brazil. Similarly, *Bank B* has increased the number of customers profiting from social impact banking products through its Microfinance Foundation in Latin America by 11%. According to these numbers, MNBs' CSR actions in Latin America have a material effect on countries' prosperity and social well-being.

5 | DISCUSSION AND CONCLUSIONS

In this paper, we have conducted an in-depth case study of the CSR practices of two MNBs in their branches in Latin America. By analyzing the institutional environment in the host countries within the NBS framework and by identifying the main institutional necessities, we have reached some conclusions regarding banks' CSR determinants and external outcomes in developing countries. Our study covers a double gap in the CSR literature, given the absence of research based on the institutional NBS framework in Latin America (except for Sá de Abreu et al., 2015) and research on MNBs' CSR action in Latin America (except for Arenas & Ayuso, 2016). By doing so, we contribute to the literature on CSR in developing countries (Blowfield & Frynas, 2005; Jamali & Mirshak, 2007; Jamali & Neville, 2011; Jamali, Zanhour, & Keshishian, 2009; Muller & Kolk, 2009; Yin & Zhang, 2012).

The institutional environment in Latin America is characterized by weak governments and enforcement. This context strengthens CSR engagement as companies try to address institutional necessities (Preuss et al., 2016). To identify major institutional necessities, we center our attention on two NBS' dimensions relevant for banks' CSR: the financial and educational systems. Ioannou and Serafeim (2012) find that the financial system appears to have a relatively less significant impact on CSR according to their study based on developed countries. We suggest that, in developing countries, the financial dimension is more decisive than other indicators as a determinant of banks' CSR. In addition, we propose the addition of financial inclusion levels in this NBS category. These are not significant in advanced countries because nearly the entire population is banked, but they constitute a major concern in developing countries. In addition, this indicator is closely linked to financial literacy, which we suggest should also be included within the financial NBS. Similarly, we propose incorporating educational dimension indicators related to the number of years of schooling and attainments. We observe that both MNBs analyzed adapt their CSR to local institutional necessities resulting from the analysis of the NBS. In Brazil, low educational levels and functional illiteracy constitute a main institutional necessity. This context justifies educational CSR programs

TABLE 5 MNBs commitment to institutional necessities

Indicators	Bank A	Bank B
Major market in Latin America (% of group's net attributable profit)	Brazil (19%)	Mexico (55%)
Institutional necessities		
Financial inclusion (Current account holders as % of adults, 2014)	68.1%	38.7%
Education Student skills (PISA test ranking over 65 countries, 2012)	#55	#59
CSR focus	Education	Financial Inclusion
Stakeholders benefitted	Society	Customers and Society
Flagship CSR program	Higher education	Redefining products and services according to TCR (Transparent, Clear, and Responsible); Microfinance
Investment in social programs 2014 (mn €)	187	107
of which (% of CSR programs):	Universities 78%	Microfinance and Foundation 26%
% Group's net attributable profit allocated to social programs	3.20%	4.00%

Source: *Bank A and B 2014 Sustainable Reports.*

such as *Bank A*'s higher education platform. Mexicans are more significantly financially excluded than Brazilians. This situation constitutes an important institutional necessity and may explain *Bank B's* focus on microfinance. In addition, this mode of CSR is closely related to the core business. Thus, we conclude that the institutional environment analysis through the NBS framework (Ioannou & Serafeim, 2012; Matten & Moon, 2008) helps in identifying the institutional necessities (i.e., education or financial inclusion) that motivate the main areas of banks' CSR activities in developing countries, which positively answers our first research question.

Within developing countries, institutional necessities constitute a motivation for CSR actions, but in advanced countries, the stronger institutional environment determines that institutional necessities are not a major driver for CSR policies. Thus, banks may have different attitudes towards CSR across countries. In developed countries, the CSR focus is on the impact of banks' lending on pollution or managing socially responsible investments (Newell & Frynas, 2007). By contrast, in their operations in developing countries, the primary concerns are different, for example, combating financial exclusion and supporting education, because citizens expect CSR to promote national development (i.e., Joutsenvirta & Vaara, 2015; Kostova et al., 2008; Zhao et al., 2014). This is coherent with several studies in Brazil (Cruz & Boehe, 2010; Sá de Abreu et al., 2015) that suggest that CSR is shaped by institutional pressures and that MNCs tailor CSR practices to the local specific institutional context (Hah & Freeman, 2014).

TABLE 6 CSR outcomes and evolution of institutional necessities addressed

	2015	2014	% 2015–2014
Bank A: Education in Brazil			
Partnership with universities	455	453	0.44
Scholarships	3,071	2,876	6.78
Bank B: Financial Access, Microfinance Foundation Latin America			
Number of customers	1,712,801	1,544,929	10.87
Social impact (mn people)[a]	6.9	6.2	11.29

Source: *Bank A and B 2015 Annual Reports*.
[a]Calculated by multiplying the number of customers by the average ratio for family unit.

We examine the outcomes derived from the fulfilment of institutional necessities by banks' CSR. Our findings suggest that banks' CSR activities in the countries analyzed produce mutual prosperity for both the responsible firm (internal outcomes) and the host country (external outcomes). CSR strategies provide internal outcomes (Husted & Allen, 2007) to the banks, such as reputation and differentiation from peers (Forcadell & Aracil, 2017). Therefore, these strategies target the incorporation of stakeholders into the banking market by enhancing financial access or improving education, which reflects a pronounced market orientation (Pérez & Rodríguez del Bosque, 2012). Some external outcomes of banks' CSR are indirect (Scholtens, 2009) because they promote CSR practices by requiring responsible behavior by borrowers and thus delivering a positive impact on sustainable growth (Dorasamy, 2013). However, we are specifically interested in the external outcomes derived from the fulfillment of institutional necessities such as financial inclusion and education. Responsible business practices that promote financial access and education have positive effects on the economic growth (i.e., Barro, 2013; Demirgüç-Kunt et al., 2008) of host countries, poverty alleviation (Beck et al., 2007; Demirgüç-Kunt et al., 2008), and prosperity (BIS, 2007). Therefore, we empirically confirm the findings by Jamali and Karam (2016), who suggest that CSR may have institutional consequences in developing nations that support economic development. Therefore, the increased banking of a country benefits the financial institutions involved and contributes to the country's economic growth (i.e., Demirgüç-Kunt et al., 2008; Levine, 2005). Building on Luetge's (2005) proposition of business ethics and mutual

advantages, we suggest that banks' CSR strategies in emerging markets create beneficial situations that encompass profitability and social well-being (Meyer, 2015), leading to mutual prosperity. In this manner, the CSR strategies analyzed constitute a shift from a philanthropic approach to a transformative orientation that has enduring positive effects on poverty, as highlighted by Duarte (2010) in a study based in Brazil. In Mexico, Weyzig (2007) claims that CSR with a broader goals perspective implies firms' contribution to reducing poverty and promoting economic development, in line with Meyskens and Paul (2010). Companies are then perceived as developmental agents (Blowfield & Dolan, 2014) that regard CSR as a tool of development (Newel & Frynas, 2007). This is consistent with CSR strategies of integration and innovation (Jain & Jamali, 2015) and leads to a reconciliation of economic and social values through more focused CSR efforts that are long-term driven and that extend beyond pure philanthropy, which positively answers our second research question.

The CSR strategy must be analyzed in the context of the international strategy of the company. Our case study shows that the MNBs analyzed design their CSR policies sharing some common action points but adapting their strategies to the local context because banking by its very nature is local and requires customization based on the local environment (Parada, Alemany, & Planellas, 2009). This is in line with Husted and Allen (2006), who find that, in Mexico, multidomestic and transnational MNCs place greater importance on country-specific CSR than do global MNCs. The CSR strategy of MNCs' subsidiaries experiences an institutional duality, implying that there are pressures from the parent company (home country isomorphism) and local community pressures (host country isomorphism) (Jamali & Neville, 2011; Preuss et al., 2016). Within the host country, institutional forces may lead companies to behave similarly, and within the MNC, there may also be pressure to use practices that are employed in the home country. The issue here is to address the host country's institutional necessity, taking advantage of the best practices that can be used to achieve improvements in these areas. Thus, the analyzed banks develop a transnational strategy that combines the best corporate practices with adaptation to the destination country.

In conclusion, we summarize our main findings. First, we propose the concept of institutional necessity as a determinant of CSR in developing countries. This concept can help to better conceptualize CSR's institutional determinants in developing countries. We provide evidence of two European MNBs that define their CSR strategies around Latin American institutional necessities. Second, we show that the financial system dimension of NBS is particularly relevant for banks' CSR strategy design in developing countries. Third, in line with Jamali and Karam (2016), who identify absent elements in NBS structures, we find that financial inclusion is a relevant indicator that is missing in the NBS financial system dimension in developing countries. Although we agree that its relevance is negligible in advanced economies, it becomes crucial in the contexts of developing countries. Similarly, we suggest that the educational dimension must be further observed according to students' performance on standardized tests to determine the quality of the learning system in developing countries. Fourth, we find that the MNBs analyzed center their social conduct on education in Brazil and financial inclusion in Mexico. The motivations behind these orientations lie in institutional and internal aspects. The internal aspects are related to the adjustment of CSR to the firm's resources and strategy. Institutional aspects refer to the areas in which the bank perceives that its help is most needed because there is an institutional necessity. As a result, the bank will gain legitimacy and contribute to the prosperity of the country, becoming an agent of institutional change. Fifth, to the extent that companies direct their CSR to filling institutional necessities, the orientation of CSR in developing countries evolves from classical philanthropy or a paternalistic orientation (Duarte, 2010) to a CSR integration and innovation (Jain & Jamali, 2015) that seek transformative and enduring social goals (Duarte, 2010) and serve as a tool of development (Newell & Frynas, 2007). Finally, our study suggests that banks' CSR actions not only are motivated by institutional necessities but also have a significant potential to contribute to the fulfillment of these necessities. In summary, institutions influence CSR actions, and CSR actions have the potential to influence institutions.

As occurs in qualitative analysis, we acknowledge that the results from two cases in the banking sector may not be generalizable but illustrate a situation using theories rather than statistical generalization (Martínez, Pérez, & Rodríguez, 2014). However, they are likely to present interesting applicability in developing countries (Jamali, 2008). Despite this limitation, our findings provide valuable managerial implications for other industries and developing countries that may learn from the experience of a sector leader in CSR involvement. Future lines of research may complement our findings by considering the CSR modes within MNBs in other geographical areas.

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NOTES

[1] Defined by the World Bank as low and middle income economies with GNI per capita below 12.7 USD.

[2] Bankers Almanac, November 2014.

[3] *Bank A* and *Bank B* 2014 company reports.

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