Banking on CSR: Spanish banks win-win strategies in Latin America

TEACHING NOTE

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This teaching note is prepared to complement the case '*Banking on CSR: Spanish banks win-win strategies in Latin America*'. The case has been compiled from published sources.

Learning objectives

This case is oriented mainly to Strategic Management and Ethics courses. Particularly, it covers topics such as ethics, Corporate Social Responsibility (CSR), stakeholder management and international management. It aims to develop students skills related to the critical analysis and discussion of ethical dilemmas in the design and assessment of CSR activities performed by multinationals (in this case multinational banks) operating in developing countries. Also, the case offers materials that allow students to position themselves in the place of different stakeholders to gain insights into the decision-making process from an internal and external to the firm perspective. Finally, the case focuses on the problems and necessities that developing societies are facing, which should be emphasized in the classroom to reach valuable students' inputs concerning CSR strategies by multinationals in their host countries.

This case is built around three pillars: CSR, banks and emerging countries, and provides an ethical approach to the internationalization process. The main goal is to identify, analyze and discuss the contribution of CSR strategies to the development of emerging countries, whilst simultaneously benefiting the company, thus providing win-win situations and mutual prosperity.

Additional goals include an examination of CSR from different perspectives:

- Internal motivations for CSR: instrumental and/or ethical.
- External drivers of CSR: institutional setting of destination countries.
- Materiality analysis of stakeholders: stakeholders benefitted by the CSR initiative.

- Strategies of CSR: convergence vs divergence between the CSR performed by the parent company and its subsidiaries.
- Specific CSR actions: philanthropic vs core business orientated.
- Outcomes of CSR: firm-specific value creation and/or social-value creation.

The case builds on the following question: Whether the banking sector ethical approach, and in particular CSR, is crucial for companies´ performance and the development of communities, providing a win-win situation.

We organize the teaching plan around seven stages that include discussions about: the CSR concept and its authenticity, materiality analysis focused on stakeholders, motivations for CSR, an analysis of the emerging markets specific context, financial inclusion as a key banks' CSR outcome and additional CSR external results linked to the SDG. For each of the proposed sections, we provide questions, assignments, material for discussion and activities designed to implement in the classroom.

STAGE 1. Discuss the various meanings and the multidimensional concept of CSR

There is not a widely accepted definition of CSR. For example, Dahlsrud (2008) analyzed 37 different academic definitions of CSR. Besides, the European Commission defines CSR (2011: 6) as 'the responsibility of enterprises for their impacts on society'. Thus, CSR can be considered as a multidimensional construct that includes Environmental, Social and Governance (ESG) criteria. It is worth pointing to students the main attribute of CSR such as its voluntariness.

In addition, you may raise the main lines of thought regarding CSR engagement (i.e. Milton Friedman's view as opposed to the stakeholder theory by Ed Freeman). Afterward, you can introduce the concept of stakeholders and ask students to identify major stakeholders within the banking industry, and their expectations towards the company.

STAGE 2. True or cosmetic CSR?

Students may engage in the debate related to CSR authenticity and its relatedness to true corporate motivations as opposed to greenwashing practices, false CSR and CSR hypocrisy. It is particularly useful to focus the debate within the banking sector, as reputation have been damaged in the aftermath of the 2008 crisis and CSR may in some cases a tool to rebuild reputations (Forcadell & Aracil, 2017a). In fact, the financial sector was chosen in light of the important social impacts of banking activity on local society and the high pressure from stakeholders to embrace CSR policies following the 2008 economic crisis and damaged reputations. We found the financial sector at the bottom of reputation indexes in a recursive way.

STAGE 3. Materiality: analyzing CSR through the lens of stakeholders

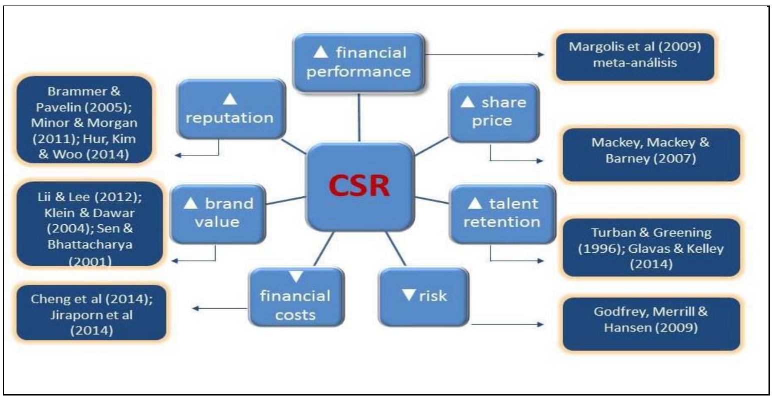
Students may participate in a role-playing game to perform the role of different stakeholders potentially involved in, or affected by, a bank´s CSR strategy. We suggest to group students following the different stakeholders they represent. It is necessary to balance the various stakeholders' interests and objectives in order to assess the bank's CSR. At least, the following stakeholders must be represented: top management team, NGOs, government, employees, shareholders and competitors. In addition, a group of students must act as external observers with the aim of balancing the different points of view and allow a materiality analysis for the firm. The conclusions of the materiality analysis must be incorporated in the decision making and in the prioritization of firm's strategies affecting CSR.

STAGE 4. Motivations for CSR

Following the debate, you may present the possibility of CSR providing simultaneous benefits for both the company and its stakeholders. This is related to the instrumental and normative or ethical views of CSR (Jackson & Apostolakou, 2010).

Concerning instrumental motives to engage in CSR, students may highlight specific avenues of corporate performance derived from sustainable strategies (see figure 1 below, that complements figure 2 in the case), which refer to the business case for CSR.

Figure 1. CSR outcomes for the firm



The ethical motives to engage in CSR refer to why companies commit certain strategies to benefit the society, thus conceiving CSR as 'the right thing to do'.

Again, you may raise the possibility of a co-existence between ethical and instrumental motives, thus, companies may benefit the society whilst at the same time enhancing their performance, thus 'doing well by doing good' (Margolis & Walsh, 2003).

STAGE 5. Contextualize: Institutional setting as a driver for CSR

This case is focused on the context of emerging markets, particularly Latin America.

Students may highlight the main institutional differences between developed and Latin American countries grouped by dimensions (political, financial and educational) according to table 1. It is important to highlight some common characteristics across emerging markets (Rottig, 2016) such as the limited statehood and low government enforcement. This situation derives very often in multinational companies performing a state-role (Scherer & Palazzo, 2011) through the procurement of services or infrastructures that are typically provided by governments in developed nations. This is known as political CSR, that entails transformational effects and enduring results (Duarte, 2010)

The institutional weaknesses encountered in emerging countries are often referred as institutional voids (Khanna & Palepu, 1997). A particular type of institutional void that can be alleviated through CSR strategies can be referred as an institutional necessity (Forcadell & Aracil, 2017b). In addition, society's grand challenges constitute a term that is recently used to refer to these necessities and how private companies or joint efforts between public and private sector can contribute to their alleviation (Buckley et al., 2017). Students may identify different institutional necessities by the data provided in the text. Specifically, we focus on necessities related to financial exclusion and low educational levels.

STAGE 6. Financial inclusion as a major social need that can be addressed through banks' CSR policies.

Please refer to figure 1 in the business case in order to illustrate the key issue (or institutional necessity) of financial exclusion in emerging countries. Banks can directly contribute to solving this challenge, which indirectly constitutes a tool to reach other goals such as enhanced savings. More importantly, the access to basic financial services contributes to poverty reduction (UN, Global Financial Development Report 2014).

As such, the aim is to highlight the idea that banks' CSR strategies in developing countries tend to incorporate the unbanked population into the financial system, which potentially reduces poverty by improving social conditions. There is an important linkage between the financial sector development and economic growth (Bencivenga & Smith, 1991; Levine 2005). This is particularly true within emerging economies, where banks provide the main source of funding due to its bank-based financial systems (BIS, 2007).

Based on these considerations, students may envisage some ad hoc CSR strategies to deal with major institutional voids such as financial inclusion, financial literacy and education (figures 8, 9, 10). They can work in groups following the next steps:

<u>The institutional environment:</u> Identification of specific institutional necessities (financial exclusion, low educational levels) and its measurement. Please try to measure each of the country-weaknesses identified by referring to the tables provided in the case.

<u>The CSR design</u>: Consider voluntary actions taken by each bank and attached to their core business.

- Is it possible to identify some differences between strategies adopted in headquarters and in the host country? Analyze different forms or manifestations of CSR at headquarters and their similarities or differences at subsidiaries in emerging countries
- Name specific CSR products for each bank that seek to alleviate specific social necessities in the emerging markets considered.
- Design several CSR products aimed to alleviate these social needs and attached to the core business, beyond philanthropy and paternalistic orientations. This can include, but it is not limited to, the effect of innovative banking channels and services that definitely improve banking access.

Additionally, students can discuss the notion of the bottom of the pyramid (Prahalad, 2009), linking this concept to microfinance, as one of the best examples of services intended to the bottom of the pyramid.

STAGE 7. CSR outcomes for the society

The SDG provide a framework to measure CSR initiatives -at a micro level- and how their effects scale-up to the macro level. Thus it is important to highlight the complementarities and differences between CSR and the broader concept of Sustainable Development (Pérez-Batres et al., 2012).

Please briefly introduce the different SDGs (figure 2) and their interrelationships (Le Blanc, 2015). Education is on the SDG list (SDG 4). Although financial inclusion is not an SDG per se, it contributes to the attainment of several SDG such as poverty eradication (Klapper et al., 2016) and it is closely related to education.

Students can figure out how specific CSR actions directly affect a particular SDG and indirectly may promote some additional SDGs. Please try to quantify as much as possible by analyzing tables 4 and 5 that evaluate CSR outcomes for the society.

Conclusions

The firm's CSR strategy must be analyzed in the context of the international strategy of the company. The case suggests that banks' CSR activities in the countries analyzed produce mutual prosperity for both the responsible firm (internal outcomes) and the host country (external outcomes).

To the extent that banks direct their CSR to fill institutional necessities, the orientation of CSR in developing countries evolves from classical philanthropy or a paternalistic orientation towards strategies seeking transformative and enduring social effects (Duarte, 2010). At the same time, this serves as a tool of economic development (Newell & Frynas, 2007).

Therefore, CSR may have institutional consequences for developing nations, contributing to achieving several SDG, thus supporting economic development (Jamali & Karam, 2016). As a final consequence, business ethics provide mutual advantages between companies and their host-countries (Luetge, 2005) as banks' CSR strategies in emerging markets create beneficial situations that encompass profitability and social well-being, leading to mutual prosperity. This leads to a reconciliation of CSR instrumental and ethical motives, by simultaneously reaching economic and social value creation (Yin & Jamali, 2016).

Additional material for discussion

In particular, the following specific aspects should be further considered:

1. Analysis of the institutional factors that influence banks' responsible strategies, focusing on the main areas of business expansion in Latin America for each institution. Please refer to specific quantitative indicators.
2. Examination of the specific CSR actions at the companies´ main Latin American host country. Are they related to a major institutional weakness in such region?
3. Financial inclusion constitutes a significant theme in the banking sector. How can we measure financial inclusion levels? Please note the difference between bank penetration and financial inclusion, and refer to the data provided in the tables. What are the main strategies to bank the unbanked? Has this an implication in broader social indicators, poverty reduction and economic development?
4. Is there an economic contribution of CSR to emerging markets' development? Does CSR by multinational companies lead to an improvement of people's well-being and living conditions in developing countries? If so, by which means?
5. Materiality. According to the data provided, are all stakeholders addressed equally by banks' CSR policies? Please show qualitative evidence on specific CSR actions and stakeholder group targeted.
6. Can we build a relationship between company's CSR strategies (at the micro level) and country's development indicators (at the macro level)? Do the UN's SDGs provide an appropriate framework to link CSR and social grand challenges?
7. What are the main motivations for banks' CSR strategies in Latin America? Is there a possibility of generating win-win situations or mutual advantages for both the company involved and its stakeholders (the society)? Please refer to specific examples.

Additional food for thought

1. In the arena of emerging markets, the notion of institutional void is a key characteristic. How would you define institutional void and its main consequences for multinationals entering in emerging markets? Can you find specific IV in the Latin American countries presented?
2. Do institutional factors influence multinational banks´ international CSR practices? Try to explain whether international CSR strategy responds to a divergent view or alternatively, a convergent or homogeneous set of practices at headquarters and affiliates.

3. Do you identify patterns of subsidiary entrepreneurship, i.e. autonomy of subsidiaries in designing distinct strategies tailored to their specific institutional environment? Moreover, can you find patterns of reverse innovation or innovations built up in the developing world that can be spread afterward to developed nations?
4. Isomorphism constitutes a phenomenon by which the firms´ CSR practices tend to be similar within an institutional context. In light of your responses above, would you consider that CSR strategies by each of these banks in their emerging host countries are driven by isomorphic pressures? Why?

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