Corporate Social Responsibility in Emerging Markets. A Study of Spanish MNCs in Latin America

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Extended Abstract

Recent literature has been raising questions about the fit of mainstream theories to the case of emerging markets (EM). For example, part of the debate seems to be about the existence of prior competitive advantages (Porter, 1980), firm-specific advantages (FSA) (Rugman, Collinson, & Hodgetts, 2006), or ownership-specific advantages (Dunning, 1977) and their ability to exploit them abroad (Buckley & Casson, 1976), the main assumptions in mainstream International Business theories. This debate is getting more attention as emerging markets are becoming increasingly integrated with the world economy.

In this context, one of the areas that has received little attention in this debate is that of Corporate Social Responsibility (CSR) (Baskin, 2006). CSR has been an emerging area of research in the last twenty years where most of the studies have had a focus on advanced economies, whether at the micro or macro levels (Carroll, 1979, 1991, Freeman, 1984, 1994). But academic studies on CSR initiatives of MNCs operating in EMs are scarce, being this the main objective of this work.

Wright et al. (2005, p. 7) said that "firms competing within emerging economies face a 'high velocity' environment of rapid political, economic, and institutional changes that are accompanied by relatively underdeveloped factor and product markets". This changing environment presents different challenges for firms operating in these countries which have been widely documented in the literature (see for example (Filatotchev, Wright, Hoskisson, Uhlenbruck, & Tihanyi, 2003, Fornes, 2008, Fornes, 2009, Fornes & Butt-Philip, 2009, Fornes & Cardoza, 2009, Guillen, 2000, Hoskisson, Eden, Lau, & Wright, 2000, Khanna & Palepu, 2000, Khanna & Palepu, 1997, Peng, 2003)).

To this, Wright et al. added that emerging markets are "a new context in which to understand the relative strengths and weaknesses of the different [conceptual] perspectives" used in conventional theory (p. 2). In fact, most of the works presented above suggest that MNCs operating in these countries need to develop a set of specific advantages to cope with a changing environment and the relatively low development of the markets.

In this context, a debate on the strengths and weaknesses of CSR frameworks and initiatives of MNCs operating in EM is evident. For example, one of the key issues on CSR identified by previous studies (Freeman, 1984) is that there seems to be a relationship between companies and stakeholders and that this relationship contains important strategic elements; among them the apparent need to be managed actively in order to influence the companies' performance.

Stakeholders in this context are defined as "any group or individual who can affect or is affected by the achievement of the organization´s objective" (Tulder & Zwart, 2006, p.138). A similar and applicable definition for EMs is difficult to find in recent literature but there seems to be a need, especially as it has claimed that the civil society in EMs has a lower level of association, has a more hierarchical structure, and its influence on the countries' affairs is limited (Fornes & Cardoza, 2009); i.e., it is not clear if the definition for advanced economies can be directly used in the context of developing countries.

On the other hand, a number of studies have shown positive correlations between social responsibility initiatives and the financial performance of corporations (Griffin and Mahon, 1997; Key and Popkin, 1998; Roman et al., 1999; Waddock and Graves, 1997). This idea falls within what has been called instrumental theory (Garriga & Melé, 2004) in which CSR is seen only as a strategic tool to achieve economic objectives and wealth creation. This is based on the idea that "the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the ethical custom of the country" (Friedman 1970, p.122). To this, Windson added that, "a leitmotiv of wealth creation progressively dominates the managerial conception of responsibility" (2001, p.226). This assumes that profits also include the interests of stakeholders; in fact, in certain conditions, the satisfaction of these interests can also contribute to maximise the value for shareholders (Mitchell et al., 1997; Odgen and Watson, 1999). In other words, the instrumental theory suggests that firms can gain unique competitive advantages by implementing CSR initiatives (Godfrey & Hatch, 2007). On the other hand, other authors propose that CSR seems to provide stakeholders with a positive image of the company, to reinforce its reputation and to provide these companies with an improved outlook on the stock market (Fombrun, 2005). In addition, differentiation based on values may attract capital, stakeholders and investors to socially-related business opportunities (Grayson, Hodges, 2004). Going back to the debate on the relative strengths and weaknesses used in conventional theories presented above (Wright, et al., 2005, p. 2), it seems worth asking if MNCs operating in EMS could use their CSR initiatives as competitive advantages.

Within this framework, this study aims at analysing, first, if the MNCs' objectives to pursue CSR initiatives in advanced economies are different from those in Latin American emerging markets, second, if the answer to the previous question is affirmative, why and how the strategies are different. This is an exploratory work that follows a similar experimental design to that used in recent papers (Fornes, 2008, Yamakawa, Peng, & Deeds, 2008).

This research work focuses on CSR initiatives from a developed country (Spain) in emerging markets (Latin America). The European origin of the sample differentiates this work, as most previous studies have analysed firms in the US; the same applies to the destination of the investments since research in this field on emerging markets has been scarce.

A non-probabilistic sample was applied and the participation of eight of the ten largest investors was secured. These companies account for over 90% of the Spanish investments in Latin America. The findings were analysed on a case-by-case basis; however, for reporting purposes, some of them are presented as aggregate.

The data collection process was based mainly on interviews containing structured and open-ended questions with senior managers, directors, and/or members of the Board of the eight companies participating in the study in addition to the collection of second-hand information from the companies, national governments, and multinational organisations. The interviews were carried out in Spanish between February and March 2010 in Madrid, Spain.

A quantitative analysis was carried out in a similar way to that in previous papers (Allayannis, Ihrig, & Weston, 2001, Faff & Marshall, 2005, Fornes, 2008) where a coefficient of value added by CSR initiatives of the sampled companies is calculated through a time series

regression of the companies' stock returns on market and CSR investments. In this context, value added by CSR initiatives was defined as changes in the value of the firm as a consequence of investments in CSR. This coefficient was calculated using contemporaneous CSR investments as the evidence between contemporaneous and lagged is mixed and there is no theory to say what length of lag is appropriate.

On the other hand, the qualitative data collected from the interviews was analysed and coded using the systematic approach described by Glaser and Strauss (1967). The first "natural" coding was done by the structured questions in the survey. Subsequently, the objective was the development of new categories, hypotheses, and interrelated hypotheses. The unit of analysis for the qualitative study was the different incidents (which varied from a single phrase or sentence, to an entire comment consisting of two or three sentences (Titscher, Meyer, Wodak, & Vetter, 2000) reported by the participants. These incidents were sorted under the categories that were emerging as the review of the data went on. During this continuous process, the categories and their incidents were compared, which generated properties that were then integrated with the categories. As the process of comparison started to produce fewer new results, the next step saw the consolidation of the categories and their properties. Finally, the conclusions were summarised and combined with the quantitative analysis.

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