

# Transfer of Responsible Lending Practices in an MNC - Case of a Consumer Finance Company

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## **Transfer of Responsible Lending Practices in an MNC - Case of a Consumer Finance Company**

### **Objectives of the study**

Existing literature has not paid proper attention to the transfer of value-infused practices in multinational corporations (MNCs) and has similarly neglected the individual actor in transfer situations. Overall, transfer processes have been viewed too simplistically. The aim of this study was to study the transfer of a value-infused practice, responsible lending, within an MNC and its local subsidiary. Furthermore, it aimed to identify the role of individual employees in a transfer situation. Therefore, the study presented two main research questions 1) What kind of responsible lending practices does a subsidiary implement locally? How are they implemented across organizational levels within the subsidiary? 2) How are these practices transferred from the corporate headquarters via regional headquarters to the local subsidiary?

### **Methodology**

This thesis was conducted as a single case study, consisting of qualitative, semi-structured interviews and supportive use of documentation. Altogether fifteen interviews were conducted, thirteen at the local subsidiary level and two at the regional headquarters level. The practices of the corporate headquarters were in turn determined through documentation and the above-mentioned interviews.

### **Findings and Conclusions**

This study shows that responsible lending is important and implemented within the entire organization, since it is viewed as an obvious choice for operators in the financial industry and as strategically important. However, these practices are hardly transferred from the headquarters to the subsidiary or within the subsidiary. The reason why responsible lending practices do not transfer is because of the social and cultural determinants, the nature of relationships within the organization, the value-infused nature of the practice, and because the practice seems to be taken for granted. Therefore, this study contributes to the existing literature by representing the concept of negative transfer and depicting how value-infused practices and individual actors affect the transfer situation.

### **Keywords**

responsible lending, transfer of organizational practices, MNCs, corporate social responsibility, value-based practices, institutional theory

## **Vastuullisten luotonantokäytäntöjen siirtyminen monikansallisessa yrityksessä - Tapaustutkimus kuluttajarahoitusyhtiöstä**

### **Tutkimuksen tavoitteet**

Kirjallisuudessa ei ole tarkoin tutkittu arvoperusteisten käytäntöjen siirtymistä monikansallisissa yrityksissä, eikä yksittäisten henkilöiden roolia siirtotilanteissa. Yleisesti ottaen, siirtoprosesseja on tutkittu liian yksioikoisesti. Tämän tutkimuksen tavoitteena oli tutkia arvoperusteisen käytännön, vastuullisen luotonannon, siirtoa monikansallisessa yrityksessä. Tämän lisäksi työssä keskityttiin tutkimaan yksittäisten henkilöiden roolia siirtotilanteessa. Täten, tutkimuksessa esitettiin kaksi johtavaa tutkimuskysymystä 1) Millaisia vastuullisen luotonannon käytäntöjä paikallinen tytäryhtiö toteuttaa? Miten näitä käytäntöjä toteutetaan organisaation eri tasoilla? 2) Miten nämä käytännöt siirtyvät emoyhtiöltä, alueellisen pääkonttorin kautta, paikalliselle tytäryhtiölle?

### **Tutkimusmenetelmät**

Tutkimus toteutettiin kvalitatiivisena, yhden tapausyksikön tutkimuksena. Aineistonkeruu tapahtui puoli-strukturoitujen haastattelujen sekä dokumentaation avulla. Tutkimus sisälsi yhteensä viisitoista haastattelua, kolmetoista tytäryhtiön henkilöstön kanssa ja kaksi haastattelua alueellisen pääkonttorin henkilöstön kanssa. Emoyhtiön käytännöt määriteltiin dokumentaation, sekä edellä mainittujen haastattelujen avulla.

### **Tulokset ja johtopäätökset**

Tutkimus osoittaa että vastuullisen luotonannon käytännöt ovat tärkeitä ja niitä toteutetaan koko yrityksessä. Tämä johtuu siitä, että käytännöt nähdään luonnollisena valintana yhtiölle joka toimii rahoitusallalla, ja koska käytännöt koetaan strategisesti tärkeiksi. Kuitenkaan käytännöt eivät juurikaan siirry emoyhtiöltä tytäryhtiölle tai tytäryhtiön sisällä. Tähän vaikuttavat sosiaaliset ja kulttuuriset tekijät, suhteet organisaation sisällä, käytännön arvoperusteisuus sekä se, että käytäntö näyttää olevan itsestään selvä asia. Tämä tutkimus tarjoaakin kontribuution kirjallisuuteen esittämällä ”negatiivisen siirron” konseptin ja kuvaamalla miten arvoperusteiset käytännöt ja yksittäiset henkilöt vaikuttavat siirtotilanteisiin.

### **Avainsanat**

vastuullinen luotonanto, organisatoristen käytäntöjen siirto, monikansalliset yritykset, yrityksen yhteiskuntavastuu, arvoperusteiset käytännöt, institutionaalinen teoria

## TABLE OF CONTENTS

<b>1. INTRODUCTION</b> .....	1
1.1. BACKGROUND .....	1
1.2. RESEARCH GAPS.....	3
1.3. RESEARCH PROBLEM.....	5
1.4. RESEARCH OBJECTIVES AND QUESTIONS .....	6
1.5. LIMITATIONS .....	8
1.6. DEFINITIONS.....	8
1.7. STRUCTURE .....	10
<b>2. LITERATURE REVIEW</b> .....	12
2.1. TRANSFER OF ORGANIZATIONAL PRACTICES IN MNCs.....	12
2.1.1. MNCs.....	12
2.1.2. Organizational Practices .....	14
2.1.3. Transfer of Organizational Practices .....	16
2.1.4. Approach of the Study: Institutional Theory .....	17
2.1.5. Value-based Practice Transfers.....	21
2.1.6. Firm and Function Related Differences.....	23
2.1.7. Relationships between the Parent and the Local Unit .....	25
2.1.7.1. Subsidiary-Headquarters Relationship.....	25
2.1.7.2. Strategic Subsidiary Role .....	27
2.1.8. Subsidiary Response Strategies.....	28
2.1.9. Summary .....	30
2.2. RESPONSIBLE LENDING.....	31
2.2.1. The Concept of CSR as a Starting Point .....	32
2.2.2. CSR in Financial Services Sector.....	37
2.2.2.1. Consumer Credit Market.....	38
2.2.2.2. Roles and Responsibilities of the Financial Sector.....	40
2.2.2.3. Regulatory Environment.....	41
2.2.2.4. Areas of Concern in the Financial Services Sector.....	42
2.2.2.4.1. Marketing and Sales .....	43
2.2.2.4.2. Creditworthiness.....	44
2.2.2.4.3. Consumer Knowledge and Decision-making .....	45
2.2.2.4.4. Intermediaries .....	48
2.2.2.5. EU Directive: New Direction.....	49
2.2.2.6. Statements on Responsible Lending.....	51
2.2.2.7. Summary .....	53
2.3. THEORETICAL FRAMEWORK .....	54
<b>3. METHODOLOGY</b> .....	59
3.1. UNIT OF ANALYSIS: SINGLE CASE STUDY .....	59
3.2. CASE COMPANY OVERVIEW.....	61
3.3. DATA COLLECTION .....	64
3.3.1. Interviews .....	65
3.3.2. Documents.....	69
3.4. DATA ANALYSIS.....	69
3.5. VALIDITY AND RELIABILITY .....	73
3.5.1. Rigor and Authenticity.....	73

3.5.2. Reflections on My Own Insider Role.....	75
3.6. LIMITATIONS .....	76
<b>4. FINDINGS AND DISCUSSION .....</b>	<b>78</b>
4.1. RESPONSIBLE LENDING PRACTICES .....	78
4.1.1. Responsible Lending Starts at the Corporate Headquarters .....	80
4.1.2. Responsible Lending Practices in Regional Headquarters and Local Subsidiary .....	84
4.1.3. Challenges in Responsible Lending.....	91
4.1.4. Summarizing Reflections .....	96
4.2. TRANSFER OF RESPONSIBLE LENDING PRACTICES.....	98
4.2.1. Negative Transfer of Responsible Lending Practices .....	103
4.2.2. Transfer of Responsible Lending Practices in the Local Unit .....	115
4.2.3. Responsible Lending as a Value-based Practice .....	124
4.2.4. Summarizing Reflections .....	130
<b>5. CONCLUSIONS.....</b>	<b>134</b>
5.1. MAIN FINDINGS AND THEORETICAL CONTRIBUTIONS.....	134
5.2. MANAGERIAL IMPLICATIONS .....	136
5.3. SUGGESTIONS FOR FURTHER RESEARCH.....	138
<b>REFERENCES.....</b>	<b>141</b>
<b>APPENDICES .....</b>	<b>154</b>

## LIST OF TABLES AND FIGURES

### TABLES

Table 1. Research Gaps of the Study	5
Table 2. Responsible Lending in Different Forums	52
Table 3. Case Company Departments	63
Table 4. List of Data Sources	64
Table 5. Interview Layout According to Themes	67
Table 6. Data Analysis Categories	71
Table 7. Department-specific Practices of Local Subsidiary	90
Table 8. Future Challenges in Responsible Lending	96
Table 9. Main Findings	136

### FIGURES

Figure 1. Objectives and Boundaries of the Study	7
Figure 2. Structure of the Thesis	11
Figure 3. Dual Pressures of Local Subsidiaries	20
Figure 4. Strategic Subsidiary Role	27
Figure 5. Corporate Social Responsibility Pyramid	35
Figure 6. The Three-domain Model of Corporate Social Responsibility	36
Figure 7. Model of Success of the Transnational Transfer of Organizational Practices	56
Figure 8. Theoretical Framework for Transferring Responsible Lending Practices	58
Figure 9. Logic of Data Analysis	72
Figure 10. Corporate Headquarters Responsible Lending Practices	84
Figure 11. The Positive Cycle of Responsible Lending	89
Figure 12. Local Responsible Lending Practices and Transfer of Responsible Lending Practices within the Organizational Chain	101

## **1. INTRODUCTION**

The introductory chapter of this thesis will set the platform for the study. It will present the reasons behind the topic selection, highlighting the background and research gaps related to the topic. Furthermore, this chapter will discuss the research objectives and questions for the study, and finally present any existing limitations, key concept definitions, and thesis structure.

### **1.1. BACKGROUND**

Responsible lending is important due to the significant role credit markets play in today's economy. Households have particularly increased their loan taking since the recent financial crisis, which has resulted in over-indebtedness (European Commission, 2009). This is especially so, because obtaining credit has become fairly easy. For example, instant loans are easy to attain, yet they bear high costs, which in their part contribute to reckless loan-taking and financial difficulties for consumers. Responsible lending practices have been of concern all over the world and protecting the consumer as the user of financial services is crucial. Lending involves a relationship between an expert and an amateur: It is the lender, who ought to act professionally and behave according to the customers' interests and needs. Furthermore, debt problems are detrimental to the society as a whole. Although legislation is needed to cover some of the pitfalls in the industry, there is still a strong need for responsible behavior from the part of lenders as well. (Finnish Consumer Agency, 2006)

The significance of responsible lending can also be discussed through the concept of corporate social responsibility (CSR). This way, we can easily see why responsible lending practices can be considered the responsibility of a company and also see how these responsibilities can benefit a company. CSR has been extensively covered in management literature since the 1950's (De Bakker, Groenewegen & Den Hond, 2005) and has now become one of the central issues for organizations. CSR is seen as a

valuable attribute to company success and it has a potential to bring a competitive advantage to companies (Vilanova, Lozano & Arenas, 2009). It can be considered more than just a mere cost constraint; it can be viewed as a source for opportunity, innovation and competitive advantage. In fact, CSR ought to be tightly linked to core operations, and considered as part of a company strategy. (Porter & Kramer, 2006)

Given that CSR practices and therefore responsible lending practices can be considered as strategically, socially, and globally important, it is interesting to study how these practices are implemented within a MNC. One angle to do so is to study how these practices are transferred within the organization. Internal transfers of practices are crucial to organizations, particularly to MNCs (Kostova, 1999). MNCs often possess superior knowledge, which then can be utilized in subsidiaries worldwide (Kogut & Zander, 2003), and the utmost ability of MNC to transfer knowledge internally is the reason for their existence (Gupta & Govindarajan, 2000). Yet, transferring practices in MNCs does not come as straightforwardly or unproblematically as the previous notions would let us assume. Although the strategic importance of practice transfers has been acknowledged among scholars, there still appears to be problems in transfer success and various transfer barriers exist (Kostova, 1999; Lucas, 2010). Moreover, there appears to be room for particularly studying practices that are value-infused (Blazejewski, 2006: 68) such as CSR practices.

Answering the discussion above and attempting to fill these research gaps, this thesis will study what kind of responsible lending practices a consumer finance company implements, and how these practices are transferred within the MNC, from the corporate headquarters, via regional headquarters to a Finnish subsidiary. Furthermore, in order to see how these practices are transferred and internalized within the subsidiary, three different departments will be studied, covering both employee and managerial levels.



## 1.2. RESEARCH GAPS

The research gaps for the thesis are twofold: They cover both gaps stemming from the field of transfer of organizational practices, as well as from the part of responsible lending, as they serve as the main themes for this thesis.

The literature on organizational practice transfers has commonly considered the effect these transfers have on the subsidiary's performance, and what kind of role adaptation has on the success or failure of the practice (see Kostova, 1999), whereas the transfer process itself has been more neglected (Jensen & Szulanski, 2004). Indeed, in this thesis the focus is not that much on the success or failure of the transfer, but more on the transfer process. This notion is crucial as there is no guarantee if these practices are even transferred from the headquarters in the first place, or in what form they are transferred. Thus, I am not interested in whether the practices are successfully transferred to the local subsidiary, but *how they are transferred or translated to function in the local environment*. With this said, the transfer success becomes more relevant when the practice transfers are considered *within* the subsidiary, i.e. how they are internalized and handled within teams, and between managers and employees. Therefore, such a viewpoint to the success of the transfer process is adopted in this study. Secondly, implementation of value-infused practices across international subsidiaries has been commonly considered quite unproblematic, although as Blazejewski (2005; 2006: 68) argues this is hardly the case. Conflict is to arise especially in the case of transferring practices of that sort, as they have symbolic and cultural value (Selznick, 1957 in Blazejewski 2006: 66). Since the focus in this thesis is on responsible lending practices, this topic can be considered very value-infused. Therefore, it will be interesting to add to the literature insights from transferring of value-infused, responsible lending practices and study how these practices behave in a transfer situation.

As a final remark, the literature on practice transfers has tended to neglect the individual perspective (Sharpe, 2001). However, in this thesis, the perspectives of individual employees, team leaders, department managers, and top managers are studied, therefore

tackling this type of research gap. Moreover, as these individuals are in different departments and in horizontal and vertical levels in the organization, this will further contribute to the scope of the study and help to identify the different roles and positions these individuals occupy in practical transfer situations.

The research gaps for the part of responsible lending consist of the following. First, the literature is scarce on responsible lending, and much of the written evidence is in forms of discussion papers or other such publications, whereas academic articles are few and far between. Although the academic literature may be scarce, the subject is still very important. On one hand, the subject is crucial due to the important role of the financial sector in the economies and considering consumer's over-indebtedness, which has been worsened by the current financial crisis. As it has been suggested, responsible lending protocols could provide an answer for such a situation. (European Commission, 2009)

Moreover, the irresponsible practices of the consumer credit providers have been of high interest both in the EU as well as in Finland. These practices include marketing processes, lending criteria and so forth, and relate strongly to the departments that have been selected for this study. Although regulations towards consumer protection in the financial sector have been improved, there still exists misleading and deceptive behavior on the part of financial operators, which implies the need for responsible lending practices (Estelami, 2007: 51), and therefore supports the relevance of this study.

Table 1. Research Gaps of the Study

Research Gaps
<p>Transfer of organizational practices</p> <ul style="list-style-type: none"> <li>• Literature mainly focused on studying the outcome of transfers such as success while the transfer process itself has gained little attention</li> <li>• Transfers have been traditionally considered quite unproblematic and conflict-free, and the value-infused feature of practices has not drawn attention in the literature</li> <li>• The literature has also neglected the role of individual actors, although they certainly have an impact on transfer situations</li> </ul>
<p>Responsible lending</p> <ul style="list-style-type: none"> <li>• Literature is scarce on responsible lending. Academic literature concentrates on CSR, and responsible lending is covered only in other types of documentation, such as newspaper articles or private organizations' publications</li> <li>• Although suffering from little academic attention, focusing on the topic is essential due to its social significance and the extensive discussion the topic has fueled. The importance for studying the topic stems from the fact that people are evermore over-indebted and there seems to be irresponsible lending practices and behaviors in the financial industry</li> </ul>

### 1.3. RESEARCH PROBLEM

Given the importance of responsible lending practices and their transfer within the MNC, it is valuable to study how these practices are implemented, transferred and internalized in the case company in Finland. It is essential to determine, what kind of

responsible lending practices the case company implements, and how it manages the internal communication process given the social and company-wide importance of such practices. Furthermore, since responsible lending practices can be considered value-infused, it is of academic interest to study how these types of practices behave in transfer situations.

In short, the core of the research problem in this study can be outlined as follows:

In the light of growing concerns towards lending practices in the consumer finance sector, in what way does a multinational corporation perform responsible lending practices, and to what extent and how are these practices transferred within its organization?

#### 1.4. RESEARCH OBJECTIVES AND QUESTIONS

The first main objective for this study is to define the nature of responsible lending practices in the case company and determine how these practices are applied. Since responsible lending is rather understudied, this will contribute to the understanding of different types of CSR practices. Furthermore, determining of the practice is also crucial since it assists in identifying the transfer process. More specifically, the aim of this study is to identify what kind of responsible lending practices the case company executes, identify reasons why these practices are executed, and how these practices respond to current concerns in the industry.

The second main objective is to determine how the headquarters responsible lending practices are transferred to the Finnish subsidiary, or how they are translated on the way. In order to do this, the transfer of practices through the chain of the corporate headquarters in Europe, the regional headquarters in the Nordics and the local subsidiary in Finland will be studied. This way, it is possible to get a more accurate picture of the transfer process and depict the barriers that influence these transfers.

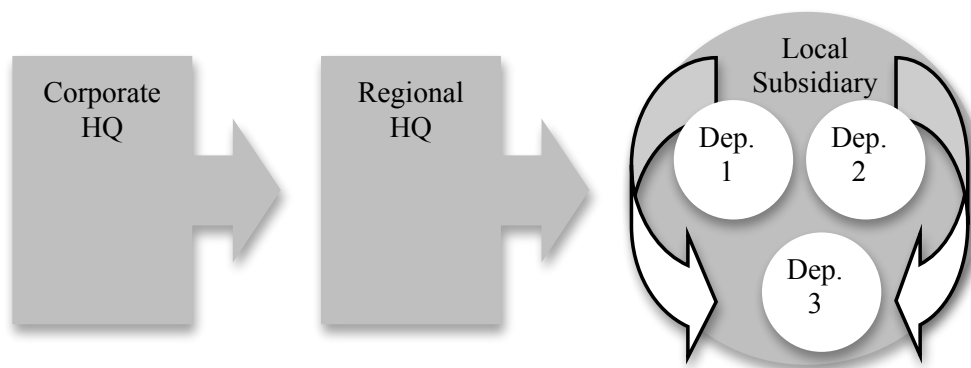
Moreover, in order to both capture the entire picture of the responsible lending practices and also study the transfer and internalization process in the local subsidiary, three different departments will be studied. The internalization process will show the practice adoption in the subsidiary. In addition to these departments, all levels within the organization are considered, ranging from top management to employee level. Given this, it is possible to determine whether the practices are easily transferred within the subsidiary or not, and what kind of barriers lie in the way of a successful transfer.

In summary, the core of this thesis can be presented with the following phrase:

*How are MNC responsible lending practices put in practice in one of its subsidiaries?*

The figure below presents the objectives and boundaries of this study. It describes the transfer of responsible lending practices from the parent all the way to the subsidiary and also the transfer within the subsidiary.

Figure 1. Objectives and Boundaries of the Study



The objectives of the study can be divided into more specific research questions that cover all aspects of the research:

1. What kind of responsible lending practices does a subsidiary implement locally?  
How are they implemented across organizational levels within the subsidiary?
2. How are these practices transferred from the corporate headquarters via regional headquarters to the local subsidiary?

### 1.5. LIMITATIONS

This study is limited to the evidence of a single case study, and its purpose is not to produce generalizable results. However, the case company was studied in-depth, as different departments and horizontal and vertical levels were examined. The basis for this study was to look at an interesting phenomenon and practice, and study it through the literature and theories of organizational practices in MNCs. Since responsible lending is a rather new and understudied subject, there was not a whole lot of specific literature on responsible lending to build on, yet this gap was considered by discussing the concept through CSR literature. Most importantly, this thesis sheds light on the concept of responsible lending, something that has not been previously done. Due to time constraints, the interviews covered three of the departments although some other departments in the company could have also been valuable to study. Yet, these selected departments were the most relevant in terms of responsible lending practices. Furthermore, it is important to note that the corporate headquarters were studied through different types of documentation, and through the responses provided in other interviews, and therefore the study lacks the original “voice” of the corporate headquarters.

### 1.6. DEFINITIONS

Concepts that are most critical for this study are now shortly explained and discussed. They are presented somewhat in the same order, as the topics are discussed in the literature review, and are elaborated on later in the thesis.

## *MNC*

A very basic definition for MNC is provided by Bartlett and Ghoshal (1998: 56). They determine the MNC as a decentralized federation with resources and responsibilities, whose worldwide operations constitute of a “portfolio of national businesses”. This defines an MNC according to its organizational form, and differentiates it from other internationally-oriented companies and their organizational types.

As the focus of this thesis is on organizational practice transfers, it is important to view MNCs through the lens of knowledge-based view (KBV) of the firm. KBV considers MNCs as creators and transferors of knowledge that arise due to their distinct ability in transferring their superior knowledge across borders (Kogut & Zander, 2003). As already stated this definition is very suitable considering the purpose of this thesis and will be used as a base for discussion.

## *Organizational practices*

Organizational practices can be perceived as an organization’s way of conducting a particular organizational function. They represent the shared knowledge of the organization and are taken as granted among the employees, representing the ”way we do things here”. (Kostova, 1999)

## *Financial product and financial service*

Financial products can be explained as “commoditized financial transactions” that contain standardized and appropriately determined features. Then, financial services can be determined as customized transactions, for instance financial advice that is tailored according to an individual customer’s needs. Although there is a slight distinction between these two concepts, financial product and financial service are often used synonymously. (Estelami, 2007: 18) Therefore, also in this thesis, they are regarded in such a manner.

### *Consumer credit*

Consumer credit includes all sorts of non-mortgage credit products (Garman & Fogue, 2008 in O'Neill, 2010), such as auto finance, credit cards and other personal loans. (O'Neill, 2010) On a general note, credit products can be divided into collateralized and non-collateralized credit products. Collateralized credit entails that the lender has the ability of selling the collateral in case the customer cannot perform his or her responsibilities. Non-collateralized credit is the opposite of collateralized one and is therefore way riskier, which implies also higher interest rates considering the customer. (Estelami, 2007: 67) The case company offers both collateralized and non-collateralized credit products.

### *Responsible lending*

Responsible lending holds that the credit product is matched with the needs of the consumer and that the financial operator foresees that this consumer has the ability to pay back his or her loan (European Commission, 2009). This definition is appropriate to refer to in this thesis as the paper focuses on responsible lending practices in the EU, including the Finnish subsidiary, the regional headquarters, as well as the corporate headquarters.

## 1.7. STRUCTURE

The thesis is structured as follows. First, the literature review starts with discussing the literature on transfer of organizational practices in MNCs. It will discuss the nature and functioning of MNCs, transferring of organizational practices and considers what kind of barriers lie in the way of practice adoption, and elaborate on the reasons for such barriers.

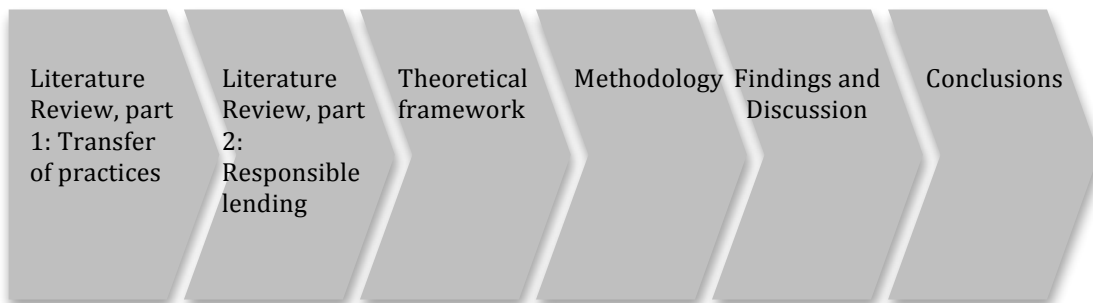
Then, the practice to be transferred, responsible lending, will be discussed. In this part, the fundamentals of CSR and responsible lending will be discussed first, followed by



presenting the current discussion on that area. Here, the objective is to show any issues that are related to the industry, thus providing support as to why this thesis topic is worthwhile exploring. At the end of these two sections, the theoretical framework is drawn from the literature discussed.

After the literature review, the methodology of the thesis is discussed. This will start with introducing the case company and all the relevant departments for this study. Afterwards, the research method and analysis methods are presented, followed by the discussion on the reliability and validity of the thesis and limitations. The methodology section is followed by the findings and discussions section, where the main findings will be depicted and then mirrored to the literature. Finally, conclusions are drawn and managerial implications and avenues for future research considered.

Figure 2. Structure of the Thesis



## **2. LITERATURE REVIEW**

The literature will now be discussed, firstly covering the transfer of organizational practices and thereafter responsible lending practices. The first part will therefore concentrate on the transfer, whereas the second part will discuss the practice.

### **2.1. TRANSFER OF ORGANIZATIONAL PRACTICES IN MNCs**

To start the discussion on organizational practices and their transfer, key definitions are first discussed, including a discussion on MNCs and organizational practices. These are very essential concepts to consider before moving on to more specific literature on transfer of practices.

#### **2.1.1. MNCs**

Transferring practices within and across MNCs bear distinctive features and therefore it is necessary to start the discussion by considering and highlighting the characteristics of such organizations, as they do impact on transfer situations. As a starting point, it is relevant to begin with the definitions of MNCs. In their early work, Bartlett and Ghoshal (1989) have classified firms into four groups according to their organizational structure. Multinational firms have decentralized operations, with strong local conformity and little cooperation between sister subsidiaries. Global firms have a strong central hub, which determines the operations. In these firms, local product and process adaptations are kept at a minimum and global product standards are preferred. International firms on the other hand rely on centrally planned operations that are then transferred abroad, yet they are adapted locally when necessary. Finally, transnational firms, TNCs, have a dispersed organizational structure, with integrated and shared worldwide operations, and where national subsidiaries have an important role in

knowledge sharing and creating firm processes. (Morgan, 2001: 7; Bartlett & Ghoshal, 1998: 55-63)

MNCs can be understood in two ways: On one hand an MNC is a single organization operating in multiple locations, on the other hand an MNC is a combination of multiple local organizations (Rosenzweig & Sing, 1991). MNCs coordinate and control operations worldwide with different types of organizational-, ownership-, -and authority structures (Whitley, 2001: 27; Bartlett & Ghoshal, 1998; Ghoshal & Bartlett, 1990) and with different kind of processes and networks (Bartlett & Ghoshal, 1998, Ghoshal & Bartlett, 1990). Moreover, MNCs operate in multiple locations and the international business environment where they operate is shaped by diverse economic, social, and political factors (Bartlett & Ghoshal, 1998: 51). On a general note, an international business environment is less organized and regulated compared to regional and national ones, and is weakly institutionalized (Whitley, 2001: 29).

The structure of multinational companies is complex, indeterminate, heterogeneous, flexible, and differentiated, and is bound in internal interdependencies, learning and member autonomy (Mohan, 2006: 108). As Morgan (2001: 10) states, MNCs are “a set of social processes of coordination and control, disorganization and resistance”. The underlying advantage of a multinational, transnational, or global firm is their ability to exploit, coordinate, and optimize activities across countries (Kristensen & Zeitlin, 2001; Kostova & Roth, 2003). Furthermore, MNCs are unique organizations in their function of coordination of activities across varying institutional contexts (Whitley, 2001). Yet, controlling foreign subsidiaries is quite complex and remains as one of the concerns for MNCs (Rosenzweig & Singh, 1991). Due to geographic distance, MNCs struggle with language barriers, performance evaluation and culturally diverse interaction (Mascarenhas, 1982 in Rosenzweig & Singh, 1991).

In order to remain successful in the global arena, firms need to pursue efficiency, responsiveness, and learning on a worldwide basis. This in its part creates the challenge of being capable of adapting (Bartlett & Ghoshal, 1998: 62), which is necessary for instance due to local regulatory standards (Morgan, 2001: 16). These needs for global

efficiency or on the contrary local adaptations can also be industry-specific: Some industries require more adaptation whereas others need global efficiency, therefore resulting in different strategies. (Bartlett & Ghoshal, 1998)

Nowadays, MNCs are to a large extent conceptualized as interorganizational networks that are embedded in external networks, such as customers, suppliers, and governments, with whom the different units interact (Ghoshal & Bartlett, 1990; Bartlett & Ghoshal, 1998; Gupta & Govindarajan, 1991). Quite similarly, they are also viewed as differentiated networks, where we look at the MNC as having relations and linkages between 1) HQ and the local subsidiary, 2) local subsidiary and its national environment, and 3) sister subsidiaries. (Nohria & Ghoshal, 1997 in Morgan, 2001: 4) Given this, subsidiaries have access to different types of resources, operate in different contexts, and can have different roles within the MNC (Andersson, Forsgren & Pedersen, 1999). According to the literature on MNCs, it is quite apparent that MNCs for one, transfer knowledge within the organization and for second, benefit from it. In other words, this seems to be very natural behavior and a key for the functioning of an MNC. Yet, in the upcoming chapters it is argued that transferring knowledge or practices to overseas subsidiaries is not a straightforward process and that these transfers are bound to several factors. These factors, or barriers, are soon to be discussed, as we move to study how practices, and not just knowledge, are transferred in MNCs.

### 2.1.2. Organizational Practices

In addition to MNCs, also the characteristics of organizational practices need to be explained first. Organizational practices can be defined as “organizations’ routine use of knowledge for conducting a particular function that has evolved over time under the influence of the organization’s history, people, interests, and action” (Kostova & Roth, 2002: 216). They are shared knowledge among organizational members and are accepted by them (Kostova, 1999). Furthermore, practices are multidimensional in that

they consist of unwritten or written rules, concepts that influence these rules, and underlying values and beliefs (Kostova, 1999).

The nature and scope of transferred practices vary. They can be narrow in scope referring to specific functional tasks, or broader referring to a task transfer on a larger scale. They can altogether vary with the degree of formality, with some practices being highly formal with written rules while others are purely informal. Similarly, they can vary between technical and social contexts (Kostova, 1999).

Practices take different forms. For instance, they can be of strategic importance, offering the organization distinctive competencies and competitive advantage. Here, we talk about strategic organizational practices that are unique, complex, and difficult to copy, and are strongly related to the “people” behind the practice. (Kostova, 1999; Jensen & Szulanski, 2004) They are strongly value and meaning-based (Kostova, 1999), and therefore differ from mere knowledge-transfer on which earlier studies have focused (Kogut & Zander, 2003). Finally, practices that are considered to have strategic importance are likely to be formalized in order to make them visible to everyone in the organization. It is especially these types of practices that create conflict in transfer situations and barriers for practice adoption. It is not just about transferring knowledge, but also transferring meaning and value at the same time. Therefore, transferring just some written protocol to a local subsidiary would be inappropriate, as the recipient needs to be able to interpret it the same way the other party does. (Kostova, 1999)

The focus of this study, responsible lending, is regarded as a value-infused, meaning-based practice compared to more ‘hard’ practices, such as technical practices. Thus, this study will focus on these types of practices and try to identify how these types of practices behave in transfer situations. Prior to more specifically discussing the nature of value-based practices and the transfer of such practices, the more general and traditional literature on transfer of organizational practices will be depicted. This is because discussing those concepts first sets a solid platform for explaining the value-based practices, as these practices are of more recent insight in literature.

### 2.1.3. Transfer of Organizational Practices

Transferring of organizational practices in MNCs is critical, since sharing of organizational practices creates a competitive advantage (Jensen & Szulanski, 2004; Kostova, 1999). The underlying assumption is that the primary advantage MNCs possess, is their knowledge, (Kogut & Zander, 2003) and especially knowledge that is unique and difficult to imitate, brings a competitive advantage to the firm (Jensen and Szulanski, 2004). Resorting to a knowledge-based view of the firm, MNCs are said to exist because of their superior ability to transfer knowledge efficiently (Kogut & Zander, 2003; Gupta & Govindarajan, 2000). These intracorporate knowledge flows that MNCs possess, include e.g. expertise (skills and capabilities) and strategic external market data (globally relevant key information on suppliers, customers, etc.) (Gupta & Govindarajan, 1991). However, even though MNCs possess this superior ability and advantage, this does not suggest that knowledge transfers within an MNC are still done effectively or efficiently on a constant basis (Gupta & Govindarajan, 2000).

Although interaction and knowledge sharing within MNCs seems somewhat very natural and as part of their ability to function, the literature also points out the hardships that can occur when transferring practices and therefore knowledge within these MNCs. Adapting organizational practices is not simple, and it requires adjustment and content at the local end (Lucas, 2010). Transfer of organizational practices is not as straightforward, when the transfers are conducted in multinational environments, across borders. It is especially difficult to transfer HQ practices to local subsidiaries in their original form. (Jensen & Zulanski, 2004) Indeed, MNCs are more complex than domestic firms, as they “operate in multiple cultural and institutional environments”, have multiple set of practices, management styles, and individual standpoints (Vora & Kostova, 2007: 328), as well as language barriers, power struggles, and differing routines and practices (Kostova, Roth & Dacin, 2008). Actually, this type of heterogeneity is so intensive and multisided that sharing of any type of common visions or values is extremely difficult (Kostova & Roth, 2003). With this said, an adjustment is often required in order to alter the transferred practice so that it fits the local

environment, and therefore makes the transition process easier for local parties (Jensen & Szulanski, 2004).

Summarizing earlier research, Mohan (2006: 105-108) states that MNCs operate in different economic, socio-political, and cultural environments. These environments include macro-global environment (including global institutions and norms), local environment (including local institutions and societal norms), and internal organizational environment (including internal institution, structures, and systems). There are practices that can be applied on global levels due to their conformity to global institutional and societal norms, yet some practices are rather bound on local environments. Within MNCs, organizational practices take multiple forms. Organizational practices are often specific to a nation and differ between countries (Kostova & Roth, 2002), due to the variations in such as institutional elements as culture and law between countries (Rosenzweig & Singh, 1991). MNCs need to adjust to the local environments due to their unique institutional features (Kostova & Roth, 2002; Jensen & Szulanski, 2004), yet a competitive advantage is also derived from the utilization of firm capabilities globally (Jensen & Szulanski, 2004).

At this point, we have covered the aspects of MNCs and organizational practices and partly already discussed how knowledge and practices are transferred within an MNC. The next chapters will now elaborate more on the transfer of organizational practices literature, and introduce the institutional theory, the stream of literature that will serve as a platform for this thesis. Then, after covering the institutional theory, the focus will move on to discussing value-based practices, as they are in key role in this thesis.

#### 2.1.4. Approach of the Study: Institutional Theory

This thesis will resort to the institutional theory when discussing practice transfers. Lately, the institutional perspective has risen to discuss and explain the functioning of MNCs, leading the discussion on MNCs to new rails (Jensen & Szulanski, 2004). Nowadays an increasing number of studies from organizational practices transfer in

MNCs is based on institutional theory (DiMaggio & Powell, 1983; Rosezweig & Singh, 1991; Gooderham, Nordhaug & Ringdal, 1999; Kostova, 1999; Kostova & Roth, 2002; Guler, Guillen & McPehrsson, 2002; Blazejewski, 2006: 63). Transfer of practices could have also been studied relying merely on knowledge management literature. Yet, knowledge management views the MNC and its success based on its ability to transfer knowledge, which in this case would be a poor platform because it is too simplistic of an approach. Studying practice transfers from the institutional perspective seems appropriate, since institutional differences create barriers for practice transfers (Jensen & Szulanski, 2004). Furthermore, institutional environments do evidently have an impact on practice transfers, as institutional environments differ between locations, and as organizational practices are highly in tune with the institutional environment the firm operates in. The latter naturally entails that practices that are transferred across borders do not necessarily fit with the local institutional environment. (Kostova, 1999) Then, relying on this perspective is also relevant considering CSR, as institutional environments shape corporate responsibility practices (Halme, Roome & Dobers, 2009).

Building on the institutional theory, the concept of *institutional dualism* is presented, to further discuss the transfer of organizational practices. Institutional duality proposes that the subsidiary experiences dual pressure: pressure for consistency within the MNC and pressure for similarity with the local environment. These dual pressures are depicted in Figure 3. Given this, the adoption of transferred practices is influenced by both the host country institutional environment and the relational context of the MNC (Rosenzweig & Singh, 1991; Kostova & Roth, 2002). On one hand, the pressure for consistency within the MNC can be because of a subsidiary's insecurity in new foreign environment and MNCs need for control (Rosenzweig & Singh, 1991).

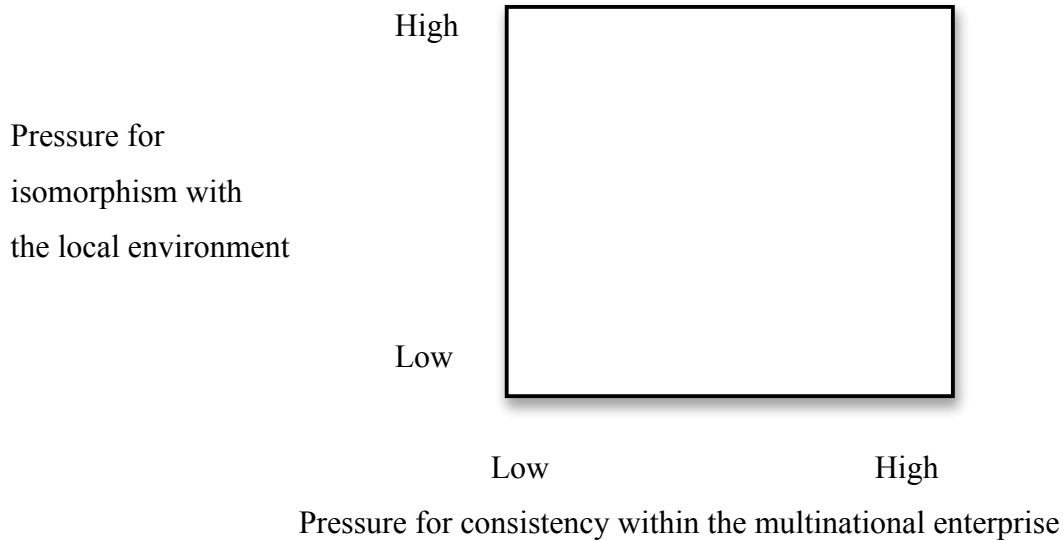
On the other hand, the institutional theory suggests that organizations operating in similar environments will become alike (Kostova, 1999; Kostova & Roth, 2002), and that practices are locally adapted to gain legitimacy (Jensen & Szulanski, 2004). Furthermore, in order to succeed in local environments, MNC subsidiaries tend to copy other organizations operating in the same location (Rosenzweig & Singh, 1991) and in time become increasingly similar to the local environment (Rosenzweig & Nohria,



1994). Indeed, companies operating in similar environments are bound to isomorphism, due to coercive, mimetic, and normative pressures (DiMaggio & Powell, 1983; Gooderham, Nordhaug & Ringdal, 1999). The reasons behind this could also be economical, as the subsidiary is forced to localize its offerings due to economic motives (Rosenzweig & Singh, 1991). In summary, the subsidiary battles in keeping its legitimacy with both the host country, and within the MNC (Kostova & Roth, 2002), as Figure 3 shows. Yet, this consistency goes beyond just mere HQ-subsidary relationship, but subsidiaries may also face pressure for consistency in their relationships with sister subsidiaries of the same MNC. It is also important to remember that the local context does not solely comprise of local firms, but also subsidiaries of other MNCs (Rosenzweig & Singh, 1991).

Kostova and Roth (2002) point out that the institutional context consists of the regulatory (rules and laws), cognitive (shared social knowledge) and normative (values, beliefs, norms) host country environments. As Kostova (1999) argues, some countries have more favorable institutional environment than others, and this inconsistency can create trouble in some practice transfers. Relational context on the other hand tells about the HQ-subsidary relationship, i.e. how transfers from the HQ are perceived and interpreted. Relational context can be studied using three widely accepted and used components of dependence (subsidiary's need for HQ support), trust (perceived honesty and goodwill from the HQ) and identity (degree of attachment to the HQ). (Kostova & Roth, 2002) These components will be further discussed in Section 2.1.7 that covers the impact of subsidiary-HQ relationships.

Figure 3. Dual Pressures of Local Subsidiaries



Source: Rosenzweig & Singh (1991: 347)

One of the challenges and complexities for MNCs is the need for legitimization in their local environments. When subsidiaries are lacking legitimization, it can accrue to major obstacles. As Kostova and Zaheer (1999) summarize earlier research, to be legitimate means to be accepted by the environment the multinational is operating in, which is crucial for the success of the firm. Institutional theory proposes that legitimization is shaped by the locations institutional environment, organization itself, and legitimization process (Hybels, 1995; Maurer, 1971 in Kostova & Zaheer, 1999) and is hindered in case of too many complexities in any of the before-mentioned factors (Kostova & Zaheer, 1999).

Even though the institutional approach in practice transfers has been very popular, it has traditionally been somewhat narrow-sided. The studies have mainly considered two domains; transfer success (Kostova 1999, Kostova & Roth, 2003) and practice configuration, i.e. variation of practices within the MNC (practices that are local vs. practices derived from the HQ) (Mohan, 2004). However, Jensen and Szulanski (2004) argue that practice transfers are often very difficult or in other words “sticky” and

therefore the transfer process becomes harder. It is this notion that they problematize the simplicity of traditional practice transfer literature, which has concentrated on studying the success or failure of the practice and therefore neglected the transfer process view. Given this, they argue that exploring what will increase or on the contrary decrease this stickiness is very important. Furthermore, as Blazejewski (2005: 2) points out, “the process of transfer as such, including the perception, interpretation, adaptation and finally the adoption of organizational practices by the members of an international, culturally diverse recipient unit largely remains a black box”. Thus, as Sharpe (2001) argues, it is more convenient to consider organizational practices as hybrid and locally adapted, than concentrate merely on transfer success or failure of parent company practices. In other words, practices are hardly ever successfully transferred as such but are locally adapted. It is the notions of Sharpe (2001) and Blazejewski (2005; 2006) that this study will focus on, intending to shed light on such transfer process in the case company rather than discussing the success of the transfers.

#### 2.1.5. Value-based Practice Transfers

Considering this thesis and its setting, it is particularly relevant to discuss the features of transferring value-based practices, since CSR and for that matter responsible lending could be viewed as stemming from value-based grounds. In the literature, the design and implementation of value-based practices across international subsidiaries is considered rather unproblematic and a conflict-free event. (Blazejewski, 2006: 68) Yet, conflicts especially arise if the practice transferred is value-infused (Selznick, 1957 in Blazejewski, 2006: 66), since they hold symbolic and cultural value. Value-infused practices link to identity, culture, language, rituals, and customs, which are reformed by a local cultural and social environment (Blazejewski, 2006: 66). Given this, practice transfer of value-based practices within an MNC is likely to create anxiety, insecurities and resistance within a local subsidiary (Schein, 1985 in Blazejewski: 66).

Whereas Kostova (1999) has considered transfer success, Sharpe (2001: 214) takes a very different position based on her case study, arguing that practices are rarely

successfully transferred to a foreign subsidiary in their original form, but are translated, refined, or even ignored within the subsidiary unit. Summarizing earlier work, Blazejewski (2006:71) points out that when conflict in practice transfers is considered, it is mainly based on an external organizational conflict, i.e. conflicts between MNCs and host country institutions such as governments, local media, or NGOs, thus leaving conflict arising from practice transfers between HQ and subsidiary employees, among subsidiary employees, or between subsidiaries and their local stakeholders out of the discussion. This thesis will particularly focus on these types of conflicts, as individual employees will be studied.

Certainly, individuals can hold an important position when it comes to practice transfers (Sharpe, 2001; Lucas, 2010). However, research on practice transfers has somewhat neglected the individual actor, thus leaving a gap to be studied. This individual role becomes significant especially in case of conflicts. Indeed, individuals can resist, interrupt, influence or support organizational practice transfers, based on their own interests and power bases (Staw, 1991). This new type of micro-political approach is considered by Blazejewski (2006: 71). It focuses on individual interests and political and power-based strategies in the process of conflict, therefore clearly improving the current understanding of transfers and transfer processes.

Although organizational and institutional environments create isomorphic pressure, the individual actors are not limited by it and their actions are not just determined by their surroundings (Oliver, 1991; Sharpe, 2001). On the contrary, they are similarly likely to make their own choices and satisfy their individual desires and strategies. In that way, they are to create and contribute to the environment, as employees of a foreign subsidiary reinterpret, and adapt organizational practices. (Blazejewski, 2006: 64-65)

In addition to search for self-gain, individual actors have also different learning styles that affect practice transfers. This has an impact on what is learned and how it is learned. For instance, some could see the big picture, while others would be very precise about details. Therefore, if there is a difficulty in understanding the practice that

is transferred, the success of such transfer is poor, and the practice is unlikely to be properly implemented. (Lucas, 2010)

Blazejewski (2006: 95) offers a good illustration of conflicts from the practical transfer situation captured in her case study. It discusses five different practice transfers from parent company in Germany to its subsidiary in Japan. It became evident that: 1) transferring globally standardized practices from the headquarters to its subsidiary, conflict is very likely to occur between the headquarters and subsidiary or among the interest groups of the subsidiary, 2) in addition to organizational and institutional variables, also micro-level interest, power bases, and strategies play an essential part in transfer success, and 3) headquarters practices are subject to redefinition, translation and alteration in the subsidiary. The latter highlights the importance of not just considering if the practice has been transferred successfully, but in what form it has been implemented in the subsidiary.

Both the characteristics of value-based practices and the influence of the individual employees are some of the key focus points of this study. First, the responsible leading practices are likely to be infused with value. Secondly, as this study concentrates on the transfer within the subsidiary, individual employees and their views are important. These two perspectives will give this thesis the opportunity to contribute to current literature by conceptualizing a practice that is not likely to be streamed down the MNC channel without difficulties and contradiction.

#### 2.1.6. Firm and Function Related Differences

The transfer of organizational practices can also be dependent on several firm- and function-based differences. Based on earlier literature, Mohan (2006: 110) concludes that the following subsidiary features can determine if transfer takes place. These features are age, size, local embeddedness for resources or legitimacy, the original founding method (for example Greenfield, Joint venture etc.), needs for internal

dependence, parent control, organization culture and management systems of the MNC, and the nature of the industry.

The divergence of practices between the HQ and subsidiary, and between subsidiaries, are also influenced by physical distances, cultural distances, psychic and institutional distances. Mohan (2006: 111) states that such as diverse cultural and institutional environments, cultural differences, local labor laws, corporate governance regulations, capital markets, educational systems, or cognitive perceptions of managers, can have a great impact in transfer situations.

In MNCs, practices can also vary across units, levels, functional areas, and within a function (Mohan, 2006: 105). Generally, marketing and HR practices are fairly local, whereas finance and accounting are more coherent across the firm (Rosenzweig & Nohria, 1994). Furthermore, some researchers have noted that integration-responsiveness can vary across the different tasks and activities within each function, as it has been noted that marketing tasks considering product, price, place and promotion can vary (Mohan, 2006: 109). Furthermore, it has also been noted that such as consumer products, advertising, or distribution policies are more likely to be effective when they have been locally adapted (Jensen & Szulanski, 2004).

To provide an example, Rosenzweig and Nohria (1994) have also identified varying HR practices based on their functions. Authors point out, that HR practices that are legally mandated locally, include well-defined local norms, high visibility, or involve large number of locals, tend to be localized, whereas HR-practices related to internal equity, including great internal interaction, or are critical in terms of efficiency are likely to conform to the HQ way.

In his case study of variations on organizational practices, Mohan (2006: 117-118) considered four different MNCs with different ownership types, diverse industry sectors, and different tenure of operations. The country of origin was set as UK and host country as India. The results of the case study show both globally consistent practices,

and locally responsive practices, i.e. those that were not transnationally managed, varying depending on the company features.

#### 2.1.7. Relationships between the Parent and the Local Unit

Transfer of practices within an MNC can also be subject to the relationship between the headquarters and subsidiary. The impact of these relationships is now discussed in two parts: subsidiary-headquarters relationship, and the strategic subsidiary role.

##### 2.1.7.1. Subsidiary-Headquarters Relationship

Kostova and Roth (2003) discuss social capital in MNCs basing their framework on the organizational structures, presented by Bartlett and Ghoshal (1989). The interdependencies that these types of organizations have determine the diffusion of knowledge. For instance, in the case of a multinational, knowledge flows tend to be low and consist of financial and informational information. On the contrary, in a transnational model, knowledge flows are extensive and multidirectional, and subsidiaries have an important role. Thus, based on their organizational structures, the authors argue that these interdependencies range between simple and complex. When they are simple, the flows are occasional and easy to specify, or that they are limited and are thus handled by one manager at each end. Then, in complex interdependencies flows are bound to change, ambiguity and unpredictability, and are thus likely to raise questions of *what, when, and where*. Similarly, flows can occur across different hierarchical levels. Simple flows are usually easier to manage with reports, policies and standards, whereas complex flows are harder to be considered with such specificity and formal arrangements.

Kostova and Roth (2002) discuss the impact of HQ-subsidiary relationship to the adoption of transferred practices with three characteristics: dependence, trust, and identity. Dependence considers to what extent the subsidiary is reliant on HQ resources,

such as technology, capital, and expertise. The latter has an effect on the hierarchical relationship of the two units, and in the case of high dependency, the subsidiary is very likely to conform to the parent company way. In this situation, the subsidiary tends to also perceive the parent company initiatives coercive, which may have a negative impact on internalization of the practice. Furthermore, trust is a crucial determinant in transfer situations. 'Trust' here means that the parent is perceived as honest and respecting its commitments and does not take unnecessary advantage of the subsidiary. When the relationship is based on trust, the transfers are smoother, and the cost of communications and negotiations are reduced. Finally, identification refers to the degree of belonging, the degree in which the subsidiary feels it is part of the parent. In case of great identification, practice transfers are naturally easier as the subsidiary shares the same values and beliefs, which are included in the practice, and therefore is engaged to the process more actively and considers the practice as their "own".

In their research of MNC subsidiaries, Gupta and Govindarajan (2000) have hypothesized that knowledge flows within an MNC are subject to the: 1) value of the knowledge of the source unit, 2) motivation of the source unit to share its knowledge, 3) existence and richness of transfer channels, 4) motivation to accept knowledge at the recipient unit, and 5) absorptive capability of the recipient unit. First, the greater the value and relevance of the knowledge to other parties, more likely it is to be utilized at other ends too. Moreover, with owning valuable know-how, units are likely to gain power within the MNC, which could affect their motivation to share it with others. On the contrary, when the knowledge comes from others, the barriers for acceptance could derive from "not invented here" attitude, which can block the transfer of knowledge. Then, extensiveness and richness of communication channels have a positive effect on knowledge transfers, as does the absorptive capacity to acquire knowledge. For instance, there lies the danger that the recipient unit either does not recognize the value of the knowledge, or is incapable of assimilating it (Cohen & Levinthal, 1990). With their empirical study, Gupta & Govindarajan (2000) were able to justify four of their assumptions, leaving only the motivation of the source unit inconclusive.



### 2.1.7.2. Strategic Subsidiary Role

As already discussed above, the organizational structure can have an impact on knowledge flows. The latter can also be considered through the concept of strategic subsidiary roles. Research has depicted that MNC practices are related to the strategic subsidiary role (Gupta & Govindarajan, 1991; Moore, 2005), and thus practices within the MNC can greatly differ based on the HQ-subsidiary relationship and the importance of that subsidiary to the HQ. On the contrary, practices can also be bound on high conformance.

Gupta and Govindarajan (1991) argue that the subsidiary strategic role has an incremental impact on the realization of knowledge flows. The role of the subsidiary can be that of a knowledge receiver and user, or knowledge producer, where the knowledge of the subsidiary is of use to the rest of the MNC. Based on this, the authors present a framework identifying four different strategic roles:

Figure 4. Strategic Subsidiary Role

Outflow of knowledge from the focal subsidiary to the rest of the corporation	High	Global Innovator	Integrated Player
	Low	Local Innovator	Implementor
		Low	High

Inflow of knowledge from the rest of the corporation to the focal subsidiary

Source: Gupta & Govindarajan (1991: 774)

As Figure 4 shows, when a subsidiary is a global innovator, it has a role and responsibility for providing information to other units and it is rather self-sufficient in its knowledge needs. In the case of the integrated player, the subsidiary is also responsible for creating knowledge for the use of other units, yet it also needs information from the other units. A subsidiary that is an implementor is dependent on the knowledge from the HQ and other units, and creates little knowledge on its own. Finally, when the subsidiary has the role of a local innovator, it generates all the local knowledge for the local functions: however, this knowledge is of little relevance to other units outside the local unit. Considering these strategic contexts, subsidiaries experience different lateral interdependencies, have different global responsibilities and authority, and finally different needs for local initiatives. This, naturally, has an impact on local managers' behaviors and actions. Based on this discussion, knowledge flows and strategic roles of the subsidiaries are highly interlinked with the control by the parent over subsidiary within the MNC. (Gupta & Govindarajan, 1991) Given the distinctive MNC structures and subsidiary–parent relationships and roles, practice transfers and the ease of them are likely to be influenced by those factors. Thus, it appears that these relationship factors can have a significant role in defining the transfer process and are naturally considered in this thesis as well.

#### 2.1.8. Subsidiary Response Strategies

Subsidiaries strategic positions towards their environment can also affect practice transfers. Oliver (1991) discusses these strategic responses of organizations (MNCs) in respect to institutional pressures stemming from local environments and identifies situations where institutionalization can be resisted. Five strategic response behaviors are determined ranging from active to passive, including acquiescence, compromise, avoidance, defiance and manipulation.

*Acquiescence.* Organizations usually adhere to institutional pressures since it provides them legitimacy and social support, however this adherence can take different forms. For instance, an organization can respond rather unconsciously to given and historically

accepted rules or values. Furthermore, organizations can also imitate other's behavior in case of uncertainty, or actively and thus strategically choose to follow the institutional norms, self-interest in mind.

*Compromise.* Occasionally, institutional demands are conflicting with organizational objectives, and therefore the organization aims for balancing or bargaining with the institutional factors. "More specifically, balance is the organizational attempt to achieve parity among or between multiple stakeholders and internal interests" (153).

*Avoidance.* Here, organizations escape the institutional rules and expectations, by for instance pretending to conform to the institutional requirements, yet with no intention to do so. Moreover, the organization can try to stay independent and minimize the external inspection and evaluation of its operations to maintain legitimacy. Finally, the organization can choose to move its operations to another location if institutional requirements are too rigorous, or alter its goals and activity to avoid the pressure and need for conforming.

*Defiance.* Defiance is active resistance. Organizations can strategically ignore the institutional requirements, when they fight against organizational objectives, when they are not fiercely forced on by external environments, or when stakes at contradicting them are considered to be low. Here, the organization may also view that government approval is not even necessary for its success. Institutional norms can also be challenged, in case the organization feels its own values and behavior are more fit to a particular situation. Finally, the most extreme form for organizations is to attack the institutional values and aggressively point out they are meaningless. The latter strategy is most likely to occur when pressure is pointed at the exact organization, rather than being more general in nature.

*Manipulation.* Manipulation is the most active form of behavior, with the intent to influence the existing institutional environment and use relations in an opportunistic way. Here, the organization may attempt to become part of decision-making and attempt to silence the opposition, try to build a positive image of the organization to

those parties, whose input for the organization is vital, use all kinds of lobbying tactics, and even try to control the institutional environment, especially in the case of very local, or poorly grounded institutional norms.

#### 2.1.9. Summary

This section of the literature review has considered the transfer of organizational practices literature, and the main attention has been given to the organizational and institutional theory in explaining these transfers. The covered literature has provided a discussion covering research gaps related to practice transfers, including a discussion on the functioning of MNCs, contemplation between the transfer success and the transfer process, and finally a discussion on the transfer of value-based practices.

It is fair to say that transferring organizational practices across borders does not come without challenges. As Kostova (1999) argues, imposing of new practices is traumatic. They bring along changes to organizational routines, require new training, alter power structures, and require changes in organizational culture. Therefore, time and motivation is needed to get the transfer process to its successful end, especially on the part of key decision-makers and managers. (Kostova, 1999; Lucas, 2010) Moreover, as Lucas notes, attention should also be given to the role of teams, collaborative culture and capacity in the transfer process, which in his opinion can have a big part in the transfer process success (Lucas, 2010).

Given the discussion in this section, subsidiaries differ in their adoption process, and they may adopt the practice in different degrees. Subsidiaries may consider the practice as inappropriate to adopt, but the pressure stemming from the MNC would nevertheless require some conforming behavior. (Kostova & Roth, 2002) Subsidiaries may implement only parts of the practice considering what will work in the host country or disregard the request entirely. In some cases the subsidiaries can even misinform the headquarters that the transfer is taking place even though it is not, or the “relational gap” between the subsidiary and the headquarters is so wide that adopting any practices

would feel impossible. (Kostova, 1999) Finally, the tensions of institutional dualism ought to be considered. As Lucas (2010) points out, if there are too many, or too few adjustments made to the practice that is transferred to local environment, it becomes contextually inappropriate and therefore does not function at all.

Finally, the value-feature of the practice is likely to have an impact on the transfers and can cause additional conflicts and tension, especially as different individuals are involved (Blazejewski, 2005; 2006). The latter is sure to affect the transfer situations and make the transfer more problematic. However, these practices have not gained proper attention in the literature. It is particularly a value-based practice that this thesis concentrates on. It is interesting to see how this type of practice “behaves” and to contribute to the current knowledge of such practices.

The next section of the literature review will focus on the practice, and present the remaining research gaps for this study.

## 2.2. RESPONSIBLE LENDING

As the previous section concentrated on the transfer, the upcoming section will now focus on the practice. Discussing the practice is important, since the features and nature of the practice has a major impact on the transfer situation. Furthermore, this section will also give background on why studying responsible lending practices is significant.

It is essential to start the discussion on the wider concept of CSR and then move on to discuss responsible lending more in-depth. This is since the features and values associated with responsible lending are derived from CSR. With this said CSR serves as the basis for discussing responsible lending, and these theories and literature are thus utilized. Furthermore, as the first aim is to identify what kind of responsible lending practices the case company implements, studying CSR and its different features offers a good platform for this purpose. These CSR theories and frameworks assist in

identifying the nature and level of responsible lending practices the case company implements.

### 2.2.1. The Concept of CSR as a Starting Point

When we talk about CSR, it is relevant to begin with considering the responsibilities of corporations. What kind of responsibilities should even be expected? Corporations can be described as having the following responsibilities: they are regarded as “artificial individuals”, who possess rights and responsibilities, have their own assets, and their managers have the utmost responsibility to act in the best interest of the shareholders. (Crane & Matten, 2007) Then, when we talk particularly about social responsibilities of corporations, a lot of contradiction exists. Certainly, when we discuss CSR, we go beyond the legal obligations and boundaries of a corporation. One famous point of view is offered by Milton Friedman (1970). He questions the social role of corporations, and argues that the only social responsibility for the corporation is to generate profit. His claim is based on three aspects: 1. Only individuals bear moral responsibility, 2. A manager’s responsibility is to act to the very best interest of its shareholders and therefore create profit, and 3. Managers cannot know what is for the best interest of the society, and this task should thus be left for governments. Is it then so that corporations only need to act within legal boundaries, or could we assume that there are moral responsibilities as well? On the contrary to Friedman’s arguments, many authors propose that there are a wider perspective, which would assume that businesses possess broader range of responsibilities towards the society (Carroll, 1979) and are supposed to conform to accountability, morality, and integrity (Jamali & Mirshak, 2007).

Similarly to other concepts, CSR and its definition and purpose, have also evolved over time. The field of CSR contains a broad number of theories, which are complex and controversial at the same time (Garrica & Melé, 2004). Indeed, CSR is a very broad study area and not as straightforward as one might think. The debate around CSR has been alive since the 1950’s, as in 1953 Bowen wrote his seminal book, “Social Responsibilities of the Businessman”. Since then, varying CSR-related concepts and

theories have taken place, including such as society and business, social issues management, and stakeholder management, and more recent ones like corporate citizenship and corporate sustainability. What makes it challenging is that many of these theories utilize the same concepts, yet interpret them differently. Some view CSR as obeying to legal boundaries, while others view it as behaving ethically. (Garrica & Melé, 2004) In short, the aspects of CSR have ranged between “values and philosophies, societal and environmental issues, business strategies, and the relationship between business and society” (Decker, 2004: 714).

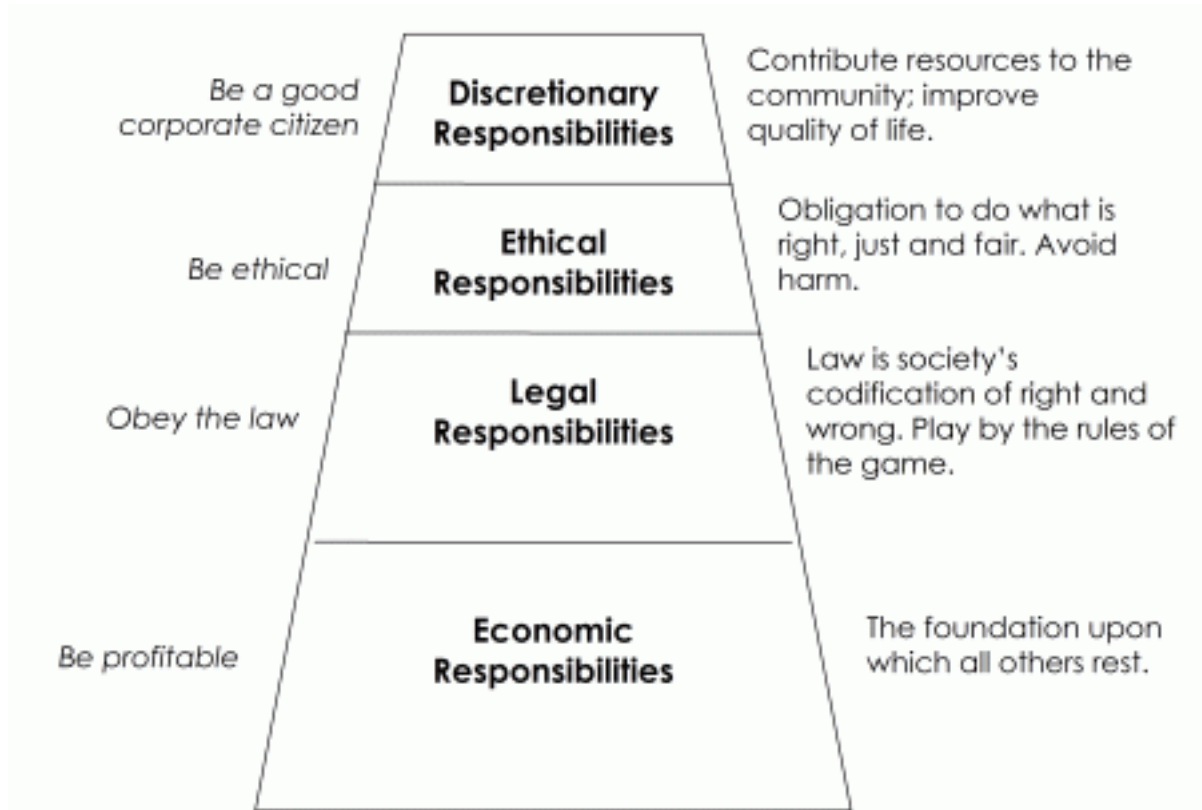
As already discussed, CSR is quite difficult to identify, as it can mean different things to different parties (Decker, 2004). Corporate responsibility is complex as it relates business to society and because societies differ (Halme & Laurila, 2009). One very basic, yet extremely popular framework for defining and discussing CSR is that of Carroll’s (1991), which is depicted in Figure 5. This framework is very helpful in depicting the different forms of CSR in an easily understandable and clear manner. One of the most famous and accepted frameworks for discussing CSR is that of the tripple bottom line, which views CSR as the construct of economic, social and environmental aspects (Norman & McDonald, 2004). Yet, as the focus of this thesis mainly lies with the social aspect, the environmental aspect having no relevance at all, applying this framework appears inappropriate. Thus, this thesis relies on a much more simple and meaningful framework of Carroll’s. Carroll (1991) proposes that CSR forms a pyramid, which consists of economic, legal, ethical, and philanthropic layers/responsibilities, as Figure 5 shows. Here, utter social responsibility is gained only by fulfilling all layers of the pyramid. (Carroll, 1991; Crane & Matten, 2007) This framework was chosen as it provides a valuable and simple format, which can be referred to, when the nature of responsible lending practices in the case company are determined.

As it is shown in Figure 5, the economic aspect of the pyramid includes the notion that businesses are essentially economic entities, whose main objective is to produce goods and services and to create maximum profit (Carroll, 1991). Companies operate to satisfy demands coming from different stakeholders, and it is their duty to properly function economically and stay in business (Crane & Matten, 2007). All other responsibilities are

dependent on fulfillment of economic responsibility, which serves as a basis for other responsibilities (Carroll, 1991). Secondly, when it comes to the legal aspect businesses are obliged to operate following laws, and regulations set by governments. Therefore, they are expected to fulfill their economic responsibilities under legal environments. Legal responsibilities are sort of codified ethics: they serve as fundamental fair operations that are set by lawmakers (Carroll, 1991), and represent the moral views held in the society (Crane & Matten, 2007). The third aspect is that of ethical responsibility. Ethical responsibilities reflect to a company's willingness to operate beyond the legal framework, and do what is right, just, and fair (Crane & Matten, 2007). These ethical activities are expected by the society even though they are not required by law and present the standards and norms that stakeholders hold for the operations of a company (Carroll, 1991). The final layer is that of philanthropic responsibility. Philanthropy means the love towards the fellow human, and thus philanthropic responsibilities contain company activities that improve the quality of life of employees, local communities, and society. (Crane & Matten, 2007) The idea is to meet society's expectations of the company being a good corporate citizen by allocating resources to promote human welfare. The distinction to ethical responsibilities lies in the notion that philanthropic responsibilities are not expected by ethical or moral basis. If a company does not engage in social activities at a desired level, it is not considered unethical. Although these responsibilities are expected, they are still voluntary. (Carroll, 1991)



Figure 5. Corporate Social Responsibility Pyramid

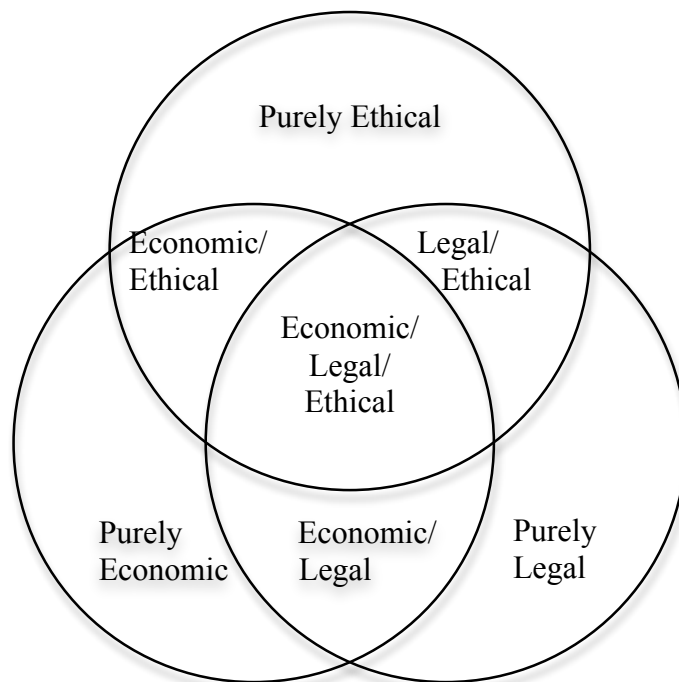


Source: Carroll (1991: 42)

However, limitations of this pyramid framework have pushed in reforming of the framework, and Schwartz and Carroll (2003) have later developed a revised version from it, namely the three-domain model, which is depicted in Figure 6. For instance, as the authors discuss, the previous model does not consider the possible overlapping of the features and it may offer a false picture that some kind of hierarchy exists among the features. It may appear that the lower levels in the pyramid (see Figure 5) present less responsible behavior compared to the upper levels, although Carroll stresses that the economic and legal domains are the most fundamental, and the philanthropic not as important. Furthermore, it has been argued whether philanthropy should be considered as its own component, or if it should be better viewed as a part of ethics, given that ethical and philanthropic responsibilities are sometimes difficult to separate.

Furthermore, philanthropic responsibilities might also be based merely on economic interests. Considering all these issues, a new model is presented.

Figure 6. The Three-domain Model of Corporate Social Responsibility



Source: Schwartz & Carroll (2003: 509)

The value of the model is that it considers all aspects of CSR. Indeed, companies can participate in multiple domains at the same time, which the earlier model neglects. The new model offers a better means of categorizing CSR activities, as the classes are broadened. Moreover, the assumption of hierarchy is eliminated, and there is more interactive and integrative relationship between the domains. (Schwartz & Carroll, 2003)

For companies, implementing CSR practices appears to be crucial. To enlighten the importance of CSR and responsible lending, we can first look at the concept from the company perspective. For one, in a global arena, CSR is ever more expected by the public, especially from MNCs (Ogrizek, 2002). Secondly, it is widely acknowledged, that CSR has a strategic advantage in securing business success and competitiveness in the long-term (Decker, 2004; Vilanova, Lozano & Arenas, 2009; Ogrizek, 2002). Vilanova, Lozano & Arenas (2009: 58) argue, that CSR and competitiveness are linked through “learning and innovation cycle, where corporate values, policies, and practices are permanently defined and redefined”. Given this, the authors propose that CSR is embedded in business processes and when integrated it leads to innovation and competitiveness. For businesses, CSR is often two-fold: it bears a business risk, yet it can provide a business opportunity. If managed appropriately, it can lead to benefits for the company; on the contrary if managed inappropriately it can result in negative consequences. (Decker, 2004)

### 2.2.2. CSR in Financial Services Sector

As the concept of CSR has gained significance, CSR in the financial services sector has evolved, and now financial service firms include CSR into their mainstream strategies. This can be seen for instance in increasing numbers of codes of conducts, and importance of considering the customers and the society. (OECD, 2007) In addition to public concerns and pressure towards these companies, also the financial operators have come to realize that responsible behavior will positively affect their long-term sustainability and profitability. When behaving responsibly, financial service companies can better assure vital relations with customers, suppliers, and communities, efficient use of resources, retain staff, and avoid the effects stemming from bad reputation. (*ibid.*)

Although responsible lending is in discussions and of concern in the financial services sector, the academic literature about it is rather scarce, which provides the first reason for studying the subject further. This is very contradictory with literature on responsible

investing, which is very broadly studied and discussed, signifying that responsibility in the financial sector is an important topic and has already gained attention. (see for example Glac, 2008) Although there are little academic articles on the subject, there however are reports and publications that well identify the current concerns. Based on them, the significance of responsible lending can be justified from several of angles.

As stated early on, responsible lending means that the financial product/service the finance company offers should be in line with the needs of the consumer and tailored according to the consumer's capability of paying back the loan. To guarantee responsible lending practices, financial operators should behave according to a shared framework in the industry that highlights fair, honest, and professional conduct before, during, and after the transaction. In addition to finance companies, consumers also have a role in assuring appropriate operations. In fact, consumers have the responsibility of offering accurate, truthful, and relevant information on their financial situations and in the end making informed and justified decisions. (European Commission, 2009)

#### 2.2.2.1. Consumer Credit Market

Financial services are vital in modern society and their use has grown in all classes of society. Financial markets are necessary to individuals, as they offer the possibility to manage, save, and loan money. The importance of credit and consumer finance is that they offer the consumers opportunities in the future, in case of a period of low incomes and high expenditures. Yet, at the same time, financial product and services are increasingly complex, and therefore they are increasingly difficult to manage (Reifner & Herwig, 2003). Furthermore, it is argued that consumer finance does not just offer an opportunity, but also creates needs for consumers that do not even exist (Saeedi, 2007).

The importance of responsible lending in the financial sector stems from the major role that credit markets play in the economy (European Commission, 2009; Reifner & Herwig, 2003). In 2010, the consumer credit market was valued at \$6,913.9 billion globally, with annual growth rate of 4 % in years 2006 to 2010 and estimated value till

the end of 2015 of \$8,553 billion. Europe alone accounts for 21,1 % of the total consumer finance industry (Datamonitor, 2011). On a general note, personal lending has incrementally gone up (Saeedi, 2007). Especially during the past financial crisis, household credits have increased, and consumers have found themselves as over in debt (European Commission, 2009). It is ever more the case that consumers are living in a tumultuous environment and unstable economic situations, therefore impacting their needs when it comes to financial services. Yet, these consumers can be somewhat discriminated as the financial system requires stable payment schedules, and as the “good price” is offered to ones who purchase on a larger scale, and who do not need personal care. Moreover, as the financial markets have to some extent been deregulated and unmonitored, it has created the concept of modern poverty, in which consumers are over in debt and are at the same time secluded from financial services. (Reifner & Herwig, 2003) This over-indebtedness is one of the issues responsible lending can answer to (European Commission, 2009).

Although regulations towards consumer protection in the financial sector have been improved, there still exists misleading and deceptive behavior on the part of financial operators, which therefore implies the need for responsible lending practices (Estelami, 2007: 51). Although improvements have been made, the current financial crisis shows that there is still a lot of irresponsible behavior, which makes discussing responsible lending practices a very current and relevant issue (European Commission, 2009). Moreover, in addition to regulatory control, also voluntary action has been to an extent limited. For example, proper CSR reporting in the financial sector is hindered by the lack of standardized reporting, as for instance GRI (Global Reporting Initiative) is very generic in nature and does not necessarily tackle industry-specific issues (Day & Woodward, 2009). Furthermore, as it was shown in a study conducted by EIRIS for OECD in 2007, there are differences in reporting considering financial institutions. For instance, while 66% of the OECD Europe region participates in some form of stakeholder reporting, the same number for the OECD North-America region was only 18%. Similarly, although environmental aspects of CSR are beyond the scope of this study, it is interesting to point out that only approximately 33% of the OECD Europe

region published some kind of environmental reports. (OECD, 2007) Given this, it would appear that the incorporation of CSR into business is still on its way.

#### 2.2.2.2. Roles and Responsibilities of the Financial Sector

The role of the banking industry is to provide society with the possibilities for saving, investing, and managing of funds, which are basic needs in modern economic life (Decker, 2004). Moreover, the financial sector has a major role in channeling these funds to investment projects etc., therefore participating in sustainable economic and social development. Moreover, responsibilities for banks in the market place are related to importance of trust, customer knowledge, prudent management of funds, proximity and accessibility. (*ibid.*) Considering accessibility, one important task for the banking industry is to assure that financial services are accessible for consumers, and that they are not financially “excluded”. This, financial exclusion, implies that individuals are unable to have access to financial services that are in line with their needs. (*ibid.*) Especially after the recent financial crisis, the granting of credit has tightened, and thus consumers may find it difficult to get a loan, or the loan is too expensive (O’Neill, 2010). Due to the significance of financial markets, financial exclusion can also refer to social exclusion, which makes the concept extremely important to consider (Decker, 2004). Furthermore, also the financial services industry holds specific roles and responsibilities. The industry has an overall responsibility to develop products that suit to consumer’s needs and market these products in a responsible and appropriate manner, without resorting to any deceptive sales behavior. (Boatright, 2008: 6)

In recent years, the nature of the financial markets has changed. Due to the development of financial markets and financial innovations, the variety and customization of financial products and services has dramatically increased, resulting in complexities in decision-making. (Umberto & Giannini, 2010) In other words, “there is a negative correlation between the general trend towards greater complexity of financial products and the level of consumer understanding” (BEUC, 2009: 3). Thus, there appears to be a

need to consider the level of consumer knowledge in lending situations. These needs are discussed later in further detail.

### 2.2.2.3. Regulatory Environment

The nature of financial sector regulations is based on the major role the industry plays in the economy, as well as its intangible nature, which makes it imperative to find ways to protect the customer (Decker, 2004).

On a general note, the financial services sector is regulated in respect to three following objectives: 1) to guarantee that consumers are protected against irresponsible or misleading marketing practices, 2) to ensure that there exists competition in the markets, so that consumers have the power to evaluate different offerings, and 3) seeing that consumers from all segments of the population have access to financing, and ensuring their financial security. (Estelami, 2007: 262)

The regulation in EU is based on the regulation at the union levels, as well as each member state's own regulation. However, the new consumer directive has brought unification to these laws, bringing regulation to those countries with minor laws considering consumer protection, and reforming regulation in countries where the national laws have differed. (Vandone, 2009: 99) In Europe, the credit sector is fairly fragmented and unregulated both in the EU and its member countries, although the consumer credit market has benefited from the new EU directive (BEUC, 2009). The regulation and protocol is highly dependent on the laws of each individual member state. In Finland, there is a consumer agency and ombudsman that supervise the responsibility of companies. There are also several different bodies at the European level that supervise the industry by publishing documents and principles, and raising discussion. These bodies include such as ECRC (European Coalition for Responsible Credit), BEUC, (The European Consumers' Organization) and OECD (Organization for Economic Co-operation and Development). On a general note, consumer finance companies *per se* are less regulated compared to the banking industry, due to their

smaller scope of activities. However, they are required to be in a register, possess some level of finances, and have appropriate administration, accounting, and auditing, and work professionally, independently, and with integrity. (Vandone, 2009: 118-119)

As presented before, regulations and laws are insufficient to assure total consumer protection, and financial operators themselves need to carry their weight. The key is that consumers are well informed. For instance, although protecting regulations concerning information sufficiency in the market have been made in the best interest of the consumer, the issue is two-fold: too much information can also affect consumer's ability to grasp the most vital information she or he needs. As Estelami (2007: 51) summarizes earlier studies, this is the case, as companies are now required to offer information such as annual percentage rates, or fees, that are often presented in fine prints, which are harder to read and present special challenges in TV advertising.

#### 2.2.2.4. Areas of Concern in the Financial Services Sector

Now, let's look further at the current concerns in the financial services industry and the finance company practices. These concerns can also be linked to the functions of those departments that were selected for this thesis to be studied.

Irresponsible practices are occurring throughout Europe (BEUC, 2010). On a general note, it has been reported that the issues in consumer finance industry are seen in "misleading information, arbitrary procedures, unjustified tariffs, hidden charges, high differential in interest and profit rates, service inefficiencies, processing delays, and unauthorized debits" (Saeedi, 2007: 6) Moreover, attention has been given to marketing and advertising practices, role of intermediaries, assessment of consumer creditworthiness, and provision of adequate information (European Commission, 2009). Overall, as OECD (2010) presents, the rules and procedures of financial market should be fair, transparent and free of conflict.



#### 2.2.2.4.1. Marketing and Sales

It is key that marketing practices in the industry are fair and not misleading and do not put any unnecessary pressure on consumers (European Commission, 2009).

Yet, as Saeedi (2007) argues, too often marketing and promotion is too deceptive, and intended merely to falsely encourage consumers to embark on more and more loan responsibilities, irrespective of their financial situations and ability to repay. For instance, financial companies can send promotional material through mail sent to the customer, which can be very distracting. Furthermore, consumers can be presented with particularly low interest rates: however, it is very unclear what the terms are for such a rate (European Commission, 2009). Then, they can be (forcefully) offered with loan amounts more than initially requested by the consumer (Saeedi, 2007). Providing information on the annual percentage rate (APR) is also required, yet sometimes it can be “forgotten” by the finance company, in order to make the deal more appealing. Similarly, it can be made unclear that also other fees can be charged from the customer (BEUC, 2003). Some of the delusive marketing also includes the cases where intermediaries are involved; for instance, these intermediaries can falsely give an idea that they have the permission to grant the loans, where in fact the right is with the financial operator. (European Commission, 2009)

Consumers can also be less rigid about details, and would sign papers easily, when financial services are of question. This is the case for instance with technical details (Saeedi, 2007) that are very often presented in small print. Often so, financial operators hide abusive clauses in small print, at the end of a document (BEUC, 2003).

An Example of misleading advertising practices:

*“Four companies in Britain were advertising 0% finance or interest-free credit for their products. However, if a lump sum was not paid in full at the end of the first year “interest-free” period, interest was charged on the whole loan. Consumers may not have realised they could in fact be charged interest during the ‘interest-free’ period.*

*These adverts broke the law and could mislead consumers by using the words ‘interest-free’.*”

*Source: Consumers choice, August 2002 - (Magazine of CAI, Irish consumer organization (sic)), derived from BEUC, 2003*

#### 2.2.2.4.2. Creditworthiness

It is essential that financial companies, in their process of granting loans, know the customer and assure their creditworthiness (Ogrizek, 2002; European Commission, 2009). Indeed, it is a key responsibility for the company to know about the financial situation of the customer in order to avoid offering inappropriate products or services (Decker, 2004). Overall, it is essential that the product and the customer “fit” (European Commission, 2009). Moreover, as Ogrizek (2002) points out, by knowing the customer, the company is able to prevent any suspicious actions, for instance money laundering or terrorism. In order to guarantee creditworthiness, the company should ascertain that an appropriate amount of personal information has been collected either from the customer or from the database. However, even if the candidate is rather unsuitable, financial institutions could actually grant riskier loans in case of involved collaterals. Similarly, in a hope of speedy or less expensive processes, proper scanning may be overlooked, this being an issue also when intermediaries and their commissions are involved. (European Commission, 2009)

On the contrary, also the borrowers have responsibilities in loan-taking. They should provide accurate information on their financial situations, and consider their personal and financial circumstance before taking the loan. In doing so, the consumers have a higher possibility to pick an appropriate product for them and thus reduce the situations where they cannot take care of their loan. This responsible borrowing also supports the concept of responsible lending, which would be undermined in the case of irresponsible borrowers. (European Commission, 2009)

Few examples of irresponsible granting of credit:

*“An illiterate man married with two young children in Surrey took out a loan of over £12000 with a high street bank. The man’s loan application form stated an income of £780 per month (including Incapacity Benefit) with a monthly rent of £222 and existing borrowing commitments of £317 per month. It was clearly impossible that he could take on additional loan repayments of £337 per month, even if this replaced some of the existing borrowing commitments. It was thus highly irresponsible of the person granting the loan to do so in these circumstances, especially knowing that the man could not read the paperwork he was being asked to sign.”*

*Source: National Consumers Council, ‘Ensuring fairer trading - Response to the EU green paper consultation on consumer protection’, January 2002, derived from BEUC, 2003*

*“The Committee for overindebtedness of private individuals of the Gironde (France) examined the case of a person having contracted 22 credits on commission with different credit institutions, in the space of a couple of years. During the years 1999, 1999, 2000, 12 additional loans were granted to him. The financial institutions accepted to grant him these credits without examining his situation with other potential creditors. His current debt amounts to 35085.82 €, i.e. 2500 € of credit reimbursement per month, even though his reimbursement capacity only amounts to about 350 € per month.”*

*Source: Campagne « Faillite civile », CLCV, France - Commission de surendettement de la Gironde, novembre 2001 - (Organisation de consommateurs française), derived from BEUC, 2003*

#### 2.2.2.4.3. Consumer Knowledge and Decision-making

One of the major issues when talking about financial products and services is to assure that consumers can make informative and well-justified decisions, which can be assured when consumers have the appropriate level of knowledge on the subject. From the

company perspective, responsible behavior would require that the company offers clear and understandable information that is not too excessive in detail (European Commission, 2009) and which is presented in a truthful and non-misleading manner (Boatright, 2008: 15). For instance, providing understandable and well-structured pre-contractual information is necessary, so that the consumers can choose the right product for themselves and make comparisons with other offers as well (European Commission, 2009; BEUC, 2003). Such pre-contractual information should include monthly payments, an amortization table, interest for making late payments, duration of the loan, nature of the operation, total cost of the credit, and APR (BEUC, 2003). In addition to providing information, finance companies can offer advice. In this case, the advice should be objective, based on the profile of the consumer, and assess all the risks involved. Any advice given should also include proper and clear explanation on the subject at hand (European Commission, 2009).

An example of inappropriate advising:

*“A 26-year-old single man took a loan of £5000. This included a £65 acceptance fee. He was also sold a payment protection policy costing £90 for family care insurance. The man had no idea what the insurance was for and that he was not eligible to claim on it, being single.”*

*Source: National Consumers Council, ‘Ensuring fairer trading - Response to the EU green paper consultation on consumer protection’, January 2002, derived from, BEUC, 2003*

It is also crucial to consider a consumer’s own foundation of knowledge. Quite commonly, consumer’s knowledge on financial matters is insufficient, resulting in unjustified decisions (Umberto & Gianni, 2010). Summarizing earlier research, Estelami (2007: 46) presents that consumers often lack the knowledge concerning matters such as financial product features, prices, risk, and the array of services that would be out there for their needs. It is often the case that the total costs of the credit or APR are disregarded, and the focus stays solely on monthly payment obligations (Umberto & Gianni, 2010). Estelami (2007: 46-50) identifies a list of factors that relate

to lack of consumer knowledge when it comes to financial products: 1) insufficiency in information search, 2) lack of knowledge of risk, 3) non-based decision-making.

### *Information search*

Studies have shown that consumers do not require enough information on the financial product/service and fail to compare alternative products with each other to get the most suitable deal at the time of decision. The latter may be because of a consumer's desire to concentrate only on established and well-known brands, or that they do not want to spend their free time on time-consuming information search. Furthermore, making detailed decisions can be stressful, especially in the case of "shopping" financial services, which are viewed as rather boring, technical, and numerical. Thus, long pondering over the choices is avoided. (Estelami, 2007:46-48)

When consumers are not requiring all the necessary information, this behavior promotes "one-stop-shopping", where the financial institution would offer the consumer with a variety of products, with the aim of satisfying all the financial needs of the customer and therefore reducing the need for information search. Yet, this presents other kinds of issues, as the consumer could become less price-sensitive. Also, third party brokers (persons to search financial services on your behalf) have in this case a responsibility to make well-justified and informed recommendations for their clients, their interest at heart. (Estelami, 2007: 46-48)

### *Lack of knowledge of risk*

Assessing the risk is essential and is very important when it comes to financial products or services. However, also in this area consumers generally have little knowledge. On one hand, they can be very unaware of the risk in the first place, or on the other, they can over- or underestimate the risk. The outcomes of the latter can be that the industry will sell the consumer low risk products at a higher price. These discussed risk issues are usually related to such as insurances or warranties (Estelami, 2007: 48-49) and therefore do not need to be covered in any further detail.

### *Decision arrogance*

Consumer's ability to make good decisions and knowledge of the topic are also factors that have an impact at the time of decision. Estelami (2007: 49-50) underlines that the over-optimism and overconfidence of one's capabilities, can lead to 'decision arrogance', which in its part results in poor decisions. As Umberto & Gianni (2010) argue, this overconfidence can derive from past financial experiences that can make consumers more prone to take risks. What is striking is that studies have shown that this overconfidence is especially present in situations where the consumer is lacking objective information (Estelami, 2007: 49-50).

The lack of rationality for the part of consumers in the financial sector is one of major concerns. It is considered extremely unethical to participate in behavior that takes advantage of consumers' poor knowledge of the financial services, and in some cases it can also be illegal. As Estelami (2007: 50) points out, in marketing of these products and services the financial institution needs not only to obey the laws, and obey to company policies, but also people working in these institutions should follow their own ethical standards.

#### 2.2.2.4.4. Intermediaries

In short, credit intermediaries are a party who can present or offer a loan to a consumer on behalf of the lender. Intermediaries can have a great role in consumer financing, as they can assist the lender to reach certain markets. However, their motives and standpoints are often very different compared to the actual lender, which can have an effect on the responsibility of the lending situation. Usually, these intermediaries work on commission, and get paid on each contract being signed. In these situations, they may disregard a proper screening for creditworthiness, or on the contrary be oblivious with how a proper assessment should be conducted. Furthermore, problems can also arise when intermediaries offer advice or recommendations, as these can be very well based on the commissions as well. (European Commission, 2009)

#### 2.2.2.5. EU Directive: New Direction

With respect to the above-discussed concerns in the industry, it appears that the end-customer is left quite vulnerable.

Given this, in the field of responsible lending, progress has taken place, perhaps most currently in the EU. One major step towards deeper consumer protection in the financial market in the EU has come along with the EU Consumer Credit Directive. Consumer protection has been of extensive discussion during past years, and the directive was put in practice by the member states by 2010. The essence of the directive is to assure improved transparency and consumer rights. At its current form, it consists of seven components. These components are now more deeply discussed, as they mirror the key areas of concern in the industry in Europe. Yet, as the details of the directive in many respects have been left for the member states to consider and evaluate, it will still leave gaps in respect to responsible lending practices (European Commission, 2009), or even contradict with some national laws that are more consumer-protective to begin with (BEUC, 2003). This is why the companies themselves should also be willing to take voluntary action. Some of the main points are now described below.

##### 1) Advertising

For the part of advertising, all charges, including interest and other fees, need to be presented, and most significantly, the total cost of credit, and an illustration of such a credit deal needs to be visible for the consumer (Directive on Credit Agreements for Consumers, 2008). Furthermore, information provided at this stage should be standardized, in order to enable the consumer to make comparisons with different loan providers. Also representative examples should be provided, together with appropriate explanations to facilitate these comparisons. (Vandone, 2009: 99-127)

## 2) APR

APR, or annual percentage rate, needs to be shown to the consumer, and the formula for its calculation is the same in all member countries. The APR is based on total cost of credit, thus including, interest, and all other fees and charges that come along with the credit. (Directive on Credit Agreements for Consumers, 2008: Vandone, 2009: 99-127)

## 3) Pre-contractual information and contractual information

Pre-contractual information should be provided for the customer, including type and duration of the credit, interest rate, APR, total credit and total charges for it, credit provider and contact information, and other needed legal aspects. Also explanations and appropriate warnings for some situations should be presented. This information is provided based on Standard European Consumer Credit Information form, common to all EU members. During the credit agreement, the consumer has a right to demand an amortization table at any time, and has a right to be informed if any changes occur in the cost or duration of his or her credit, which all make monitoring of the credit easier. (Directive on Credit Agreements for Consumers, 2008: Vandone, 2009: 99-127)

## 4) Right to withdraw

Due to the directive, consumers have now the right to cancel the credit within fourteen days after taking it, and are not required to offer any reasons for withdrawal. (Directive on Credit Agreements for Consumers, 2008; Vandone, 2009: 99-127)

## 5) Early repayment

Consumers are entitled to pay their debts early, while the lender has the right to claim appropriate and justifiable compensation for it. There are specific rules for such calculation of compensation, and some cases compensation cannot be received. (Directive on Credit Agreements for Consumers, 2008; Vandone, 2009: 99-127)



## 6) Creditworthiness

Lenders should also measure the creditworthiness of the consumer. There are guidelines offered to member states on how to do this, yet it is up to each party to weigh how it is done in practice. The key is that measuring is done according to an appropriate amount of information, either received from the customer or elsewhere. (Directive on Credit Agreements for Consumers, 2008, Vandone, 2009: 99-127) Such an assessment will definitely hinder the business for those, who target high-risk consumers that are appealed by the idea of getting quick loans. Here, it would be also responsible to explain to the customer the reasons behind a loan rejection, so that he or she can be better aware of his or her financial situation. (Vandone, 2009: 99-127)

## 7) Intermediaries

With this new directive, credit intermediaries are to be monitored in member countries either by regulation or by independent bodies. Credit intermediaries are now required to identify themselves properly, by stating whether they work independently, or in association with other credit providers. Furthermore, any fees that the intermediary charges are stated to the consumer, as well as to the real creditor. (Directive on Credit Agreements for Consumers, 2008, Vandone, 2009: 99-127)

### 2.2.2.6. Statements on Responsible Lending

Besides legislative control, discussion on responsible behavior in the financial services sector has been going strong in all kinds of forums. The table below identifies guidelines these bodies resort to, and show what kind of concerns these different bodies have. As it can be observed, these bodies take slightly different positions regarding what is the most important aspect for them.

Table 2. Responsible Lending in Different Forums

EU consumer credit directive	ECRC	BEUC	OECD
<p>1. Responsible Advertising</p> <p>2. Identification of APR</p> <p>3. Presentation of pre-contractual and contractual information</p> <p>4. Right for withdrawal</p> <p>5. Right for early repayment</p> <p>6. Assessment of creditworthiness</p> <p>7. Controlling of Intermediaries</p>	<p>1. Credit must be provided for all</p> <p>2. Credit relations needs to be transparent and understandable</p> <p>3. Lending must always be cautious, responsible and fair</p> <p>4. Adaptation ought to be preferred over credit cancellation or destruction</p> <p>5. Protective legislation has to be effective</p> <p>6. Over-indebtedness should be a public concern</p> <p>7. Borrowers must have means to defend their rights and voice concerns</p>	<p>1. Need for establishing an independent body to oversee consumers' rights, both EU and national levels</p> <p>2. Responsible lending needs to be integrated into legislation</p> <p>3. Need for legislation to prevent discrimination and unfair commercial practices</p> <p>4. Consumers should be protected with the collection of an appropriate amount of consumer information, possibilities for early repayment, or withdrawal, and controlling of actions by intermediaries</p> <p>5. Access to financial services within EU should be granted for all</p> <p>6. Financial information should be easy to understand and comparable, and any advice provided should be affordable and reliable</p> <p>7. The advantages of SEPA (The Single</p>	<p>1. Need for financial education so that consumer can develop understanding, knowledge, skills and confidence to better evaluate the financial products/services</p> <p>2. Need for financial education so that consumers know where to look for important and objective information or advise</p> <p>3. Need for financial education so that consumers know how to protect themselves, and how to take care of their debts responsibly</p> <p>4. Need for financial education so that consumers would be capable in financial planning, and evaluate future changes in income or life cycles</p> <p>5. Need for financial education so that consumer would better understand the consequences of bad credit decision</p>

		Euro Payment Area) should be understood	
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Table sources: (ECRC, 2009; BEUC, 2011; OECD, 2009; Directive on Credit Agreements for Consumers, 2008; Vandone, 2009: 99-127)

#### 2.2.2.7. Summary

As can be observed from the discussion above, the consumer credit industry is struggling with all sorts of shortcomings, which have been strengthened by the past financial crisis. There is definitely a strong need for responsible practices, as regulation has not, and will not be, fully able to tackle the industry issues.

For one, there appears to be a significant amount of work to be done considering irresponsible industry practices that are related to such as misleading marketing procedures, providing of information, and assessment of the applicant. Obviously, these issues have been of great concern and discussed in all kinds of forums, and finally induced a directive at the EU-level. It is imperative that financial operators realize these concerns and act accordingly.

Moreover, there is also discussion on how to encourage consumers to take responsibility of their own finances. Indeed, financial literacy and financial education appear to be one of the solutions that have been offered to current situation. (Reifner & Herwig, 2003; Umberto & Gianni, 2010) As previously discussed, one of the key items in consumer protection in the financial services, is the assurance that the consumer is provided with proper information. Yet, as Reifner and Herwig (2003) point out, mere information may not always be enough, but consumers need to be “educated” in order to make the right decisions. It is extremely important especially for the poorer consumers to have financial literacy in order to make wise and informed decisions, to beware of the dangers in the financial industry, and also detect the opportunities. Regarding this, also

financial operators can have their input. As also Estelami (2007: 51) points out, financial companies could participate in educating the consumers, and promoting needed products, and therefore assuring that consumers get the best fit with their financial needs.

Finally, it is not just consumers that can benefit from responsible behavior. Also from the company perspective, responsible behavior can be of assistance. When a company grants a loan to a “misfit” consumer, it will eventually harm the firm (Saeedi, 2007). Naturally, it would be most economical to grant loans only to customers that are sure to pay back. Furthermore, for instance NGO’s put high pressure on financial service providers so that they would act responsibly, which in its part can have an impact on how the company is viewed by consumers, and therefore affect the company image (Ogrizek, 2002). Overall, it appears that responsible lending practices can be beneficial to both the society and the company.

Considering the previous discussion, studying responsible lending practices appears to be a very current issue and therefore meaningful for this study. Furthermore, these practices can take on multiple forms, and there cannot be one determined way in which to be responsible. The latter makes studying these practices interesting. Although the main streams of the transfer of organizational practices literature has focused perhaps more on the transfer, in this case, also the practice becomes important, due to its complexity, uniqueness and value feature.

### 2.3. THEORETICAL FRAMEWORK

At this point, we have already covered the practice transfer literature as well as the special features of the responsible lending practice. Considering these two focus points of the study, the discussion can now move on to the theoretical framework.

The literature on institutional theory has traditionally focused on studying the success of the practice transfers. Although the success is not the focal point of this study, the key

ideas that these authors have discussed are still helpful in approaching this study. Therefore, the basis for the theoretical framework is Kostova's (1999) model of successful practice transfer. The framework is very useful as it contains a variety of features that have an impact on transfer of organizational practices.

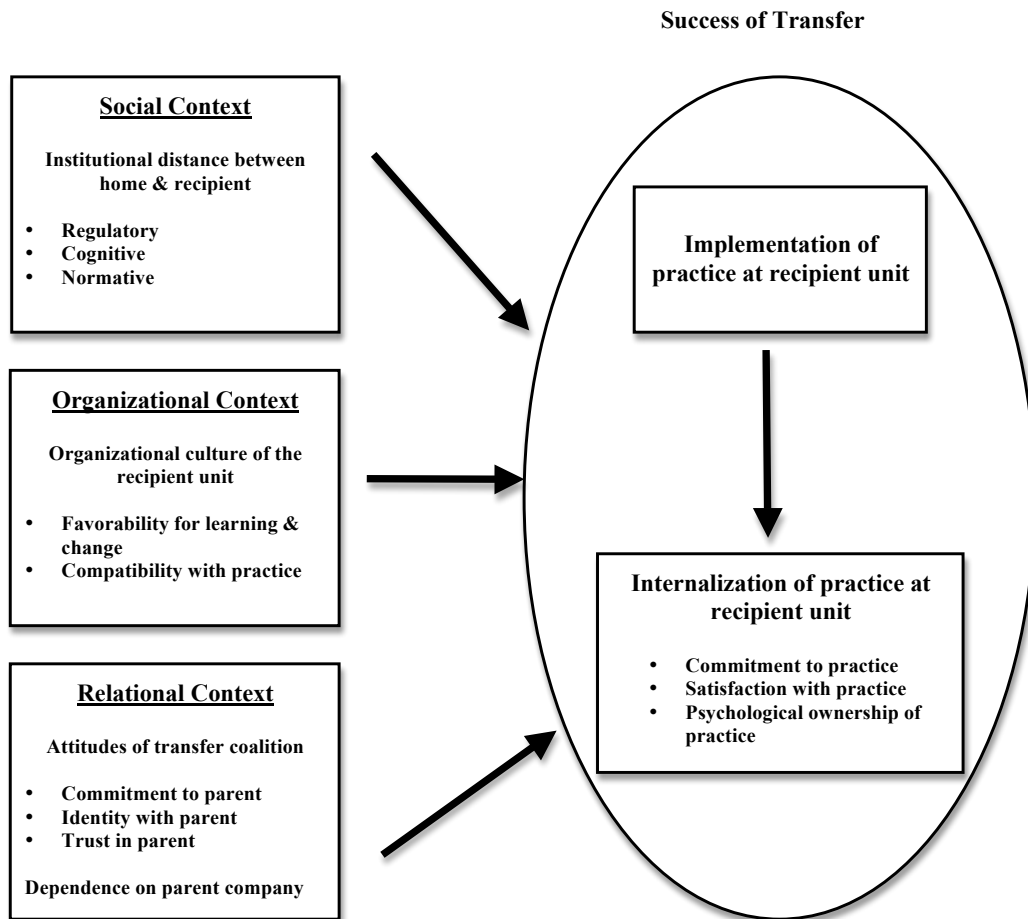
Kostova's (1991) framework for transfer success is based on identification of the components that affect the transfer success. She argues that transfer success holds two components, adaptation of formal rules of the practice and their internalization. Implementation refers to the actions and behaviors required for the practice, internalization to the commitment. Together, they measure the depth or adoption of the transfer (Kostova & Roth, 2002).

When the practice is implemented, it means that the recipient unit follows the formal written rules of the practice. However, it is not just enough that the practice is implemented, but it needs to be experienced the same way in each end. Therefore, internalization takes place when the employees of the subsidiary place symbolic meaning and value to the practice and thus view the practice similarly with the transferor party. Moreover, here the employees accept and approve of the practice, and it "becomes part of the employees' organizational identity". (Kostova, 1999: 311)

These two components, and therefore the success of the transfer, are influenced by three contexts: social, organizational and relational. Social (or institutional) context include regulatory, cognitive, and normative features of the location, which were discussed more deeply in part 2.1.4. For instance, if the institutional distances between the HQ and the recipient unit largely differ, problems are evident, and appropriate implementation at the recipient end is jeopardized. Large institutional distances could be the case for example in countries that are located in the different parts of the world. Then, organizational context considers that the transferred practices should have a fit with the organizational culture of the recipient unit to facilitate easier transfer. For instance, an organizational culture that values change, learning and innovation, would entail a better transfer success. Finally, relational context considers what type of relationship the HQ and the subsidiary have. For example, what kind of attitudes does

the subsidiary hold on the HQ, and to what extent the subsidiary is reliant on the parent, (Kostova, 1999). The framework that combines all these factors is depicted below.

Figure 7. Model of Success of the Transnational Transfer of Organizational Practices



Source: Kostova (1999: 313)

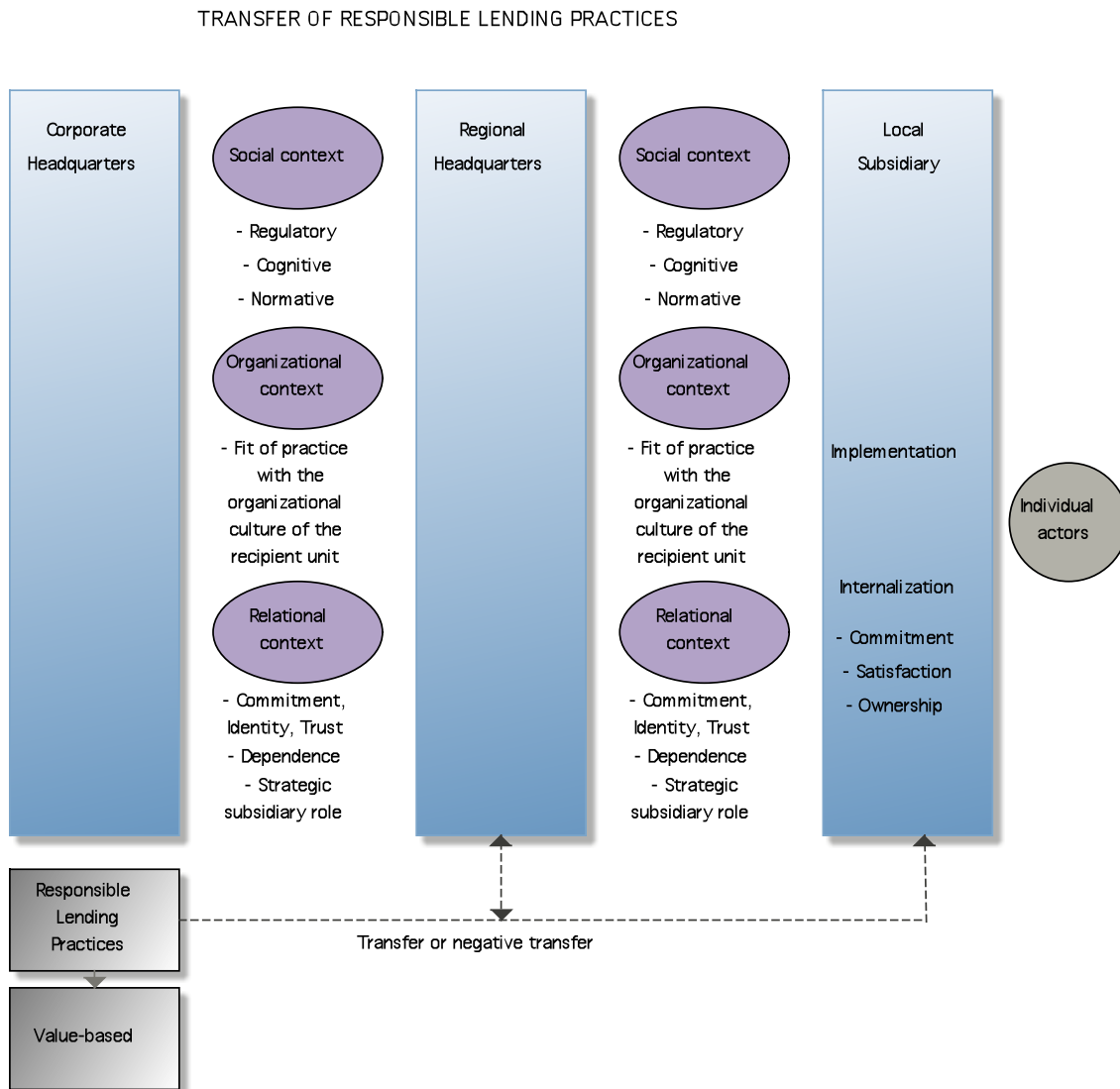
Kostova's (1999) framework depicted in Figure 7 offers a good platform for this case study: however, it has to be slightly modified to serve the purpose of this case study. For this thesis, the regional headquarters has been added to the framework as well as some special features affecting transfers that were not identified in Kostova's original framework. Perhaps the major difference compared to her work is that in addition to transfer success, this framework also considers the possible negative transfer, and

considers that practices cannot be viewed so strictly as “being successful”, but rather are adapted and refined, as suggested also by Sharpe (2001).

The framework explains itself with the following: All the units are depicted as separate entities. Between them, there are “barriers” or influencers that have an impact whether the practice is transferred and how it is shaped on the way. The barriers are social context, organizational context, and relational context, which are also in the original framework of Kostova’s (1999). Yet, in this case they represent factors, which not only influence the transfer but also negative transfer of the practice. Negative transfer refers to the situation where practice transfer does not take place and is not necessarily required to do so by the headquarters. Furthermore, the value-feature of the practice, as well as individual input are altogether added to this framework, due to the unique characteristics of responsible lending practices.

The reason why the concept of reverse transfer is not included in the theoretical framework, is because of its lack of relevance in this case. As presented, CSR and therefore responsible lending can take multiple of forms and multiple of different meanings. Moreover responsible lending practices are very much bound to the local legislation. This would already at this point signify that responsible lending practices are in any case adapted to the local environment, and it would be very unlikely that these local adaptations are transferred to any headquarters, as they would not hold any relevance there. With this said, the corporate headquarters level sets the basis for the practices and then they are adapted and translated to suit the local environment.

Figure 8. Theoretical Framework for Transferring Responsible Lending Practices



Source: Adapted from Kostova (1999)



### 3. METHODOLOGY

The methodology part of this thesis will now present the case company, discuss data collection methods and data analysis, and consider validity, reliability and limitations of this study.

#### 3.1. UNIT OF ANALYSIS: SINGLE CASE STUDY

This thesis is conducted as a single case study. Case studies have long been used in several academic disciplines (Eriksson & Kovalainen, 2008: 115). “Case study is an exploration of a “bounded system” or a case (or multiple cases), over time, through detailed, in-depth data collection involving multiple sources of information and rich in context (Miller & Salkind, 2002: 162). As Yin (2009: 4) indicates, case studies are often utilized when *how* or *why* questions need to be answered, and are relevant when an “in-depth” description is needed. Furthermore, case studies are especially conducted when there is little experience or theory on the subject (Ghauri, Gronhaug & Kristianslund, 1995: 87), or when the case is particularly unique (Eriksson & Kovalainen, 2008: 121). They are also useful in providing a thorough description on a real-life phenomenon, for instance when studying organizational and managerial processes. Furthermore, case studies are useful as they can illustrate “complex and hard-to-grasp business issues in an accessible, vivid, personal, and down-to-earth format”, which can be especially appealing for example to company managers (Eriksson & Kovalainen, 2008: 116).

Although for instance Yin (2009: 60) argues that when possible, one should resort to multiple case study design, the single case study bares multiple advantages. The single case design is also referred to as an intensive case study research, where the goal is “understanding a unique case from the inside by providing a thick, holistic and contextualized description” (Stoecker, 1991 in Eriksson & Kovalainen, 2008: 118 ) As Eriksson and Kovalainen (2008: 120) state, thick description means “verbalized interpretation that is able to crystallize the reasons behind the rich and multifaceted details of the case”. The depth is certainly an incremental advantage, and for instance Miller and Salkind (2002: 163) state that it is compromised if cases are added due to

time constraints. Even though preferring a multiple case design, Yin (2009: 47-53) also provides rationales for choosing a single case study, in situations where the case is critical, unique, typical, revelatory or longitudinal.

A single case study serves the purpose of this thesis, particularly due to the thickness and information-richness the method can provide. As the topic is quite unique and relatively understudied, in-depth description serves the purpose well. Moreover, it would be scope-wise difficult to consider multiple case design, since the study will be concentrating on three different units, as well as employee and managerial levels. With single case, I can depict how one company handles a particular issue, and study the phenomenon at different angles, relying on multiple sources of information within the company and getting deeper observations.

Since I currently work for the company, it in that sense provides me an easy access to information, which will then help me in conducting in-depth research. In addition to access to information, it provides an ability to arrange interviews fairly easy through personal contacts. Because of this personal background, I have the utmost advantage since I already have knowledge on the company and the business, which will help in creating meaningful and to the point interview questions, as opposed to being an outsider who lacks all this knowledge. I also consider that the latter helps in interpreting the data, and enables me to create a friendly and open environment for the interview situations. With this said, I am also in a better position to understanding the responses and detecting what is being said, and why. Finally, if I need to ask questions or need clarification on some of the things discussed in the interviews, I can always go and ask, which further secures that nothing is misconceived or left out. However, the insider role can also bear disadvantages, if not approached carefully. For instance, the respondents could take the situation with less seriousness than when the interviewer would be an outsider, and therefore those types of issues need to be considered before the interviews.

### 3.2. CASE COMPANY OVERVIEW

Due to confidential information provided in this thesis, the case company presentation will be brief and abstract in order to secure anonymity. Except for the Finnish case company, the exact locations of the parent and the regional headquarters are not revealed, in order to avoid making any possible connections. The case company operates as a consumer finance company in Finland and is part of a European originated financial institution. The parent organization has operations in Europe, North- and South-America, as well as Asia. In continental Europe, the parent company has business areas in retail banking, asset management, insurance and wholesale banking. (Parent company web pages) Then, the regional headquarters for the Finnish unit is located in the Nordics, and also the Nordic area operates as a provider of consumer finance. The regional cluster consists of four Nordic countries, including Finland, Sweden, Denmark and Norway.

The consumer finance section of the organization is concentrated on providing consumer finance products to customers and is largely concentrated in continental Europe. The product portfolio for the case company in Finland includes car loans, non-collateralized personal loans, and credit cards. All of the products except the credit cards are offered directly from the company to end customers. The case company has been particularly successful in providing car loans in the Finnish market (Case company web pages). This thesis concentrates on the products offered directly by the case company, and thus includes only the car loans and personal loans.

#### Departments

Within the subsidiary, three different departments were studied. Since the thesis focuses on the individual employees and their roles in the transfer process, studying the departments of the case company was appropriate. These departments are good reflectors of responsible lending practices. They have been selected based on both the new EU directive on consumer credit that considers issues that fall on these departments (European Commission, 2009), as well as the high amount of discussion that has been

taken place in Finland considering the tasks and functions of these departments (Finnish Consumer Agency, 2006). These issues are related to unethical sales and marketing processes, misleading provision of information, and reckless loan offering (EU Commission, 2009; Finnish Consumer Agency, 2006). Therefore, the following departments inside the subsidiary were chosen: *Sales and Marketing, Applications and Decisions and Customer Service*.

Studying all the three departments has moreover provided an opportunity on one hand to capture the overall state of responsible lending practices in the subsidiary, and on the other hand detect any dissimilarity between the departments. It has also given the chance to depict the practices from different perspectives, including managerial as well as employee levels. The characteristics and roles of each department are depicted below.

#### *Sales and Marketing*

Sales and Marketing are actually two different departments in the company, but here they are considered under a joint heading due to their somewhat similar task functions. The Sales department is responsible for B2B selling, which includes handling the relationships with the company's key business clients, in this case, car dealers. The Marketing department has the responsibilities for the company's marketing and advertising processes, and they are more directly linked to the end customer. From the point of view of responsible lending, the Marketing department has the function of planning and executing marketing and advertising campaigns and materials, and the Sales department the function of having relations with the intermediaries, the car dealers.

#### *Applications and Decisions*

The Applications and Decisions department handles all the loan applications (car + personal) and makes the decisions for granting credit. The department also serves as a direct link to the B2B customers, car dealers, for contact, and thus is a part of customer

service. From the point of view of responsible lending, this department is the one who deals with issues such as checking the applicants' creditworthiness. This department is very much linked to the risk department, which serves as its head department and controls and oversees the daily operations of the applications and decision department.

### *Customer Service*

The Customer Service department is the first link for end customers to contact. The department handles all the issues relating to the end customers' contracts and serves the customer in his or hers needs. From the point of view of responsible lending, this department has the function of offering information, giving advice, answering any questions, explaining the needed issues for customers, and serving the customer in any situation.

For clarity, the functions and roles of the departments are described in the table below.

Table 3. Case Company Departments

Roles of the Departments		
Sales and Marketing	Applications and Decisions	Customer Service
<ul style="list-style-type: none"> <li>- Marketing: sales and marketing tasks considering the individual customer</li> <li>- Sales: sales and some of the marketing tasks considering the B2B customer, i.e. the car dealer</li> </ul>	<ul style="list-style-type: none"> <li>- Making credit decisions for car loans and personal loans</li> <li>- B2B customer service: customer service for car dealers</li> </ul>	<ul style="list-style-type: none"> <li>- Handling of the customer's credit agreement throughout the duration of the agreement</li> <li>- Customer service for individual customers</li> </ul>

### 3.3. DATA COLLECTION

The chapter considering the data collection will now be discussed, covering both interviews and documentation. The table below summarizes all of the data sources used for this thesis.

Table 4. List of Data Sources

INTERVIEWS						
Unit	Source	Date	Duration	Interview language	Total pages of transcribed material	Location of the interview
FS	Chief Executive Officer (CEO)	10.8.2011	43 min.	Finnish	11 pg.	Subsidiary premises
	Chief Risk Officer (CRO)	13.7.2011	42 min.	Finnish	9,5 pg.	Subsidiary premises
	Chief Operating Officer (COO)	22.6.2011	53 min.	Finnish	11 pg.	Subsidiary premises
	Sales and Marketing Director	10.6.2011	40 min.	Finnish	11 pg.	Subsidiary premises
	Sales Manager	2.8.2011	32 min.	Finnish	9 pg.	Subsidiary premises
	Applications and Decisions Team Leader	30.5.2011	1h 1 min.	Finnish	15 pg.	Subsidiary premises
	Marketing Team Leader	5.5.2011	48 min.	Finnish	13 pg.	Subsidiary premises
	Customer Service Team Leader	17.6.2011	32 min.	Finnish	11,5 pg.	Subsidiary premises
	Marketing Coordinator	6.5.2011	37 min.	Finnish	9 pg.	Subsidiary premises
	Customer Service Specialist 1	9.5.2011	53 min.	Finnish	12 pg.	Subsidiary premises
	Customer Service Specialist 2	9.5.2011	58 min.	Finnish	17,5 pg.	Subsidiary premises
	Customer Service Specialist 3	7.4.2011	1h 3 min	Finnish	15,5 pg.	Subsidiary premises
	Customer Service Specialist 4	7.4.2011	55 min.	Finnish	16 pg.	Subsidiary premises

RHQ	Chief Risk Officer (CRO)	14.10.2011	27 min.	English	6 pg.	Telephone interview
	Legal and Compliance Manager	13.9.2011	30 min.	English	7,5 pg.	Subsidiary premises
TOTAL	15				App. Length 174 pg.	
DOCUMENTATION						
Unit	Type	Example		Language		
CHQ	Corporate Web pages	Corporate values, corporate code of conduct		English		
	Internal policy documents	Anti-money laundering policy, code of conduct		English		
	Corporate sustainability reports			English		
	Corporate annual reports			English		

\*) FS= Finnish subsidiary, RHQ= regional headquarters, CHQ= corporate headquarters

### 3.3.1. Interviews

The main evidence was collected through interviews in the case company, as well as at the regional headquarters. Due to access constraints, interviews were not conducted at the corporate headquarters level, however the parent company practices were determined through available documentation. These interviews cover the top management in the case company and in the regional headquarters, as well as all the four departments with manager and employee levels of each department. The interviews were conducted between May 2011 and October 2011. The interviews were conducted in Finnish at the local subsidiary, and in English at the regional headquarters. The respondents at the regional headquarters level were non-native English speakers:

however, the language fluency of the respondents proved to be excellent, and thus relevant information was not left out due to any language barriers.

Selecting interviews as the research method provided multiple advantages, and interviews were an appropriate approach for this particular study. Yin (2009: 102) points out that interviews are a vital source for information, given that they are targeted and focused, and as they can offer very insightful evidence. The chosen interview method for the study was the use of a semi-structured interview type. The benefit of semi-structured interviews is that it allows preparing of an outline of topics, yet it is still possible to alter the order and wordings of questions in the interview situation (Eriksson & Kovalainen, 2008: 82). The key is that some features are structured, whereas others can remain open. (Hirsjärvi & Hurme, 2009: 47)

The approach of semi-structured interviews for this study was imperative. It would have been impossible to create a specific set of questions, since the interviewees included both regional headquarters, top management of the local subsidiary and different departments and employee level within the local subsidiary. Moreover, due to time constraints and busy schedules, questions for regional headquarters are more compact, whereas the interviews conducted with the local subsidiary contain more questions since the time was not that much restricted. Similarly, if time was left, I also asked additional questions, for instance asking more questions about the transfer and the relationships within the organizational chain. Resorting to a theme-based layout provided the chance to modify the questions throughout the interview period. For example if some wordings caused misconceptions, the wording of the questions was improved for the next interviewee. Yet, I would like to stress that the main questions remained the same. The main interview questions were also discussed with the thesis supervisor prior to interviewing.

Therefore, the interview layout for these interviews was constructed around three main themes, which are depicted in Table 5. Then, depending on the respondent and his or her area of knowledge and expertise (for example regional headquarters/local subsidiary, manager level, employee level) some adjustment and variation within the



questions was necessary in order to receive the most meaningful results. The three main themes common to the interviews were 1) Questions covering responsible lending practices at the case company on a general level, the regional headquarter level and the parent organization level, 2) Questions covering responsible lending within individual departments, and 3) Questions covering the transfer of responsible lending practices to the local subsidiary and within the case company.

Table 5. Interview Layout According to Themes

Interview Layout		
-Determining of responsible lending practices in local subsidiary, regional headquarters and corporate headquarters	- Identification of responsible lending practices in individual departments	- Identifying the transfer of responsible lending practices from the corporate headquarters to the local subsidiary and within the subsidiary

In interviews, the responsibility of the researcher is to convey the thoughts, concepts, experiences, and feelings of the respondent into the research (Hirsjärvi & Hurme, 2009: 41). With this said, the interview resembles an actual conversation, where verbal and non-verbal communication conveys the thoughts, attitudes, opinions, knowledge and feelings of the person. Yet, as a distinction to conversations, interviews have a specific and ambitious objective to collect information, and are thus quite pre-determined. (Hirsjärvi & Hurme, 2009: 42) Regarding this study, I aimed at keeping the interview situations more informal and have an open and free discussion rather than conducting a formal interview per se, which to my opinion helped in receiving deeper, valuable, honest and personal answers. I believe this method was necessary especially at the employee levels, because I found out that when the atmosphere was more informal and

conversational, also the interviewee opened up and was not too uncomfortable about being interviewed for research purposes.

Moreover, when discussing the transfer of responsible lending practices within the case company, I felt it was necessary to operationalize the transfer of responsible lending practices to communication of responsible lending practices. From my perspective, the transfer and communication are very interlinked and the word communication was better understood especially at the employee level, and secured meaningful responses. Thus, from here on, I will also use the word communication alongside the word transfer.

Altogether fifteen interviews were conducted. The aim of these interviews was to get both the practice transferee's and transferor's perspective, as well as both employee and manager perspective. At the transferee end, the interviews covered five interviews on the Finnish subsidiary's top and department head levels, two interviews on team leader level, and six interviews on employee level. The interviewees were selected from those departments that were of interest to this study. Finally, two interviews were conducted at the regional headquarters level. These interviews brought light into the transferor's perspective, and although the interviews did not include corporate headquarters, the regional headquarters nonetheless also transfers practices to the Finnish unit and serve as the intermediary in the transfer chain, and therefore provides also a "parent" perspective to the study.

In addition to preparing the outline of questions for the interviews, an interview brief was sent prior to the interview at the employee level, which covered an introduction to the concept of responsible lending and short directions to the interview itself. The brief was not submitted to interviewees at the top level due to the obviousness that the top level is familiar with the concept. However, each respondent filled in a document of personal information as to give some background for the answers in the time of data analysing.

The outline of questions can be seen in the Appendix 2. and the interview brief in the Appendix 1.

### 3.3.2. Documents

In addition to interviews, documents were also utilized to complement the evidence derived from interviews. This was especially important as a means of capturing parent company responsible lending practices, since interviews were not conducted at the parent company level.

Documents are extensively utilized in case studies, and they can take on many forms. The strengths of using documents includes that they can be reviewed repeatedly, they include accurate referencing, and they can cover broad area of events. (Yin, 2009: 101-103) These materials were gathered from internal and external company documentations. Such materials as CSR reports, internal company policy documents, annual reports and so forth were utilized and give additional support and perspective in addition to the evidence collected through interviewing. In my case, the documentation served particularly as the source for the parent company practices. However, interview responses from Finnish top level and regional level also provided information on the parent responsible lending practices and their transfer to local subsidiaries.

## 3.4. DATA ANALYSIS

“Case study analysis usually proceeds by the researcher providing a description of the setting, searching for themes, aggregating data into themes and comparing themes” (Bloor & Wood, 2006: 28).

The phases of data collection and data analysis are often interlinked in case study research (Eriksson & Kovalainen, 2008:127-128). To start with the analysis, I recorded all the interview recordings carefully and authentically and also transcribed them myself. Similarly, all the relevant documents were selected and organized, so that they

were easily accessible for analysis. I did the transcriptions during the time-span of the interviews, in order to pick up ideas already during the interview period. With these insights, I was also able to add new relevant questions to later interviews and also remove questions that appeared to be irrelevant. Therefore, the analysis started already in the stage of transcription, as it enabled me to see the ideas stemming from the interviews and pick up interesting and relevant parts already here, which helped in getting started and preparing for the actual data analysis part. For instance, this phase helped me already to identify some patterns and themes that were commonly discussed.

To continue with the analysis, the interview transcriptions were read through multiple of times to get a proper picture of what was being said and to capture the most interesting and relevant points. Then, iterating between the data and the relevant literature, I organized the responses according to themes. Classifying the responses according to themes is a common approach in qualitative studies and a good starting point for the analysis (Eskola & Suoranta, 2005, 174). Since the interviews were constructed as theme interviews, this already helped me in categorizing the evidence according to these classifications. As it was described in the interview layout, the first theme covers the nature of responsible lending practices in the organization, the second theme covers the transfer of these practices from the parent to the subsidiary, and the third theme covers the transfer and internalization of the practice within the subsidiary. Categories were also made according to each unit, department, and work position: The classification according to units included the corporate headquarters, regional headquarters and local subsidiary, the classification according to departments included the sales and marketing department, applications and decisions department and customer service in the subsidiary, and classification according to work position included employee and managerial levels in the subsidiary. Then, after categorizing the responses into these themes, searching of types within these themes was possible, i.e. detecting what was being commonly and most often stated. Forming types is often used in qualitative research analysis (Tuomi & Sarajarvi, 2009: 93). However, also atypical answers were detected and classified under the relevant categories.

Table 6. Data Analysis Categories

Categories and Themes
<ul style="list-style-type: none"> <li>• Categorizing according to interview themes</li> </ul>
<ul style="list-style-type: none"> <li>• Categorizing according to units: corporate headquarters, regional headquarters, local subsidiary</li> </ul>
<ul style="list-style-type: none"> <li>• Categorizing according to departments: Sales and Marketing, Applications and Decisions, Customer Service</li> </ul>
<ul style="list-style-type: none"> <li>• Categorizing according to work position: employee-manager</li> </ul>

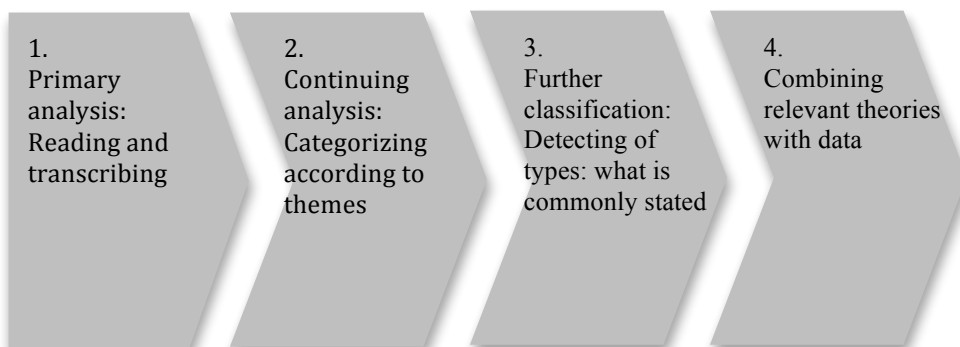
When analyzing and presenting the data, I have attempted to build the analysis based on the evidence gathered from the empirical material. This is important as it enables the researcher to depict exactly what is said (Tuomi & Sarajärvi, 2009: 95-96), and therefore provides an authentic picture of the case. As discussed, the empirical material was first classified according to themes. Then, what was most commonly stated by the respondents was detected. This way, it was possible to move from individual responses towards a higher level of abstraction. Naturally, I also considered individual or more rarely presented statements, since they can hold new and interesting insights. However, presenting of empirical material alone does not result in an appropriate analysis. Thus, I have attempted to iterate between the empirical material and the theories, i.e. confront the empirical data with insights from the literature. The idea is that one can freely present and interpret the empirical material, and theories are only used when *presenting* the results, therefore assisting the analysis compared to guiding it. (Tuomi & Sarajärvi, 2009: 96-97)

I consider the latter as a very functional approach. On one hand you can freely interpret the research materials, on other hand, considering also relevant theories and literature it is much easier to present theoretically significant findings, and maintain the focus throughout the study. This is not to say that one cannot find new discoveries or novel

findings, since whenever this is the case, the researcher can present completely new literature and theories that have not been discussed earlier in the work. In this way, literature and theories are not a restriction for an authentic analysis.

The data analysis also draws on citations. As suggested by Eskola and Suoranta (2005: 180), providing a number of citations enables the reader to make his or her own conclusions of the research material. I intend to provide as many citations as possible, yet I will also provide relevant analysis so that the text is not merely one citation after another. When citations are presented, the source is referred to according to the job title. This is essential, as it gives the reader the opportunity to differentiate between the local subsidiary and the regional headquarters, and the manager and employee levels. Since the interviews at the regional level were conducted in English, the citations are direct in the text. On the contrary, the interviews within the local subsidiary were conducted in Finnish, and therefore the citations in the text are translated. The translations are done by myself and are very accurate, as I tried to depict what was being said very authentically. Due to the confidentiality reasons, whenever a quote includes a specific reference to the country of origin of either the corporate headquarters or regional headquarters, it has been replaced appropriately. The title for the employee level in the customer service department and the applications and decisions department is Customer Service Specialist, and in order to differentiate between the respondents, signifying numbers are used after the title. The explicit description for the titles can be seen in Table 4.

Figure 9. Logic of Data Analysis



Important for this research was to “capture the vast amount of information in a compact and clear form, which will enhance the informativeness of the research material” (Tuomi & Sarajärvi, 2009: 108). The amount of evidence proved to be extensive. However, it provided me a position where I at least had an abundance of evidence to work with, compared to a situation where there would be too little evidence. As also Ghauri, Gronhaug & Kristianslund (1995: 88) point out, when conducting a case study, it is essential to have a sufficient amount of information in order to characterize the unique features of the case. With this said, there was plenty of research material to derive the results from, which most definitely will contribute to a sound data analysis.

### 3.5. VALIDITY AND RELIABILITY

This chapter considers validity and reliability aspects of this study and is divided in two parts: rigor and authenticity and reflections on my own insider role.

As Tuomi and Sarajärvi (2009: 134-149) point out, there are no explicit guidelines when discussing validity and reliability in qualitative research. Thus, I have attempted to address the most typical challenges that case studies and qualitative research possess and show how this thesis can respond to them, and how validity and reliability aspects can be seen in this work.

#### 3.5.1. Rigor and Authenticity

On a general note, the validity of case study research has been questioned, arguing it lacks a scientific rigor. This rigor can be compromised due to careless researcher, researcher’s inability to follow systematic procedures, or researcher’s biases, which then color the conclusions of the research. (Yin, 2009: 14)

However, the extensiveness and rigour in this thesis can be seen in multiple sources of evidence used. Altogether fifteen interviews were conducted, providing altogether over

170 pages of transcribed material. These transcriptions were conducted by myself and are most accurate and authentic. Moreover, different types of documents were utilized, thus providing another channel to derive evidence from. Since the study builds on evidence gathered from multiple of sources, the validity in data collection can be considered through the concept of *triangulation*. Triangulation is one of the validity checks one can use in qualitative research (Tuomi & Sarajärvi, 2009: 143). As Tuomi and Sarajärvi (2009: 144) state, triangulation can assist the researcher in building comprehensiveness about the studied subject and bringing needed depth. Triangulation in the thesis can be seen in two ways. First, I interviewed personnel on different vertical and horizontal organizational levels, ranging from top management to lower level employees, as well as between different operational units. Moreover, I studied both the perspectives of the transferee as the transferor. Secondly, different types of materials were utilized. Thus, in addition to interview materials, also written documents from the Internet and internal company documents were used. I consider that the latter has benefitted the study in providing multiple types of evidence.

Furthermore, in order to describe the case most authentically and to receive plenty of material, the following considerations were in place. First, the interview brief that was sent out was quite concise. I did not want to give too much background information or opportunity to firm preconceptions, so that the interview answers would be as honest and personal as possible. This was also stressed in the interview brief. Then, I tried to keep the interview situations quite informal and give the floor to the respondent; in other words, I tried my best not to interfere or guide the responses in one way or the other.

Considering the interviewees, I selected the candidates for the interviews based on their expertise and company experience, thus guaranteeing that the respondents could well answer to the questions and provide interesting insights. Then, in order to authentically depict what was being said in the interviews, the interview recordings were first carefully transcribed and then analyzed. These interview transcriptions contain altogether 174 pages and are very accurate. The latter has provided me a plenty of interview material to draw the results from, and also pick relevant citations from. Due to



Careful transcriptions, also the translations of the interviews conducted in Finnish into English are most authentic and done by myself. The layouts for the interviews can be seen both in Finnish and in English in the Appendix 2. Both recordings and transcriptions were carefully saved in their own files on the computer, from where they were easily accessible for analyzing. The transcriptions of the recorded interviews were also as specific as possible, so that essential information would not be missed and drawing results would be made authentically. The questions in the interviews were designed to have a similar layout and same themes and main questions were tackled, which enhance the reliability of the study.

Finally, it is also argued that especially single case studies do not provide generalizable results. (Yin, 2009: 15) However, the strengths of cases study research lie in somewhere else than producing generalizable results. As Hammersley and Gomm state

“Sometimes, case study research is advocated on the basis that it can capture the unique character of a person, situation, group, and so on. Here there may be no concern with typicality in relation to a category, or generalizability to a population. The aim is to present the case authentically“. (Hammersley & Gomm, 2009: 6)

### 3.5.2. Reflections on My Own Insider Role

As Yin (2009: 14) states, many researchers have concerns that case studies can suffer from a biased researcher. However, a contradictory viewpoint provided by Eriksson and Kovalainen (2008: 120) suggests that the researcher should not remain as an “objective instrument”, but the role of intensive case studies is to offer interpretations of the researcher. “The business researcher is an interpreter who both constructs the case and analyses it, focusing on the perspectives, conceptions, experiences, interactions and sense-making processes of the people involved in the study.“ However, it has been argued that when the researcher is an insider such in my case, there is the challenge of setting one’s intuitive knowledge apart from the evidence. (Eriksson & Kovalainen,

2008: 58) Acknowledging this drawback, I still would stress the importance and richness of being an insider, in that its benefits overcome the disadvantages. To be an insider is not a shortcoming, but provides a fruitful position to both access information and interpret the material. It could be so that an outsider conducting the research could miss important points, have difficulties in getting private company information and scheduling interviews and in the worst case pick up “wrong” people for these interviews. Because of my personal knowledge of the organization, I was able to create an appropriate research set-up and form interesting and meaningful interview questions. An important notion is also to state that the initiation for the topic came from me, and thus I felt there was no “pressure” or special requirements for certain types of results or certain type of research process coming from the case company.

### 3.6. LIMITATIONS

This thesis is limited to observations and material of a single case company. However, the case company was thoroughly studied since it included a variety of organizational levels and layers, and thus it still can provide a coherent and reliable picture. The extensiveness of the study material and multiple sources used supports the logic and advantage behind single study method, which posits that it provides in-depth information.

One limitation for the study is that it lacks the “voice” of the corporate headquarters. However, this absence of direct contact to the headquarters was substituted with multiple sources of company documentation, and interview material received from the regional headquarters and local subsidiary about parent company practices. In these interviews, I tried to press the parent aspect and ask questions where the interviewees could elaborate on the practices of the parent. Furthermore, it became clear in the interviews that both the local subsidiary and regional headquarters viewed the transfer of parent company practices similarly, which therefore supported the accuracy of the results.

Finally, the four departments selected for the study are in my opinion the most relevant ones, and their task functions are also of interest when responsible lending is discussed in the literature and in the media. Naturally, one could research every possible department, but due to time constraints, I tried to limit the departments in a justifiable manner. Given that the case company is a medium-sized firm, only IT, finance, collections, and risk departments were left out of the study. This is however justified, as IT and finance departments play a rather small role when considering responsible lending. Then, risk department is somewhat the supervisory organ of the applications and decision department, so its features are to a large extent discussed and considered. Perhaps the most viable department of these for the study could have been the collections department, however as time was limited it was left out.

## 4. FINDINGS AND DISCUSSION

The findings and discussion chapter of the thesis will be divided in two main parts. First, the responsible lending practices in the organization are discussed, including the practices of corporate headquarters, regional headquarters, and subsidiary in Finland. Furthermore, the department-specific practices in the local subsidiary are depicted.

By first determining the nature of responsible lending practices in each end, it is an easy transition to move to discussing the transfer of these practices, and to see which parts are transferred, and what factors have an impact on transfer situations. This will be covered in the second part of the findings and discussions section. Here, the transfer and communication of responsible lending practices is also covered within the local subsidiary. All the results are discussed alongside relevant literature and theories, and thus there will be no separate discussions section.

As a summary, this chapter proceeds according to the research questions:

1. What kind of responsible lending practices does a subsidiary implement locally?  
How are they implemented across organizational levels within the subsidiary?
2. How are these practices transferred from the corporate headquarters via regional headquarters to the local subsidiary?

### 4.1. RESPONSIBLE LENDING PRACTICES

It is crucial to start with the notion that based on the empirical research material, it was showed that the company does not have a responsible lending policy *per se*, but that responsible lending consists of multiple of different sources and pieces and is embedded

in the environment of each unit. With this said, also the responsible lending practices of the regional headquarters and the local subsidiary stem not only from the corporate headquarters but also from the respective local environments. Given this, a description of the responsible lending practices in the company is rather complex. Yet, it has to be stated that the corporate headquarters has CSR policies in place and they are committed to sustainable reporting, but these efforts are not directly comparable to responsible lending.

Even if lacking a proper responsible lending policy, responsible lending still exists and is viewed extremely important in the entire organization. Responsible lending can be seen at the corporate headquarters, the regional headquarters and the local subsidiary. As stated, responsible lending comprises of multiple of sources. As the Chief Risk Officer of the regional headquarters and the Sales and Marketing Director of the Finnish subsidiary explain it:

*“...Responsible lending resides a bit here and there, it has to do with our corporate values, it has to do with our marketing strategy, how we pick and choose co-operations, how we do our credit underwriting etc.”*(Chief Risk Officer, regional headquarters, 2011)

*“We don’t have anything like that, from which you could say that this is our responsible lending policy, but it is formed from these different elements such as the credit policy, directions considering our customer service, our internal sales guides, and our code of conduct, where it is stated that this is just how we do business.”* (Sales and Marketing Director, Finland, 2011)

Even though there is no specific policy, the issue of responsible lending was perceived as extremely important. It is sort of a natural and obvious choice, and seen as the corner stone for any functioning in the financial markets.

*”Responsibility is, if we are discussing responsible lending, a very central issue and not only in our company but also in the entire financial industry. If you don’t have it, then you will very soon be in trouble” (Chief Risk Officer, Finland, 2011)*

*”In general you cannot succeed in the banking business, if you don’t follow the principles of responsible lending. If you don’t control whom you lend to, and what you lend, and if you try to fool your customer, that doesn’t lead to anything good, a bank cannot function for 150 years. So in all simplicity, it is a ground for a sustainable, consistent business.” (Sales and Marketing Director, Finland, 2011)*

Moreover, responsible lending is viewed as a holistic concept, not only to be seen in the granting of loan situation, but in the operations of the entire organization, such as customer service, marketing and collections. As the Chief Risk Officer of the Finnish subsidiary puts it:

*“It is not just what you do when granting the loan, but also the entire chain, that we act responsibly throughout the customer relationship.”*

The responsible lending practices are now discussed in two sections, covering first the practices in the corporate headquarters, and then practices in the regional headquarters and the Finnish subsidiary. Practices that are only eligible in the banking business and therefore would only relate to the practices of corporate headquarters and not necessarily relate to the consumer finance are left out on purpose and for clarity.

#### 4.1.1. Responsible Lending Starts at the Corporate Headquarters

Responsible lending starts from the corporate headquarters and the corporate headquarters sets the parameters for responsible lending for the other units. Responsible lending can be seen for instance in the corporate values, code of conduct and specific set of guidelines for different functions and operations within the units.

First, responsible lending can be seen in the Group's code of conduct, which is mandatory for every unit to adhere to. For instance, the code of conduct states that every unit and employee should comply with laws and legislation. (Group General Code of Conduct, 2010: 7) Since legislation within the units and locations vary, there is no specific model for responsible lending, and the key is that every unit operates respecting the local laws in that area (Chief Risk Officer, Finland, 2011). The importance of following necessary legislation is at the heart of responsible lending. As the Legal and Compliance Manager of the regional headquarters explains when asked about what the parent initiates regarding responsible lending:

*“They are very concerned that we should follow all pieces of legislation to the letter, they are very adamant that we have to have the best relationship with the authorities that is possible to have”.*

Furthermore, it is also necessary to comply with the internal rules and regulations of the company, provided by the parent. These include e.g. anti-money laundering policy or fraud prevention policy. (Group General Code of Conduct, 2010: 7) For instance, the anti-money laundering policy describes and summarizes crucial elements that are stated in the legislation and are thus required to be complied with by the company as well. (AML Prevention Local Manual) Finally, it is also required that everyone will comply with upright, professional and honest conduct (Group General Code of Conduct, 2010: 7).

Secondly, responsible lending is mirrored in the core values. The corporate values of the Group include dynamism, strength, leadership, innovation, commercial orientation, and professional ethics. For example as stated by many of the interviewees, the key starting point for responsible lending practices resides with the corporate values, especially professional ethics. Professional ethics holds that the company goes “over and beyond strict compliance with laws, codes of conduct and internal regulations” (Group Sustainability Report, 2010: 4), and ethical principles are considered the pillar for any activities in the group (Group General Code of Conduct, 2010: 5). Acting responsibly is

seen as the “way we do things here”. As the Chief Risk Officer of the regional headquarters explains it:

*“...The core values of the organization, and not only for the regional area but also throughout the group, (state that) we have professional ethics as one of our key values, and to me that sets upfront and centre with regards to responsible lending.”*

Although the value of professional ethics can be seen as most directly linked to responsible lending, also other company values explain the responsibility. For instance, the value of strength holds the notion that the prudent risk management of the company will enable the company to grow and create shareholder value in the long-term. (Group Sustainability Report, 2010: 4) This prudence is perceived as a vital part of responsible lending and can guarantee that the customer’s needs and situation are considered. This is described by the Legal and Compliance Manager of the regional headquarters when asked what responsible lending is in the company:

*“We are very careful to follow the credit policies, so we don’t hand out loans to people that shouldn’t have them.”*

Also the extensiveness of the evaluation of the customers signifies the importance of considering the risks. The Chief Risk Officer of the Finnish subsidiary describes:

*“We really evaluate the repayment ability of the customer using mathematical models and a credit policy and then we have individual handlers. ...We have customer-scoring models for every business segment and they are constantly being developed and analyzed. “*

The corporate headquarters also determines certain operational and functional guidelines for every unit to follow, including guidelines for marketing, collections (handling of the debt collection practices) and risk operations. This means that the headquarters sets on a very general level what is required and what is necessary for each unit, and then they are applied locally. This can be seen for instance when regarding the



risk department and credit policy. The headquarters require that the unit has a credit policy and that there are mathematical models to base the policy on. As the Chief Risk Officer of the Finnish subsidiary explains it:

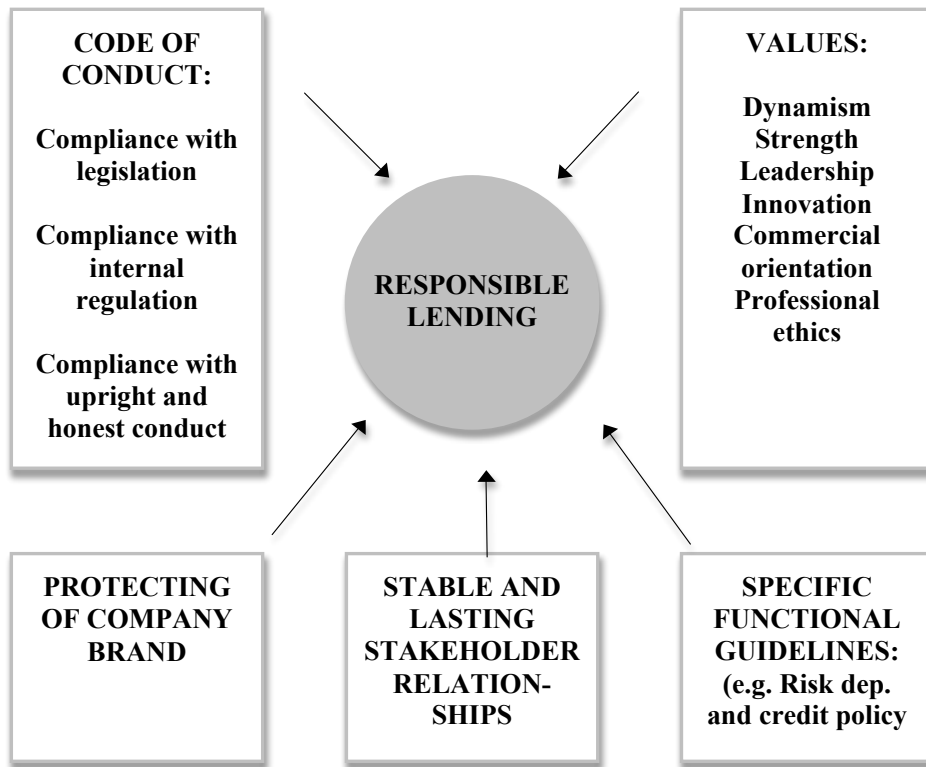
*“We need to have for instance mathematical models to evaluate the customer, we need to have certain practices, there are certain guidelines related to marketing, or principles related to the collection activities, so in every area there are these principles on how to act that are derived from the headquarters.”*

One corner stone for the company’s business model is stable and lasting relationships with stakeholders (Group Sustainability Report, 2010: 10). Regarding responsible lending, especially the relationships with the customers become apparent. The customer relationship is at the heart of the company’s activity, and it is important to strive for quality customer service and providing a variety of products for consumers with different needs. (Group Sustainability Report, 2010: 44-49)

Finally, protecting the company brand is vital throughout the Group. This is important because the brand expresses the values, personality and corporate culture of the Group, and because it reflects the corporate reputation. (Corporate Headquarters Annual Report, 2009: 13)

Figure 10 describes the core elements in responsible lending at the corporate headquarters, which also serve as the platform for any responsible lending practices implemented in other units.

Figure 10. Corporate Headquarters Responsible Lending Practices



#### 4.1.2. Responsible Lending Practices in Regional Headquarters and Local Subsidiary

Since the responsible lending practices of the regional headquarters and local Finnish subsidiary proved to be very similar, I chose to discuss these practices under a joint heading. The practices resemble one another due to similarities among the countries within the region. However, I will also discuss specific local practices and also draw a table where the local, department-specific practices can be seen. Since the research questions stated that the transfer of responsible lending practices is via regional headquarters, the role of the regional headquarters will be explained later in the transfer or practices part in the text.

The platform for responsible lending is derived from the corporate headquarters, and each unit is subject to the policies outlined in the previous section. In addition to that, the key points in responsible lending on a regional level as well as local level are: 1) complying with legislation, 2) checking customer's creditworthiness and 3) operating and marketing products in a sophisticated, non-aggressive manner and thus protecting the brand and image of the company.

To begin with, responsible lending is seen as being tightly linked to obeying laws and regulations, as it is seen also throughout the Group. It was also constantly stated that being responsible means that the units obey laws very strictly, and that doing so is the basis for operating in financial markets.

*“If we consider where this all comes from, the company needs to follow local legislation, that's for sure. “ (Chief Risk Officer, Finland, 2011)*

These laws include such as identification of the customer and checking customer's creditworthiness, which are for instance required in the new EU directive, and which were also discussed in the literature review. Furthermore, local regulation is also followed. Regarding the views stated by the Legal and Compliance Manager of the regional headquarters, it appears that obliging to laws is quite natural. As he states:

*“Fortunately in Scandinavia we have a lot of common sense, which reflects in the fact that we have very little breach of legislation, we are sort of always compliant in one way or another”*

Then, assessing the customer's creditworthiness is necessary not only to the company but to the financial industry as well. In both the regional headquarters and local subsidiary it was perceived crucial that the product and the customer “fit”. As the Chief Risk Officer of the regional headquarters explains responsible lending:

*“Any bank or financial institution is obliged by law to do a sound and robust credit underwriting and assessment before on-boarding any kind of customer. So that*

*also sits at the core, we do the credit scoring, we do the credit underwriting and based on both assessing the customer's payment capacity and payment willingness, you might say, we sort of secure responsible lending that way as well. "*

A local example of adamant checking of customer's creditworthiness is provided by the Chief Risk Officer at the Finnish subsidiary. This checking is done with a well-defined credit policy, mathematical scoring models, and a final evaluation of the individual handler. The credit policy sets the parameters under which the credit can be granted and exceptions made. This includes the age of the applicant, the age of the collateral etc. Then, the company utilizes customer scoring-models, which are built to each business segment and are constantly developed and analyzed. The final evaluation is made by the individual credit handler who at last hand weights the customer's financial situation, for instance checking possible prior customer history or in case of non-collateralized consumer loans, checking the customers identity and information from different types of documents. (Chief Risk Officer, Finland, 2011)

Furthermore, evaluating an applicant's creditworthiness is a key point for the company, and as does the industry, so does the company see over-indebtedness as one of the current problems. These policies in their part aim for reducing customers for running into debts, and for instance applicants under the age of 26 are not even provided with the personal non-collateralized loans. Having a thorough and rather strict lending policy is not only looking out for the customer but also seen as a win-win situation enabling fewer losses, sustainable customer relationships, fewer customer complaints and opportunity to eventually offer other products as well.

The importance of multilevel evaluation of the customer is also seen as necessary, since laws cannot secure everything. Legislation can only go so far and the importance of the individual handler is amplified in cases where the customer tries to trick the credit company. For instance, the ways for customer identification is determined by law, yet it does not necessarily block misbehavior. As one Customer Service Specialist explains about the comprehensiveness of the laws:

*“It speaks for itself for instance this identification of the customer, all of the fraud cases this year that we’ve (faced) have happened when applicants have used the identification mechanisms required by the law, so therefore it (legislation) is not watertight in any case.”* (Customer Service Specialist 4, Finland, 2011)

Having strict lending criteria can however at times be a balancing act. When the company adheres to such criteria it can also lose customers. As the Applications and Decisions Team Leader of the Finnish subsidiary explains the pressure between being strict and generating sells:

*“Someone is willing to take the market share in a way that it “soaks up” everything, then we are of course on the losing side. However, it is not our intention to take so much volume, but in line with our upper management, we take quality and do good business.”*

Thirdly, responsible lending is seen as something directly impacting the company image and company brand and it is perceived as reflecting a good reputation. For instance, the Legal and Compliance Manager of the regional headquarters describes responsible lending stating:

*“ You can sort of say that we live off of our reputation. So if our reputation drops, it doesn’t matter how cheap our loans are, we would still suffer. “*

Having a reputation of a responsible, strict player tells also that the company has a good, quality customer base. Moreover, acting responsibly can generate good word of mouth and thus new potential customers and also enable the company to gain visibility.

*“Of course (responsible behavior) has to do with the company image. If one views responsibility as trustworthiness, then naturally we want to be seen as a liable company in the eyes of our customers and business partners” ...”We want to, and I wouldn’t say that companies offering quick loans are not necessarily responsible, but*

*we want to be seen as a big and trustworthy company”* (Marketing Coordinator, Finland, 2011)

The marketing activities are also conducted in line with the company image. For instance, it was perceived that the company’s marketing practices are subtle, non-aggressive, informative, not overly pushing or provoking and therefore responsible. It was stated in the local interviews that the subsidiary provides the customer with information on the Web Pages in an easily understandable manner, including terms of credit agreement, standard credit forms required by the new EU directive, credit calculators and pricelist for services, all provided in the front page of each product. This type of marketing is perceived as being of good taste, and very contrary to the marketing practices of for instance providers of quick loans, which the company clearly wants to be separated from. Keeping a good image is also seen necessary considering that the company operates with a consumer finance status, and not as a bank, which are generally viewed as reliable operators. This means that the company needs to do matters twice as well in order to achieve the similar kind of reliability stamp. Due to the connections to the parent company, the activities of both the regional and the local subsidiary naturally affect the parent. They represent the parent company in their locations and therefore protecting the company image is extremely important.

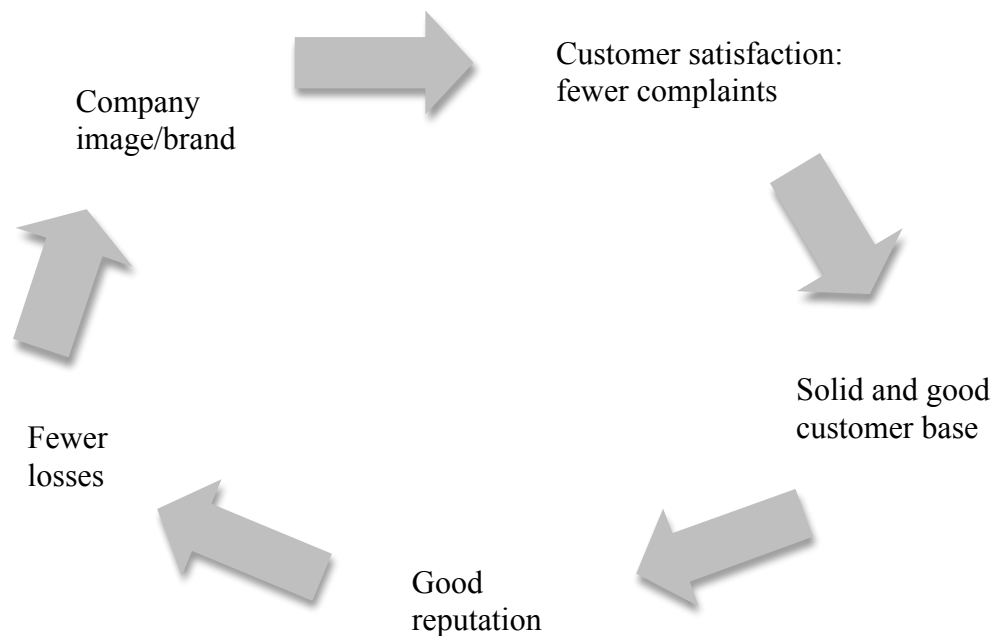
*“Certainly we are a part of one of the world’s largest banks and with that size comes also responsibility to act in a very sober fashion with regards to what kind of products we offer, how we go to the markets, how we are perceived in our marketing activities, what distribution channels we use as leverage in order to sell those products, and bottom line, we want to attract the customers who are in line with our overall strategy, our values etc.”* (Chief Risk Officer, regional headquarters, 2011)

Then, as stated by the Chief Risk Officer in Finland:

*“We represent one of the largest banks in the world, and everything we do here is reflected on the parent as well. So we also have the responsibility towards our parent to follow these certain rules.”*

The figure below describes the positive cycle of implementing responsible lending practices.

Figure 11. The Positive Cycle of Responsible Lending



The previously described responsible lending practices of the regional headquarters and the local subsidiary are general in nature and can be applied company-wide. Since the interviews also determined practices within each department, they are essential to be depicted. Thus, the more specific local practices are described in Table 7.

Table 7. Department-specific Practices of Local Subsidiary

Sales and Marketing
<p>Sales:</p> <ul style="list-style-type: none"> <li>• Constant control and checks in the partnership</li> <li>• Educating the intermediaries, the car dealers</li> <li>• Reacting to misbehavior on the part of car dealers</li> <li>• Careful partner selection: working with the best</li> <li>• Controlling the marketing activities of the dealers</li> <li>• Creating and managing trustworthy and functional partner relationships</li> <li>• Sustainable relationship and therefore a deep knowledge and understanding of the partner and their behavior</li> </ul> <p>Marketing:</p> <ul style="list-style-type: none"> <li>• Obliging to international and local laws and regulation</li> <li>• Informative marketing</li> <li>• Responsible marketing channels and media choices (separation for instance from “text-message marketing” that is very dominant in marketing of the quick loans in the market)</li> <li>• Subtle and conservative compared to aggressive or overly pushing and encouraging marketing</li> <li>• Clear, simple and informative web pages</li> <li>• Clear and informative marketing materials</li> <li>• Transparency</li> <li>• Protecting of the company brand and image</li>   <li>• Future: Creating a customer web-center to enhance the information and financial education of the customer</li> </ul>
Applications and Decisions
<ul style="list-style-type: none"> <li>• Adhering to a strict credit policy</li> <li>• Evaluation of a customer’s financial situation and repayment ability</li> <li>• Evaluation of the fit between the product and the customer</li> <li>• Balancing between the risk and the perspective of selling</li> <li>• Individual evaluation, employees to make final judgments on responsibility</li> <li>• Thorough, overall and holistic view and evaluation in the loan granting situation</li> <li>• Taking the customer’s side: what he/she can cope with</li> <li>• Strong coherence and unified front within the team</li> <li>• Two-fold customer service and evaluation: the dealer and the end customer.</li> </ul>



Important to consider the end customer but also keep good relationships with the car dealers and thus keep the intermediary also satisfied

- Responsible practices increase the meaningfulness of the task at hand
- Evaluating what's best for the customer even though it would contradict his her own evaluation

#### Customer Service

- Possessing the right set of mind: ownership of the idea of responsibility
- Open and transparent discussion with customers
- Advising of the customer and making recommendations
- Provision of information
- Specific guides and strict compliance with them, yet also flexibility when needed → fewer complaints
- Processes involving multiple persons and parties
- Everyone knows the set of rules
- Aiming for customer retention
- Well-identified and separated roles and responsibilities:

#### 4.1.3. Challenges in Responsible Lending

Although the company embraces the concept of responsible lending, the future still holds challenges. Acknowledging these challenges can make the concept ever more multi-faceted and constantly changing under the pressure of the environment and the needs of society.

One of the challenges comes in terms of the role of the customer. As indicated before, it is evermore so that customers are vulnerable in the financial markets (Reifner and Herwig, 2003). Challenges arise since assuring that the customer has a proper amount of information and can make an informative decision has become a pressing notion in the public discussion. As the Chief Operating Officer of the Finnish subsidiary expresses the future challenges:

*“...The world becomes in a way more challenging, that this certain helplessness or demand level on what type of information the customer is provided with before he or she applies for the credit, becomes constantly more challenging. And in this*

*development you should keep up with and try to act in a manner that entails few misunderstandings. ... I would argue that the way we inform our customer so that he or she understands what their responsibilities are and then possibilities in situations where they have challenges, becomes highlighted in the future. “*

Given this, implementing responsible lending practices under a constantly changing environment is not easy. What could be all right today might not be sufficient tomorrow. Also the literature points out that CSR needs to be conceptualized as a dynamic concept (Decker, 2004), which would indicate that there has to be constant monitoring and development of the concept. As Bertels and Pelozo (2008: 57) argue, in addition to taking care of their own CSR programs, companies have to also pay attention to “the actions of other firms within their industry; the actions of their industry associations; and even developments in other industries that may shift the playing field.”

In the subsidiary, informing the customer and assuring that the customer understands is perceived not only as important but also challenging, especially as the communication with customers takes place via telephone in the absence of facilities. As expressed by the Marketing Leader of the subsidiary it would be important to sort of open and demystify the credit in a way that customer could better see the interest and payments, or where different calculations are formed from, and better understand the wholeness of the product and its function. The latter could enhance the understanding and comparisons for example between different products such as non-collateralized or collateralized products, and could make people consider consumer finance companies instead of just walking to the desk of a familiar bank. As it was suggested by the interviewees, to increase this understanding the company could establish these customer educating sites, where the information would be provided more clearly, without the industry jargon. Yet, as the Sales and Marketing Director argues:

*“These ‘schools’ have the profound problem, that they are read by people who have the grasp on financial matters, and those who don’t have a clue, won’t come to the site either.”*

Furthermore, existing financial educational programs tend to be concentrated more on providing information, not education, which suggests that there are also challenges related in implementing these kinds of initiatives (BEUC, 2009).

Informing and therefore protecting the customer is vital, yet it is also perceived somewhat problematic by the company, as it only provides a few basic, quite simple products. In this respect, the challenges arise in form of overprotection. Legislative initiatives are not always seen as the best path towards increasing customer awareness, but can actually also harm the situation. As it is stated about the new EU directive:

*“I think that these days maybe customers are patronized too much. One gets the notion of a sort of an American way of doing things, so that there are only rights and no responsibilities anymore. I think that was the message to customers that with this new directive they have yet again more rights.”* (Customer Service Team Leader, Finland, 2011)

This brings us close to the concept of responsible borrowing. This idea of responsible borrowing was also discussed earlier (see European Commission, 2009). The interview materials identify that the loan applicant should take the responsibility in providing the right information on his or her financial or life situation, and carefully consider what are within his/her limits before embarking on taking the loan. This is in line with the notion of Estelami (2007: 49-50), who states that overconfidence in one’s own capabilities can be detrimental and result in poor decisions. Furthermore, consumers tend to disregard the requiring of a proper amount of information when it comes to financial services (Estelami, 2007: 46-48). Indeed, it was pointed out in the interviews that in the situation of taking the credit, the customers should familiarize themselves with the terms and conditions of the credit agreement and assure that they fully understand these terms and how the product functions. This way, the consumer can more easily select the product that is the most appropriate (European Commission, 2009). Moreover, the customer of today lives with a completely different mindset, living from hand to mouth, caring little about financial struggles or recorded payment remarks, and being late on the move when regarding the financial contract at the time of financial difficulties. If the

applicant is on the move with intentions to deceive the financial company, there is only so much that the company can do. In the absence of a positive credit register, which holds the real time situation of an applicant's debts, assuring that the information provided by the customer is accurate, becomes challenging and can endanger the actualization of responsibility. It was stressed that it is sort of a joint responsibility with the financial company and the customer, and when functioning well would in its part increase the actualization of responsible lending.

As stated already by the European Commission (2009), it was also viewed by the case company that having intermediaries included in the finance process has its own drawbacks. For instance, the new EU directive has a separate clause concerning intermediaries, signifying that they indeed have a major role in the actualization of responsibility. The difficulties are formed in the situation of the potential customer and the intermediary, in this case the car dealer. First of all, the car dealer has the pressure of selling the vehicle, which can result in a situation where the dealer pushes the sale and ignores paying attention to a customer's creditworthiness or disregards informing the customer about the nature of the credit agreement. On the other hand, the customer can also just be focusing on getting the car and therefore does not read the terms of the credit agreement with due diligence. In general, the responsible behavior of car dealers has improved: however, great variations still exist. For example, as the Sales Manager of the subsidiary explains:

*“It (responsibility) is very colorful, as you know. Well, some of the dealers are very responsible and for them it is a matter of honor to be responsible and to do things to the point, whereas to some it is not. Some dealers do the car business in this hit and run manner, where it is important to get the sale right away and where you don't have to think about it tomorrow.”*

Then, the carelessness of the customer or the selling pressures from the car dealers can result in unfortunate situations. In these situations, the customer might feel that he or she has been fooled, even if it would have been his or her own fault.

*“There have been a few calls where the customers have not understood the entire hire purchase contract, for example how the monthly payment is formed and whether interests and expenses are included in it and then the customer sort of informs us that the car dealer has failed in telling him or her all these details.”* (Customer Service Specialist 1, Finland, 2011)

It becomes clear that challenges in responsible lending can to an extent relate to the customers and intermediaries. It is challenging to guarantee that the customer has all the information so that he or she can make an informative decision. Yet, patronizing the customer too much can also become detrimental. Another crucial point is to consider the involvement of the third party in the process, and thus securing the responsibility in the chain of the company, the intermediary and the customer, is problematic. Overall, the responsibility in some points appears to be a balancing act between different parties and not an easy task to conquer. Given this, how can the company actually be responsible? It could be that whatever *responsible* the company does or values could be undermined by the actions of the stakeholders. Furthermore, it could be that the responsibility of the company becomes undervalued by these stakeholders. For instance, when the customer does not get the credit since the company has evaluated that it does not fit with their situation and adding this customer's debts would be irresponsible, this customer will probably be disappointed and cannot see that this is because it is “the right thing to do“. Similarly, a car dealer might become frustrated if they are unable to make a sale in this situation. In this light, it could be useful to highlight the responsibility as a mutual effort. Moreover, communication of responsible behavior by the company to the stakeholders could also enhance the situation and increase the responsible behavior and understanding of these parties.

Table 8 describes some of the future challenges and possible improvement ideas as presented by the respondents.

Table 8. Future Challenges in Responsible Lending

Future Challenges in Responsible Lending
<ul style="list-style-type: none"> <li>• Adding consumer knowledge and consumer education in financial services → Increases responsibility and the concept of responsible borrowing</li> <li>• Receiving accurate information about a customer's situation with limited resources and tools</li> <li>• Creating more products to provide opportunities for different consumer groups</li> <li>• Making the concept more concrete and visible within the organization → creating a responsible lending policy</li> <li>• Pursuing towards responsibility in co-operation with different stakeholders, e.g. customers and partners → embracing shared responsibility</li> </ul>

#### 4.1.4. Summarizing Reflections

Studying responsible lending practices was chosen due to the current nature of the topic and the discussion it has raised in different forums. Yet, this topic has not received much attention in the literature, which also made the selection fruitful. The interviews show that responsible lending is indeed important in the company, and concerns raised in the public have also been recognized at the company. It is seen as an incremental part of business and beneficial considering long-term business. Also Decker (2004) states, that CSR is broadly seen as providing a strategic advantage and long-term success.

Considering the first research question, *what type of responsible lending practices the company implements*, responsible lending practices included particularly complying with legislation, protecting the image and brand, having a strict lending policy and criteria and really considering what is best for the customer. It was also shown that responsible lending is beyond just following legislation, although legislation serves as the grounds for these practices. The value of professional ethics was repeatedly brought

up as the other pillar for responsibility as was the notion that being responsible simply is good business sense. This relates well to the idea that CSR can comprise of multiple platforms or responsibilities, which are interlinked as discussed earlier by Carroll and Schwartz (2003). The definitions and grounds for responsible lending described in the interviews of the local subsidiary are very much in line with the results of the study that mapped the perceptions of CSR of Finnish companies (Panapanaan et al., 2003). According to this study, Finnish companies relate CSR strongly to compliance, and it is related to the Finnish way of thinking, signifying that one should act ethically. Moreover, CSR exists in the core values and principals of these companies and is perceived self-evident since there are no major problems in the area of CSR in Finland. (*ibid.*)

Embracing responsible lending was also viewed positively because of the multiple benefits it can accrue, for instance good company image, solid customer base, and fewer losses. Similarly, also the literature points out that CSR is positively linked with good reputation and customer satisfaction (Galbreath, 2010) and that granting loans to misfit customers will harm the firm in the long-term (Saeedi, 2007). Weber (2008) describes that CSR can accrue monetary and non-monetary benefits, including on one hand increase in revenues, decrease in costs and risks and on the other hand it secures the “license to operate”. The fact that responsible lending was perceived in such way, would also entail that responsible lending is not viewed only as a cost constraint, but also as an opportunity, the way also Porter and Kramer (2006) would encourage businesses to approach CSR.

It becomes clear that the responsibility is not necessarily the sole property of the financial company, but can only be fully actualized with the cooperation of customers and partners. Even though the company would pursue responsibility, the efforts could fall short in case of an irresponsible intermediary, or dishonest or indifferent consumer.

The discussion on responsible lending and its challenges also helps to understand and see the multi-sidedness of the practice. Not only is the practice formulated from different elements it seems that it is constantly changing, interlinked and in connection

with the changing environment and its needs. Acknowledging this sets the platform for discussing and understanding how these practices are transferred and communicated in the MNC. The next chapter will discuss the transfer of these practices and will further enlighten and elaborate on the characteristics of the practice and its influence.

#### 4.2. TRANSFER OF RESPONSIBLE LENDING PRACTICES

As it can be captured from the previous discussion, the corporate headquarters sets the basis for responsible lending practices for each unit. This platform for responsible lending in the organization is that each operating unit is functioning according to the legislation and the appropriate ways of conducting business. In general, the only specific set of responsible lending guidelines that come from the corporate headquarters are in the form of the code of conduct, corporate values and a few internal policies. This is also expressed by the Chief Risk Officer of the regional headquarters, who explains in what way responsible lending practices derive from the parent:

*“Very little (comes from the parent). If we talk specifically on responsible lending, that topic, I would say little to none. But again it is embedded in number of other documents or guidelines or policies, like I said on the credit or risk policy side, on the marketing side, on the insurance side for sure.”*

The situation is similar in the local subsidiary, and it is felt that the parent gives guidelines and a general platform to work on, but nothing beyond that. For example, although the headquarters has a say in matters such as the credit policy or company brand, it is just to set the parameters, whereas the implementation and adaptation is left purely to the local end. As the Marketing Leader of the Finnish subsidiary describes:

*“...There is little that comes from the headquarters regarding marketing practices here. There are directions and guidelines, but till this point they have been more of a visual nature, how the advertising needs to look like, what elements to include in it when talking about the organization and the organization’s advertising. ...But they*



*are guidelines, the kind that relate to just operation models, or in other words what can be done and what cannot be done. “*

In fact, other than that, responsible lending practices are formed locally. The point is that besides the parent guidelines, there are always local adaptations to be made and local input to be added. In addition to the basic principles derived from the parent, there are many local factors that shape and form responsible lending practices of the local subsidiary. It was stated in many of the interviews that local input is strong and implementation and adaptation is done at the local level. For instance, local business environment, local legislation, and individual actors and employees influence in the responsible lending practices in the local subsidiary. The figure for the formation of local practices is depicted at the end of this section and the reasons and more elaboration on this are to take place on the next section.

Before describing the local practices, it is essential to enlighten the functioning of the organizational chain, and the roles that the corporate headquarters, regional headquarters and the local subsidiary have on implementing responsible lending practices and their transfer process. The corporate headquarters sets the basis for responsible lending practices, which is in form of these few elements described above. Even though they do not require that much transfer, they follow up the subsidiaries with internal audits, making different types of checks to ensure the subsidiary acts responsibly and receiving monthly reports from the subsidiary. They also for instance approve any new products for the local units. The Chief Risk Officer in Finland describes this relationship:

*“They (corporate headquarters) follow us very closely. For example, we have monthly reporting on legislative issues; if there have appeared some changes in that area that would affect our business. Then, we report whether there have been any negative articles about us in the press, if we have received many complaints and things like that, for these we have standardized reporting on a monthly basis. “*

The practices of the regional headquarters are quite similar to those at the local subsidiary. The aspect that was mentioned to be transferred to local subsidiaries was the credit policy, however it is sort of a top-level policy, which is then applied and possibly modified at the local subsidiary. Given this, their primary function is to control, monitor and make checks and not necessarily define everything. They sort of trust the local subsidiary to perform in their best ability, and do not necessarily push practices forward. Also the local subsidiary views that responsible lending practices are mostly implemented and created locally. Yes, they can also be required by the regional headquarters, but they are altogether viewed necessary by the local personnel. So it could be difficult to define to what extent these practices come from the regional headquarters and to what extent they are decided locally. Either way, the main importance is that the local subsidiary obliges to local legislation.

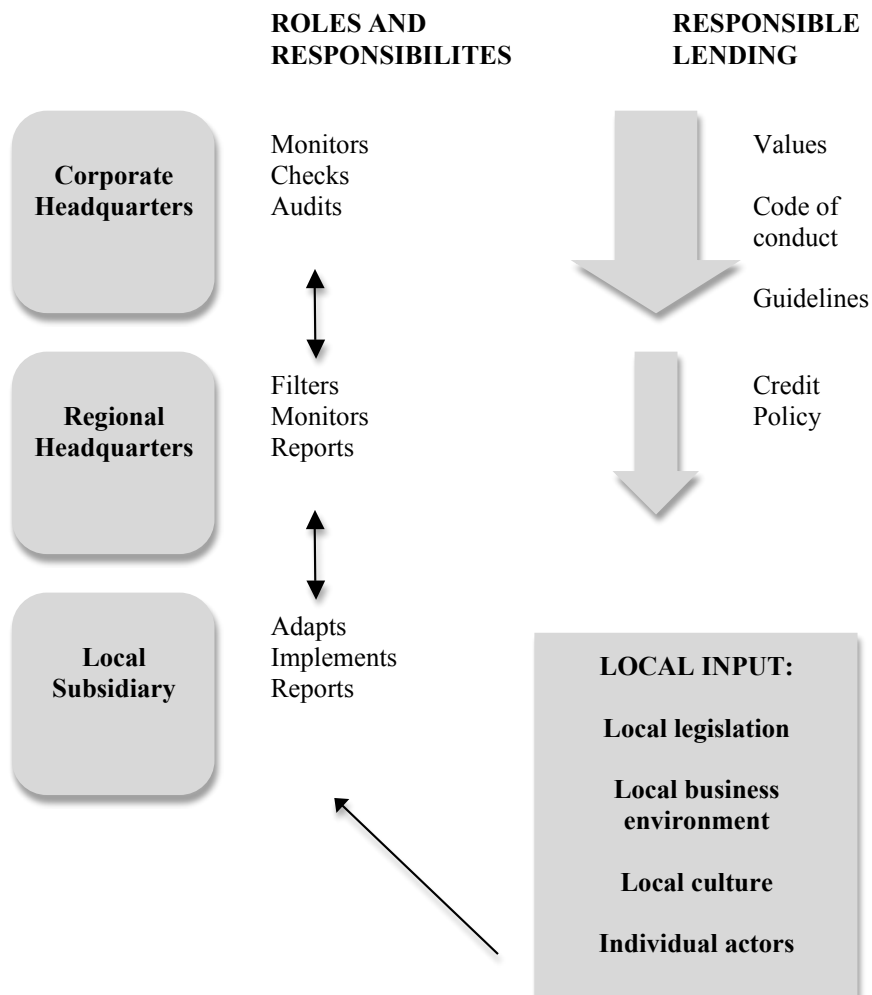
The regional headquarters sort of serves as a filter through which the responsible lending practices are forwarded to the local subsidiaries within the regional area and it also oversees and monitors the operations of each of the units within the Nordic region, which are then reported to the corporate headquarters. The Nordic headquarters serve as the primary and first contact for the local units and also the first contact for the corporate headquarters whenever they are in contact. The regional headquarters has a major monitoring role regarding particularly legislative issues. The Chief Risk Officer of the Finnish subsidiary explains this relationship and how it works:

*“The Nordic level monitors it (the following of parent’s guidelines), and for instance it was monitored from the corporate headquarters to the regional headquarters and from the regional headquarters to us (local subsidiary), how we implemented this new change in the EU legislation, and then there were discussions and monitoring around that issue.*

Although the practices are similar and the basis of them is transferred from the regional headquarters to the local subsidiary, they are not necessarily transferred completely, since it is always completed with local adaptations and input, as a final judgment as to what fits here.

The figure below describes the functioning of the organizational chain regarding responsible lending practices. Moreover, it shows the roles of each unit and also describes the local input in responsible lending and therefore describes what responsible lending in the local subsidiary is and where it is derived from.

Figure 12. Local Responsible Lending Practices and Transfer of Responsible Lending Practices within the Organizational Chain



Despite having a solid responsible lending policy, in every interview it became clear that responsible lending is an extremely important concept, and even without a proper policy, it was sort of a given and an obvious choice to embrace and viewed as necessary in the financial industry. Given this, responsible lending is acknowledged as an essential concept throughout the organization, yet it is hardly transferred within the MNC. The only elements that are transferred from the parent are such as values and code of conduct and the role of the local unit in implementing responsible lending practices is essential. Why is this so? Based on the research, responsible lending is viewed so incremental that without it functioning of the organization would entirely fail. With this said one could well argue that these practices are of strategic importance and hold characteristics as suggested by Kostova (1999) and would therefore be eagerly transferred within the MNC.

Furthermore, MNCs are viewed as knowledge transferring entities, where transferring important knowledge within the chain is normal and actually a living condition. (see for example Kogut & Zander, 2003; Jensen & Szulanski, 2004) In this sense, it is more or less assumed that transfers take place in MNCs, and transferring practices is an obvious way of functioning.

Given the previous notion, the practice transfer studies have generally considered the transfer as being merely successful or the opposite, thus assuming that transfer quite naturally occurs and only contemplating on what form it is to be adapted in the local subsidiary and what factors influence in the successful transfer. (see for example Kostova, 1999) Yet, even with this advantage to transfer across borders, it is not so that MNCs would do this effectively or efficiently at all times (Gupta & Govindarajan, 2000).

In line with the above notion, transferring of responsible lending practices in this case proved to be quite different and to the very least sense simplistic or obvious. This also supports the views that stress the importance of multisided study of transfers and focus on the transfer process. (see Sharpe, 2001; Blazejewski, 2005; 2006) Against the common perceptions of MNCs and transfer within MNCs, this study has pointed out a

new perspective: the case of a negative transfer. In such a situation, transfer does not necessarily take place, and is not even pushed from the headquarters to overseas subsidiaries. In short, it is the opposite of transfer; it reflects the situation where transfer does not occur. In this case it can also be described that while the practice is not transferred, however the value is, i.e. the perceptions of the importance of responsible lending practices. The issue is multisided including several of reasons and determinant factors for such situation. These factors for negative transfer are now discussed.

#### 4.2.1. Negative Transfer of Responsible Lending Practices

The reason why responsible lending practices seem to be rather negatively transferred from the corporate headquarters to regional headquarters and all the way to the local subsidiary can be first looked with the factors presented in the theoretical framework, namely social, organizational, and relational aspects. It was proved that these factors are quite meaningful in explaining the transfer situation.

As was described in the theoretical framework, the social aspect includes regulatory, cognitive and normative factors that can influence the transfer situation. (Kostova, 1999) In the case company, the lack of transfer of responsible lending practices is highly based on the different local institutional environments and the need for legitimization in the local end. It would seem that the isomorphism with local environment exceeds the need for consistency within the MNC, and therefore also the responsible lending practices are to a high extent in tune with the local environment. As stated in the interviews, the most important thing was that these practices were in line with the local setting.

In previous research, Mohan (2006: 111) stated that differing practices between the headquarters and the subsidiary, and between the subsidiaries are influenced by physical distances, cultural distances, psychic and institutional distances. The author continued stating that diverse cultural and institutional environments, cultural differences, local

labor laws, corporate governance regulations, capital markets, educational systems, or cognitive perceptions of managers, could impact transfer situations.

It is viewed by the interviewees that the business environments especially at the corporate headquarters and the local subsidiary are different. The differences in regulatory, cognitive (making sense of things) and the normative environment (values, beliefs, norms) are a major factor why these practices are not transferred from the corporate HQ to the regional HQ and further to the local unit. However, it is not to say that each unit would not hold responsible lending important (each unit does), but it is viewed from different perspectives and ways regarding each environment. As the Sales and Marketing Director of the subsidiary explains the differences between countries regarding responsible behavior and how it is perceived within the society:

*“In the regional headquarters the issue (responsible practices) could be more visible in the media, and there the culture and the society is different, they control very precisely how certain things are done. In Finland that is rarely the case, the society is different. Regarding the corporate headquarters, I would have a hard time imagining anything like that, because the culture is so different. But it doesn’t mean that the importance of responsibility would be less significant, better or worse, it is just applied in each market and condition. “*

Indeed, the differences can be very apparent especially in the field of CSR, as the social requirements of country governments flow between very specific to liberal. Furthermore, the challenges the MNC needs to address can vary between the countries, thus hindering the sharing of unified CSR policies. (Cruz & Boehe, 2010) As Halme Roome & Dobers (2009: 3) state, “CR may encompass a wide range of programs and policies, reflecting variations in companies and those companies’ relationships with their societies”. For instance, the different cultural contexts entails for example that one country could view something as responsible behavior, while the other will see it as mere patronizing. (Sales and Marketing Director, Finland, 2011)

The differences in banking systems, consumer attitudes, ways of thinking, legislation etc. affect what can and cannot be transferred. Something that is entirely acceptable for instance in the headquarters can be totally unacceptable in Finland (Chief Executive Officer, Finland, 2011). For example, he points out that Finland has one of the most advanced banking system in place when it comes to transferring money and that many other countries still use checks, which enable cheating, which is why the practices have to be locally bound and why the mindset behind transferring money is completely different between countries. Moreover, for instance as there is no positive credit register in the Finnish markets, the ways and possibilities to act responsibly vary compared to countries that have that register. Then, he underlines that in terms of responsible lending, a lot is already in good place in Finland. For instance, Finns are typically very humble payers, and if the directions would come in line with the paying behavior alive in central or southern Europe, the directions would be rather loose. (Chief Executive Officer, Finland, 2011)

It was also viewed that the cultures are that different that it is difficult to consider that the corporate headquarters would transfer these practices. As the Legal and Compliance Manager of the regional headquarters considers these differences and why transfer is inexistent:

*“It’s also a huge cultural gap between the way they do business in the corporate headquarters and the way we do business here. And it varies between the Nordic countries as well. But the parent and its neighboring country in Europe are very similar so they are very close and work very closely together”*

Continuing discussing the different cultures, he explains:

*“We couldn’t be like the headquarters, we couldn’t have the culture of that country, that’s impossible for us. They have a totally different mentality when it comes to work, and hierarchy and stuff like that.”*

In general, it was also expressed that in Finland and in the Nordics there is no problem with responsible behavior, as the local legislation already includes a variety of aspects related to it. As was stated in the literature, despite of the new EU directive, the credit sector is rather fragmented and unregulated in the EU (BEUC, 2009), and relies heavily on national legislation (Vandone, 2009: 118-119). For example, Finland is one of the few countries where there is a separate legislation for hire purchase, which thus have for long protected the consumer and their rights. Furthermore, one needs to keep in mind that the parent is actually a financial group, thus covering far more extensive and naturally different activities than its subsidiary in Finland, which operates as a consumer finance company. Given this, transfers can from this perspective also be limited. Therefore, transfers are perceived problematic, unnecessary and irrelevant. Overall, it is perceived to work best the way it is now, where the local input in responsible behavior is strong. For instance, the Chief Operating Officer in Finland discusses this comparing the situation to his previous employer:

*“The reason why there is not much transfer from the headquarters, and I’ll reflect now on my previous employer, they had a separate and very global responsible lending policy, and they sent directions. ... Yet, I consider that there was nothing so special coming from there, because in Finland we had those things basically established already, and this is not just based on us but based on the Finnish and Nordic culture. In the company, without specifically pinpointing to any particular country, there were products, which had the utmost purpose to fool you. To offer so-called services accompanied with the financing and reek big benefits while the customer didn’t get any advantage from them. And that kind of behavior just doesn’t exist in Finland. It is not allowed by the Finnish legislation, Finnish mentality, and it cannot be done. It is not a problem in the Nordic countries, but in some other countries it is.”*

On the other hand, transferring practices in the MNC is also seen as unrealistic, and when executed can actually hinder the internalization process and ownership of the practice in the local unit. It is seen essential that the concept and idea of responsible lending is understood and not just blindly executed as something that comes from the parent.



*“...If I consider previous times, something that was alive at my previous employer, this sort of an American “one size fits all” attitude, it makes it rather external where you just tick the box that now I have done this, and then it could be easily forgotten. In that type of world you think that responsible lending or responsible behavior is this stunt track that bares this mentality that now when I raise my hand at this point, or say something at that point, or send some kind of a piece, or put something on the website, then I am responsible. In this world it doesn’t mean that you are, but the responsibility has to come apparent from our own actions.”(Sales and Marketing Director, Finland, 2011)*

One very incremental factor why transfers hardly occur comes in terms of the practice, responsible lending. As the Sales and Marketing Director of the subsidiary explains, in the Nordics and Finland responsible lending has not been an issue like it has been in somewhere else, and consumers are already well protected. As also Halme and Laurila (2009) state, in countries where there is no governmental “interference”, businesses face much more pressure and expectations. For instance, the implementation of the new EU directive was not as critical in Finland or in the Nordics as it was in other parts of the world, as the consumer legislation already contained various aspects of the directive.

*“I would say that in the Finnish world, in the Nordic world, these things have in their own way constructed through different legislations than in other parts of the world, where they have had to separately start lifting this idea of responsible lending since the consumer protection or general legislation has not been able to bring out the security that we have had here for years.” (Sales and Marketing Director, Finland, 2011)*

Similarly, he views that lifting up the responsible lending concept here in this culture can be a double-edged sword:

*“In other parts of the world there are nowadays banks and financial operators especially in England or central Europe that have claimed themselves as responsible. That is also a culturally bound issue, if you claim here that you are responsible, then*

*everyone starts to think what is wrong with you when you have to say it like that. It doesn't mean that if someone is responsible then others are not.*“ (Sales and Marketing Director, Finland, 2011)

The organizational context has to do with the fit between the organizational cultures of the recipient unit and that of the transferor's (Kostova, 1999). The organizational culture of the subsidiary is one of the factors that can determine whether a transfer takes place (Mohan, 2006: 110). In this respect, the organizational cultures are very similar in terms of values, code of conduct and such, which serve as the basis for functioning at the corporate headquarters and in each unit. This is so since the Finnish unit is a wholly owned subsidiary of the regional headquarters, which in turn is part of the Group. Furthermore, the Finnish subsidiary is established through Greenfield. Each unit holds responsible lending practices important, as it is part of the company corporate culture, as can be seen particularly in terms of company values and code of conduct. Therefore, on one hand, the organizational context does not build obstacles for practice transfers, due to organizational similarities. In this respect, the coherence of organizational units would on the contrary enhance positive transfers. On the other hand, because of these similarities, there is not necessarily a dire need to transfer parent practices forward, since because of these similarities, it could be assumed that the practice already takes place in the local subsidiary to begin with.

Considering the previous discussion, the reason why transfer from the parent does not extensively take place can be explained by the fact that responsible behavior seems to already exist in the local subsidiary. Thus, there is no need to transfer specific directions on responsible lending, since the concept is already valued in the unit. This is the same situation when considering the transfer from the regional headquarters to the local subsidiary: they also have the function of monitoring and controlling, but do not necessarily transfer specific policies, but leave the implementation in local hands.

The relational context as described by Kostova and Roth (2002) is related to the nature of the headquarters and subsidiary relationship. They present that the headquarters-subsidiary relationship impacts the successful transfer of practices. For example,

dependence on capital and expertise, trust on the parent and identification with the parent are all factors influencing transfer situations.

According to the interviewees, the relationship between the corporate headquarters, the regional headquarters and the local subsidiary in Finland was perceived informative, open and functional. The headquarters provides the basis for responsible lending and the responsibility of the local end is then to decide how they will implement responsible lending. As the Chief Executive Officer of the subsidiary explains “each country will sort of have to build its own responsible lending, which is then checked”. Overall, the local authority is actually quite extensive and the actions are controlled at the HQ with checks, audits and follow-ups.

*“They give quite extensive authority locally to implement, but then they (practices) are controlled in a reasonable manner. If I compare, and I have worked my entire life in big international companies, here we have reporting in a sensible manner and cooperation is completely different. Here the role of the headquarters is that it helps and advises and tells us that “in that country they did it that way, should you look into that”, so in that way the cooperation is in my opinion fruitful in a different way”.*  
(Chief Executive Officer, Finland, 2011)

On a general note, it is said that the power of local subsidiaries in an MNC is weak and the power lies more at the headquarters (Dörrenbächer & Gammelgaard, 2011). Yet, in this case the subsidiary tends to have a significant amount of power when it comes to organizational practices, and the implementation of responsible lending practices is done at the local unit rather than at the headquarters. The parent merely does controls, checks, audits and follow-ups on the locally infused practices. The fact that the relationship between the units is based on monitoring is one of the explaining factors of minimal transfer. It is viewed that the relationship functions very well this way and enables best practices. This monitoring-type of relationship seems natural also considering the statements of Kostova and Roth (2003) who argue that simple knowledge flows are easier to control with reports, policies, and standards compared to

complex flows that are difficult to be handled with such formality. Indeed, the very few practices the parent forwards are in nature quite straightforward.

Furthermore, the monitoring relationship between the local subsidiary and regional headquarters is functioning well because of the regional similarities and trust that each unit within the area operates appropriately, and that the practices are naturally similar. It is sort of a given that the practices are alike. As the Legal and Compliance Manager of the regional headquarters puts it:

*“We are sort of similar in the Nordic countries, we tend to find the same practices in all the four Nordic countries with very slight differences”.*

Moreover, the relationship is built on trust, which results in the situation where transfer is not needed, but it is trusted that each unit will do the right thing. The fact that the unit operates appropriately exceeds the desire to have unified practices. The Legal and Compliance Manager continues:

*“I am very confident that the Finnish company and all its employees are following and complying with Finnish legislation, and that is actually the most important thing. Because it would be a bigger blow to our corporate culture if we found out that you were in breach of some very central legislation in Finland, rather than finding out that you didn't comply with all the policies that do exist from the corporate headquarters, for example.”*

It is curious that “trust” in the relationships of the organization seems to define that practices are not transferred. This somewhat differs from the arguments of Kostova (1999) and Kostova and Roth (2002) who argue that transfers are smoother when the trust in the parent is high. In this case, the trust-factor appeared to reduce and even abolish any transfers between the parties.

One reason for negative transfer can be the Group's strategy of having fairly independent subsidiaries. As also Gupta and Govindarajan (1991) argue, the strategic subsidiary role within an MNC bears significance in transfer situations. It is in the strategy of the Group's international expansion to have legally independent and financially autonomous subsidiaries. (Corporate headquarters annual report, 2010: 29) As also the Chief Risk Officer in Finland puts it:

*"I would argue that this company is sort of a financial operator, which considers that there are these certain principles how to operate but the decision power is left at the local end. "*

In line with the previous notion, the reason for a very independently operating subsidiary is also headquarters lack of local know-how and knowledge about the business environment and the issues there, which is seen as a very normal state. As it is argued by the subsidiary directors:

*"I see it that way that they cannot have the knowledge unless we tell them what in this market is different compared to their market. I do not see any gap (in the relationship) it is just about not possessing the know-how, we do not have that know-how on the requirements that they have in the headquarters and the headquarters does not necessarily have the know-how on the requirements here."* (Chief Operating Officer, Finland, 2011)

*"The local issues, which are important locally, are difficult to profoundly know or understand at the headquarters level, considering when you operate in several countries.* (Chief Risk Officer, Finland, 2011)

Indeed, as Andersson, Forsgren and Holm (2010) discuss, headquarters usually suffer from uncertainty, since knowledge is largely socially embedded. Subsidiaries possess local context-specific knowledge, which is built through and embedded in different networks, including for instance suppliers and customers. This embeddedness will most likely evolve over time, and the nature of the relationships will change. For example,

partnerships may develop into deep relationships based on trust and mutual commitment. (Andersson, Forsgren & Holm, 2002) The latter would suggest that it would be extremely difficult for the headquarters to possess or acquire knowledge that is so interlinked with the local setting.

Based on the discussion, one could see the strategic subsidiary role as that of a local innovator, where the unit creates the knowledge for its own use whereas this knowledge is of little relevance to other units (Gupta & Govindarajan, 1991). This is so since responsible lending practices are to a high extent local. Here, the parent trusts the local unit and lets them do what they see fit. Considering the classification of Kostova and Roth (2002), as already stated the Finnish subsidiary is very autonomous due to its know-how and expertise in the local business environment, which implies for negative transfer of responsible lending practices. On the other hand, the aspects of trust and identity would well imply the positive transfer, since the headquarter-subsidiary relationship is perceived functioning well and the identity with the corporate values etc. is strong. However, although the relationship is positive and the units share the same value-base, it does not result in the transfer of responsible lending practices.

Since the relationship of the headquarters and the subsidiaries is built on trust and autonomy, the subsidiary has the responsibility for implementing responsible lending practices. Yet, even though the transfer of these practices is minimal, this type of relationship also puts pressure on the subsidiary to really act appropriately and therefore sustain the relationship. In this respect, even though the parent merely monitors, it has the power to impose sanctions if the unit would act inappropriately. As the Chief Executive Officer of the Finnish subsidiary explains it:

*“It is very apparent, that if we have for example an internal audit and they have to send a notice on something relating responsible behavior, it will naturally affect our operations, since they could now start paying attention to other issues or areas more closely as well. ...If in some country they are not acting responsibly, the carrot is, that you get to operate freely in the future or in the opposite situation there will be an army of people investigating.”*

Furthermore, the significance of the relationship to transfer and communication between the units within the Nordic area can be discussed in terms of how unified the units are. For example:

*“It boils down to, are we really a Nordic unit or are we rather a collection of local units, those are two different things. So either one unit combines with, so happens to be, four different countries and five different business units. Or are we really four different ..... units, and I think we have gone from being more of the latter one to increasingly coming across as one unit. And when you do, communication typically flows so much better and easier and everyone is sort of moving into right direction.”*  
(Chief Risk Officer of regional headquarters, 2011)

The relationship is built on trust and monitoring, since it appears to be working well. However, the Legal and Compliance Manager of the regional headquarters also points out another perspective, describing that minimal transfer is also due to recipient resistance. He argues that it is very “natural” for the Nordic countries to be a bit resisting, considering the transfer from the headquarters to the regional headquarters and from the regional headquarters to the local subsidiaries. As he views it:

*“I think they (corporate headquarters) would like to have more control of us here in the Nordics, but it’s sort of in our culture to resist.”*

Then, he continues on discussing at a regional level:

*“If we talk about resistance between regional headquarters and the corporate headquarters, you also have resistance between Finland and the regional headquarters. So the Finnish management wants to do their own things and they want to resist a little bit the influence from the regional headquarters. Which I think is fine, to some extent at least. So there is definitely a gap here between the ideal world where we would issue policies and instructions and assure that they are followed and complied with, and the way things stand today.”*

Social and relational aspects influence the negative transfer of responsible lending practices, due to the reasons discussed above. For instance some cultural differences are so apparent, that it would be somewhat impossible to transfer specific set or responsible lending guidelines overseas. Furthermore, if the practice is too superficial in nature, or just pushed by the parent without deeper consideration, it could negatively impact the ownership of and commitment to the practice. Then, the relationship between the subsidiary and the headquarters determines the lack of transfer, since autonomy and trust in one another are valued within the organization. Moreover, the units appear to have a resisting power in case of transfers, suggesting they are quite powerful. As was also concluded by Mohan (2006: 110) needs for internal dependence and parental control can indeed determine whether transfer takes place. The two factors (social and relational) considered by Kostova (1999) and Kostova & Roth (2002) are not only barriers for which to look at that affect the transfer success, but they are indicators and reasons for negative transfer.

The fact that transfer does not take place is not viewed strange or detrimental: on the contrary it is viewed as natural. It is perceived to enable best practices and the ability to best answer the needs and requirements of the local environment. Although MNCs are perceived to exist and prosper due to their superior advantage to transfer knowledge across borders (Jensen & Szulanski, 2003), in this case transfer was minimal. In order to remain successful, MNCs tend to pursue towards efficiency, responsiveness and learning worldwide (Bartlett and Ghoshal, 1998: 62). Yet, the negative transfer does not seem to affect the success of the organization, since for instance the Finnish subsidiary holds a top position in car financing in the local market (Subsidiary web pages, 2011). Given this, MNCs can indeed prosper even without transferring across borders.

Although the original framework of Kostova (1999) provided with three very viable factors in discussing the transfer of practices, they are not the only determinants of negative transfer, but also the practice itself, in other words what is transferred, has its impact on the situation. These implications of the practice are very crucial in this case and are discussed later in the upcoming sections.



#### 4.2.2. Transfer of Responsible Lending Practices in the Local Unit

Not only are responsible lending practices hardly transferred from the headquarters to local subsidiary, they are not particularly well transferred within the local subsidiary either. Or at least they appear to be silently and unknowingly transferred within the local subsidiary. This is curious as the practice was expressed as the corner stone, extremely important and also viewed that it is functioning well in the organization.

Responsible lending proved to be very much linked to common sense, the idea of the way we do things here and something that stems from inside. At the employee level, some of the respondents clearly found it hard to describe what responsible lending is for them, or explain where it comes from. Acting responsibly appeared to be so built-in that differentiating or discussing the concept was somewhat challenging, let alone identifying what factors would describe the responsible lending practices in the company or in personal day-to-day work. Nonetheless, all employees considered acting responsibly in their work and perceived responsibility as extremely important.

One of the interesting points was that ground level employees found it hard to identify the *source* for responsible lending practices. As this question was presented, almost every respondent struggled. In this respect, the connection was nonetheless easier to make with the closest manager, as respondents pointed out that the principles for responsible lending came largely from their own manager. Yet, it was much harder to start identifying where the team leader had then derived these practices.

Then, when directly asked about what comes from upper management regarding responsible lending, it was felt that there is very little if at all stemming from upper level management. For instance, some of the team leaders viewed that there are no specific guidelines and that there are only frames given which then serve as the platform for developing the practice within the team.

*“Mmm, Let’s say that we receive this general guideline, specific guidelines would be impossible to make. But yes, they give us these frames, for example to me as a*

*supervisor, what you have to look at and why you have to be careful and so forth, so yes there is and there it is derived from, which is then always applied and implemented within the team.” (Applications and Decisions Team Leader, Finland, 2011)*

At the employee level, the association between responsible lending and top management or regional or corporate headquarters was difficult to make. As one of the employees explained when asked where the responsible lending principles come from:

*“Well, I cannot actually... because I do not know where the main agenda eventually comes from. Because they come from our team leader, but in what way they come to her, I don’t know. “ (Customer Service Specialist 3, Finland, 2011)*

Similarly, when asked do we have an outline for responsible lending:

*“I’m sure we do, but I can’t offhand tell you if I have seen one.” (Sales Manager, Finland, 2011)*

Another respondent puts it more bluntly when asked about communication of responsible lending practices by upper management:

*“No, no, actually the only thing the company management communicates to our team is in form of an all-employee-meeting once a month, not much more. They (upper management) are not present in our daily business in any way. And the communication is very minimal, only when there are some problems they take a stand, otherwise it is minimal. “ (Customer Service Specialist 4, Finland, 2011)*

Responsible lending was also viewed as taken for granted practice that stems from the inside and that is formed through routine and experience and which cannot be learned. The right kind of responsibility is actually seen as being formulated through experience and only with that experience can the employee know how to act appropriately in different situations. Moreover, the weight of the individual employee in responsible

behavior proved to be very adamant. In this respect it was also expressed that specific guidelines cannot even be provided, due to the nature of the practice.

Responsible lending in the case company does not rely on a whole lot of written material. The only written material is in the form of a few guidelines and policies, not directly necessarily linked to responsible lending. Since it can be argued that responsible lending is derived from bits and pieces, different sets of policies and guidelines coupled with individual ways and an individual set of mind, there is naturally little documentation or guidelines on just responsible lending, which can make communication and internalizing of the practice harder. Furthermore, responsible lending is also perceived as very situation-bound, which further makes forming to the point, specific documentation extremely difficult. Yet, lack of written documentation brings challenges. When it is not written down, it leaves room for interpretations and adaptation. When asked whether the lack of written documentation of responsible lending practices creates difficulties or conflicts within the team, the Sales Manager of the subsidiary replied:

*“Well it is not difficult and I wouldn’t say it creates conflict here, but of course there could become some minor conflicts if the way of working of one person differs greatly from the other, and anyway those two completely different views are allowed. However, conflict is a wrong word, but it could create misconceptions.”* (Sales Manager, Finland, 2011)

The subsidiary upper management also viewed internal communication as one of the points to improve. It was also stated that since the practice is not promoted top-down, variations between departments and individuals could occur. The main idea is, that it is hoped that everyone knows how to act properly. For example:

*“There are differences between people. I believe these differences occur since this is not a subject that we have promoted, had education about, or had in our agenda. We don’t do things in the same way. I strongly hope that speaking either of the customer service, collections department or something else that the basic principles that*

*are behind it, for instance obliging to laws and all that, are taken for granted.* “ (Chief Operating Officer, Finland, 2011)

Then, one of the challenges for the top-down communication arises due to differences in experience. The literature points out that the practice is successfully transferred to and within the recipient unit, when the practice is internalized and the idea is “owned” (Kostova, 1999). Yet, this can be a double-edged sword. One of the issues that arose during the interviews was that responsible lending practices are bound to the person’s experience, and will eventually be taken for granted. When this happens at the top level it becomes problematic since it can affect the transfer of the practice and its communication. When the practice comes as taken for granted, it is more difficult for the person to identify the need for communicating the practice forward, which then interferes with the further internalization process.

*“The challenge is that when you have people who have been in this business say 30 or 40 years, then among those people it is more difficult to identify the need to strengthen the message when it has become part of the routine. And then, when you have these new people coming in the company, you don’t even realize that those people cannot necessarily know all this.”* (Sales and Marketing Director, Finland, 2011)

In addition to the lack of top-down transfer of responsible lending practices, also horizontal transfer and communication appears to fall short. The communication is not working so well, and there is little transfer between the departments. Yet, particularly these horizontal transfers are seen to improve responsibility, even more so than top-down transfer would do, and would also have business-wide impact. For instance, one of the employees sees this situation impacting the level of responsibility. She describes this considering how the person granting the credit could benefit from communication with the collections department, in the case someone has granted credit to a person who has then not been able to pay the loan and thus ended-up as a customer for the collections department.

*“The policy is that for instance credit losses are never discussed with individuals who make credit decisions, because it could very well cause too much fear (fear to make a “bad” credit decision, granting loan to a customer who is eventually unable to pay the loan) ... But in my opinion we could generally go through the reasons for which some customers end up as the customers of collections, and whether these reasons could be foreseen already in the part of granting the credit. If there is some sort of formula for some applicants that we could take into account. “(Customer Service Specialist 4, Finland, 2011)*

The importance of better interaction between the departments is also pointed out by the Sales Manager:

*“There is never too much communication, and there could be more. And in a way, maybe it would enhance the responsibility to know the operations of other departments as well. For me, what always comes to mind from responsibility is the collections department: have we acted appropriately, or have they identified some shortcomings. So maybe informing about those shortcomings, if they start to reappear, would then wake us (sales department) up if we have done something wrong. Yes, that could be better communicated. “ (Sales Manager, Finland, 2011)*

Considering these opinions, it appears that responsibility can indeed be enhanced with increased horizontal interaction. This is particularly so when it comes to departments in completely opposite ends. In these examples, it was viewed that the sales department and employees making the credit decisions could benefit from knowledge from the collections department, which is at the other end of the chain. For instance, an employee granting credit could benefit from knowing what type of customers have not been able to pay, maybe something that he or she could consider next time when deciding on credit. That way, as better informed, the next decision could be in a way more responsible.

It was proved that vertical and horizontal communication has challenges: however, the inner team communication seems to function quite well. Lucas (2010) points out, that

teams have an important role when it comes to successful transfer of practices. Overall, the information and communication within the teams was perceived easy and functional, whereas vertical communication was more challenging. Communication with the closest supervisor or manager appeared to be working well and team members felt that they received a majority of the information relating to responsible lending from their supervisors. Moreover, the constant discussion among the team members proved to be one of the most vital channels to transfer and share responsible lending practices with. The members felt they had more or less a unified front and that there does not actually exist that much confrontation. Interestingly, it appears that this strong coherence and sharing within the team results in the fact that employees do not even seem to want or need top management communication.

Two employees discuss the team communication:

*“It works relatively well, I am very pleased that we do not have affiliations within the team, which would interrupt the communication of the message or possess the message just for certain people. In our team everyone gets along and communicates with each other, which I think enhances the course of the message.”* (Customer Service Specialist 4, Finland, 2011)

*“ I think that our managers inform us well and might personally come and provide feedback, good or bad, to which I am very pleased with. There is no daily contact with upper management, and therefore I am not even able to evaluate that. The daily business functions anyway with the team leaders.”* (Customer Service Specialist 2, Finland, 2011)

Communicating the practice vertically or horizontally in the subsidiary does not seem to function well. Upper management does not “push” the practice forward and have admitted that as something that is not done yet. Considering the importance of the practice, this is quite striking. Yet, responsible lending practices are described as taken for granted, “the way we do things here”, “expected” and “hoped”. It is also something that is built through routine. Could it then be that since everyone is expected to know

that the practice is indeed expected to be implemented by them, then communicating it appears unnecessary?

In this sense responsible lending can be seen as part of the corporate culture of the company. As Adler (1986: 74) states, “culture, whether organizational or national, is frequently defined as a set of taken-for-granted assumptions, expectations, or rules for being in the world” and that “the culture concept emphasizes the shared cognitive approaches to reality that distinguish a given group from others.” These shared meanings in the organization are formed by interactions, routines and procedures (Kondra & Hurst, 2009). Therefore, it is not a surprise that people with many years of experience in the company possess the knowledge as it is built through routine. Similarly, it is natural that internal team communication and sharing of practices in the subsidiary is strong and apparent, as within these “smaller groups” interaction is most efficient. As Kondra and Hurst (2009: 43) describe, organizational culture is learned and transferred “between individuals and teams through social learning, role modeling and observation” However, not only is the practice part of the corporate culture of the company, but the concept is also shared within the financial industry. As it was stated, responsible lending was also seen as the corner stone for any financial operator in the industry. This way, one could argue that in addition to corporate culture, the practice appears to be a part of some sort of an “industry culture” as well.

Furthermore, organizations can have very specific guidelines and rules that are written down, or on the contrary, they can rely on shared values within the organization to guarantee that certain practices are followed (Kondra & Hurst, 2009). The latter is exactly the case in the case company, there are very few written guidelines on responsible lending and it is more or less trusted that everyone will act responsibly and possess the knowledge on how to behave, therefore implying the strong connection of the practice to the corporate culture. It is also challenging to provide a specific set of guidelines in written form, since responsibility also needs flexibility. The latter would

also signify certain trust from the management. Trust in individuals and trust in teams and their leaders.

Since responsible lending becomes part of the routines, this knowledge is therefore very much hidden and implicit. This tacit knowledge, hidden, taken-for-granted personal knowledge or know-how, is fueled with personal beliefs and is therefore hard to articulate, communicate or access from outside (Nonaka, 2007). Given that responsible lending is an incremental part of organizational culture, part of the routines, and in nature very tacit, it is vital that this culture is visible also to new employees joining the company. Here, company management has an important role as they can “create, maintain and change culture of an organization” (Adler, 1984: 82). When the knowledge is very implicit, it can be harder for new employees to capture, and on the contrary for the experienced employees to even recognize or articulate. This “experience” can explain the fact that company management does not actively transfer responsible lending practices to employees: it is so inner-built.

It could be that due to the lack of company-wide communication, employees are forced to rely on their teams and through that build a strong coherence. Therefore, it could be said that responsible lending practices are not only transferred and communicated within each individual team, but also built within the teams. As Nonaka (2007) argues, teams hold an important position in creating knowledge because they provide individuals the opportunity to interact and participate in constant dialogues, pool their knowledge and integrate individual perspectives into a collective one. Moreover, they allow greater exchange of information and team members can complement each other’s understanding. (Lucas, 2010) Indeed, in this case, teams appear to have a particularly large role in forming and transferring responsible lending practices. Moreover, it could also be a conscious decision by the company management to rely heavily on teams and their ability in sharing of the knowledge, a reason why top-down transfers are not pursued.

Overall, responsible lending is expected and it is trusted that each member will own the idea of responsibility. However, this does not necessarily secure that everyone will act



responsibly, and as stated by Kostova (1999) and Lucas (2010) time and motivation of key management is needed to secure that responsible practices are successfully transferred and therefore implemented within the company. Furthermore, paying attention to communication would be valuable, since although the practice is considered important by upper management and also at the employee level, the lack of communication can for instance harm the perceptions of the practice:

*“I don’t see that responsible lending is an important issue in the company, and there has been little discussion on the subject. And whatever little discussion there has been, I don’t see that the company management holds it very important. Once a month in the all-employee meeting it is remembered to point out that we have to be more careful when granting the personal loans, responsibility considering car finance is hardly brought up. “ (Customer Service Specialist 4, Finland, 2011)*

This section has discussed the transfer of responsible lending practices within the local subsidiary, and has covered horizontal, vertical and within team communication. The section has suggested that responsible lending is part of a corporate culture and therefore taken for granted. It is also built through experience. Given this, it also appears that communication of the practice is therefore not well managed, which can make the concept unclear and cause misconceptions around the issue. Overall, in the same manner as the transfer from the headquarters to the subsidiary is minimal, so is the transfer within the subsidiary, at least from top management and across departments.

The next section will elaborate more on the reasons for negative transfer, both from the headquarters to subsidiary, as well as within the subsidiary. In the next section, the focus will be on the characteristics of the responsible lending practice.

#### 4.2.3. Responsible Lending as a Value-based Practice

As discussed earlier in the literature review, the transfer of value-based practices has generally been viewed as quite unproblematic and simplistic (Sharpe, 2001; Blaezejewski: 2005; 2006). However in this case, due to a lack of transfer from the headquarters and top-down and across-unit internal transfer and communication in the local unit, there has to also be some unique characteristics related to the practice that contributes to this type of situation. The previous chapters have already touched on some of these issues, but now we will solely focus on the value feature of the practice.

It was pointed out in the literature review that corporate social responsibility is something that can mean different things to different people, and so it is with responsible lending as well. CSR is typically hard to define in MNCs, since they operate in multiple different environments and cultural contexts (Rodriguez et al., 2006). Furthermore, CSR as a concept can be approached differently even within the unit, as people with different backgrounds and experiences are considered.

Therefore, these types of practices can be greatly value-infused and related to people behind the practice and not at all as straightforward compared to for instance other more “hard” type of practices, such as transferring technology-focused practices. The literature on institutional theory has neglected the research on practices that are value-infused, and such as Blazejewski (2005; 2006) has pointed out the need to do so, since value-based practices bare distinctive features. Indeed, when the practice is value-impregnated the transfer of the practice becomes very different, distinctive and therefore challenging.

The literature discussed the difficulty in transferring practices of strategic importance. In this case study, responsible lending practices were described essential and ground for the business and thus one could argue they hold strategic meaning. Strategic practices are unique, hard to imitate and are strongly value and meaning-based. Particularly these types of practices are difficult to transfer and are bound to conflict (Kostova, 1999).

The value-impregnated feature of responsible lending practices creates challenges for transfer and implementation since they can be soft, multi-faceted, and not as concrete. One good example comes in respect of the new EU directive. Even though the new EU consumer credit directive is similar in the entire EU region, the problem arises as it leaves room for interpretation. It is a legislation that needs to be followed, and thus is naturally required to be followed also by the headquarters. As was described in the literature review, the directive considers such aspects as responsible marketing or providing of proper information to the customer. However, how this legislation is actually then implemented, can be different in different units. As the Chief Risk Officer of the Finnish subsidiary explains the interpretation of the legislation:

*“What can be challenging is that although this directive enables legislators to concentrate on certain issues, but then again what is responsible lending or responsible consumer finance? In a way it can be, it can be interpreted in certain way, marketing can be interpreted in certain way, providing information can be interpreted in certain way etc., and it can most certainly be challenging how they are interpreted in practice. In that sense it is not as concrete of a subject. “*

Based on this complexity and value-feature of the practice, transferring of these practices is difficult also within the unit, from one person to another. As the Chief Executive Officer of the subsidiary explains:

*“In general, if we are discussing values, for every person some specific value, say responsibility, it means different things to you than it does to me already from the start. ...And if we are discussing ethical behavior, it is most certainly different for you than it is to me.”*

As mentioned earlier, also each function or task unit can view the responsibility differently, which makes transferring them within the organization rather complex. It was pointed out in the literature by such as Mohan (2006) and Jensen and Szulanski (2004) that transfer of practices can be influenced by function and task related differences within the company. It was suggested by Jensen and Szulanski (2004) that

such as advertising and distribution procedures for example tend to be more locally bound. For instance, the Marketing department acts in a unified manner, and responsibility comes with obliging to legislation, in other words, there is no room for individual interpretations. Similarly, the Customer Service has very specific and extensive guidelines for different procedures and processes and “going solo” is very difficult. However, in the Applications and Decisions department, the individual employee has a great role in granting credit and individual responsibility becomes highlighted. Then, in the Sales department, responsibility is very situation-bound, and responsibility multisided, since there are two customers to consider, the end customer and the car dealer. Therefore, there cannot necessarily be a specific formula for responsible lending, since it can and has to be different for different departments and different situations.

*“Responsibility is as unified as it can be in a large company like this, and I believe that responsible behavior is applied in each department to the fullest. Yet, it can be that in such like the Finance department, they operate even more responsibly or in a more careful manner than for instance in the Sales department where it can be more mercurial in some occasions.”* (Sales Manager, Finland, 2011)

Since the practice is very value-infused and situation-specific, having all detailed or written down seems to be inappropriate and would negatively affect the work and business:

*“I can’t say that I would hope to get more written documentation, after all this is about dealing with customers, cooperation and partnerships and so forth, and thus nobody wants to have everything in writing and act like a robot, there has to be some flexibility in these matters.”* (Sales Manager, Finland, 2011)

This need for flexibility is also shared by the Applications and Decisions Team Leader. She also points out that in the case of too specific guidelines, the work pace and flow can slow down and thus disturb the work process. As she explains:

*“You cannot actually give very specific guidelines for it (responsible lending), because you are bound to the overall situation, and you act according to overall consideration in that situation. And thus there cannot be unambiguous directions, but it is trusted that there is a person who can look it through and answer for, for example, the credit decision. There cannot be, so that the business is smooth and would not be too reliant on patterns, there has to be quick decisions, yet according to the appropriate line in that decision.”*

Although responsible lending practices are viewed as necessary to be modifiable and interlinked with each situation, connecting the practice from bits and pieces can make the actualization of responsibility also very challenging.

*“The challenging part is when you don’t necessarily have all the information to make for example a responsible credit decision. It makes it challenging because part of it is your experience or personal feelings that you then have to add to those few facts that you know. “ (Sales Manager, Finland, 2011)*

Based on the interview material, it appears that when the practice is value-infused, it is also highly dependent on the input of the individual. Here, the actualization of responsibility is the property of that individual, and how he or she handles the situation defines it. Lucas (2010) argues that individuals have a big impact on practice transfer situations because of the role they play in practice adoption. This adoption is influenced by for example differences in individual learning styles, and to ensure a proper internalization the practice needs to be properly understood. Moreover, individuals can affect the transfer with their interests, strategies and power bases (Blazejewski, 2005). For one, the experience and knowledge of the individual are a basis for even understanding the concept of responsibility. One important notion was that responsibility comes through experience, and one could argue that it becomes possession of those with years in the company. The experienced can look at the situation in a way to get an overall picture of it, and can act in a more balanced way.

*“Understanding the responsibility maybe comes later. Yes, you do the work with the same principles, and you look at the same things, as does the person who has already worked for many years. Yet, the understanding and perception of how important it is to check certain things, that comes with experience. “(Customer Service Specialist 4, Finland, 2011)*

The Applications and Decisions Team Leader of the subsidiary explains the concept of responsibility and how it is built:

*“You need some sort of common sense, just that responsibility, but of course you can’t go overboard with it, you always have to remember to be able to take a risk in the right place, but then also to “shut it down” in the right place. So yes, the responsibility of an individual handler is huge, in a key position of course. And that you cannot study anywhere, it just builds up with work experience. “*

It becomes quite apparent that the responsibility is bound to the person. Then, in case of an employee leaving the company, a lot of valuable know-how is lost. This know-how is built through the years and cannot be easily copied by anyone else. It was expressed by many at the employee level, that constant turnover creates difficulties not only to the work itself but also to the responsibility. Moreover, the turnover of another team, can also affect the functioning of the other, as it is the case between the Sales team and the Applications and Decisions team. These teams work closely together, since the Sales team is in cooperation with the car dealers and then the Applications and Decisions team makes credit decisions for the customers of the dealer.

*“Our problem in some occasions could be that, let’s say the employees that have worked in the Applications and Decisions team for a long time, the people who have the knowledge, make more balanced credit decisions. The team has had a very high turnover, new people come in, and these new people sometimes genuinely have no clue. You don’t know the car dealers yet, you don’t know the products, you don’t necessarily know some specific, required backgrounds when you make decisions for companies,*

*and therefore you go through things maybe with too much precaution. “ (Sales Manager, Finland, 2011)*

Then, high turnover can have an impact on the responsibility, since new employees cannot possess the same level of responsibility that more experienced employees do. Thus, holding on to employees was viewed important and would increase the responsibility. As the Sales Manager continues explaining how to increase the responsibility:

*“Job satisfaction and employee retention, and through that (it) increases the sense of unity and responsibility. When people are not satisfied, there is a high employee turnover, responsibility weakens, and there arises this laissez-faire attitude. That is something we should in some form intervene with. “*

As stated earlier, the responsible lending policy in the local subsidiary stems from different types of pieces. It is not so that you have a specific policy with a specific set of characteristics and criteria that are transferred overseas, rather you have *features* that are transferred, translated and adapted, which makes the situation even more challenging. Given the factors that define CSR, the practice itself cannot be so simplistic and built as a solid “package” which is then to be transferred forward. This is something that the literature has yet to discuss, as the authors have concentrated on the practice in a more solid form.

The fact that they currently are in such a form hinders the communication, and makes them less available or less straightforward for company personnel. With this said, internalizing such practices becomes at least challenging. The interviews showed that it was easier for the managerial level to identify what responsible lending in the company is, and where it comes from, whereas it was not as straightforward at the employee level. Therefore, I would argue that when the practice is not in a “solid package”, it is more difficult to stream down the practices downwards, and there lies the danger that these practices stay as the possession of the upper level.

#### 4.2.4. Summarizing Reflections

Given the discussion above, transferring practices within an MNC is not as straightforward as presented and discussed in the literature. As presented by Gupta and Govindarajan (2000), although MNCs have superior ability to transfer knowledge overseas, it does not mean that this would be done constantly effectively or efficiently. Moreover, this study showed that even though the practice might be of strategic importance to the organization, transferring it to overseas subsidiaries cannot be taken as a given, contradicting for instance the conceptions of Kostova (1999). The practice could be transferred only in parts and the local environment and local requirements and needs may shape the transferred practice and so it becomes re-contextualized or translated. Furthermore, it is very possible that the practice is not even transferred at all.

The transfer of practices in this case proved to be quite negative. Even though MNCs are perceived as knowledge sharing entities, here there appeared to be almost a lack of will to push headquarters practices overseas. Differences in cultures, business and social environments do not just influence how successfully the practice can be transferred, but cause a situation of non-transfer. Quite interestingly, the subsidiary is still successful, even though transfer does not occur. This would contradict with the idea that MNCs generally are successful due to their ability to transfer. Moreover, responsibility appeared to also already exist in the local context, and was considered important by society as well as the subsidiary, which can be one of the reasons why transfer from the headquarters would be unnecessary. Perhaps most importantly, the nature of the relationships within the chain appeared to create and support a situation of non-transfer, since the power, independence and know-how of the units enabled relying on monitoring and reporting. Overall, responsibility was more streamed down as company values.

As introduced in the literature, transfer of organizational practices has traditionally been considered regarding its success, and thus the literature has reviewed it more single-sidedly, as suggested by Sharpe (2001), Blazejewski (2005; 2006) and Jensen and Szulanski (2004). This case study supports the idea that transfers ought to be considered



more through the idea of the transfer process, as in this case the transfer did not even occur. Align with Sharpe's (2001) notion, practice transfers should be considered as locally adapted, i.e. hybrid practices as opposed to as success or failure of adopting parent company practices. These approaches would provide also in my perspective a better understanding of the formulation and transfer of the practices, and enable viewing the situation as more multi-dimensional.

The characteristics of responsible lending practices were also a big determinant in the transfer situation. The responsible lending practices were viewed as common sense, obvious choice, relating to one's experience, and part of the company values, which made the practices rather "hard to grasp" or difficult to fully identify. Given this, responsible lending appeared to be part of the corporate culture. Moreover, it is based on individual perceptions and infused with value, and is in constant dialogue with the changing environment. The practice itself was also gathered from different pieces, written and unwritten elements, with heavy cultural determinants and individual standpoints and attitudes, and therefore there was no solid practice to transfer. These factors also influenced the transfer and communication of the practice, and were identified as a one of the improvement points for the company:

*"The point where I would criticize us... Are these things tied up together under the umbrella of responsibility, or has it been that we have done certain things, we obey the law, guidelines and we act responsibly, but have we ever said that the reason why we are doing these things is because we are responsible. Everyone knows that we are responsible, professional ethics is very important to us and is in our values, which are greatly discussed here, so the responsibility is there, but in a way, could we talk about responsible lending or responsible consumer finance under one umbrella, maybe there's a point for improvement. "* (Chief Risk Officer, Finland, 2011)

Considering that responsible lending practices were for one, hardly transferred from the headquarters to local subsidiary and on the other hand hardly transferred vertically within the subsidiary is somewhat surprising. The fact that these practices could be and were considered as strategic did not however result in transfers, to the subsidiary or

even within the subsidiary. This could be because the value of the practice already exists in the local context and as the practice was expected to be cherished. As Kostova (1999) states, since strategic organizational practices are important for the organizations, they are usually formalized and made visible in the organization. Yet, as this case study shows, strategic organizational practices are perhaps viewed too simplistically, as they are not necessarily treated in the companies as the literature suggests.

Furthermore, if the concept would be more explicit, it would enable “working with” the concept. As the Legal and Compliance Manager of the regional headquarters puts it, because there is currently no policy, it makes it impossible to measure the “level” of responsible lending and how it is perceived for instance by different company stakeholders. This would in its part enable the company to detect any challenges or improvements within the area.

This notion of making the concept or responsible lending more visible would also enhance the internalization of the practice. Then, improving the internalization process would help in elaborating the message of the practice and guarantee that it is a possession for everyone. As it is now, there is a visible gap between the “experts” and the newcomers, who cannot possess the knowledge of responsibility. There is a danger that the practice comes only as the possession of these “experts” or top management, and during the time of employee turnover, all this knowledge is lost. For companies, internal communication is vital since proper internal communication can increase for example employee retention, job satisfaction, and better financial outcomes (Yates, 2006). Furthermore, it can improve employee engagement (Welch & Jackson, 2007), which in its part will result in effectiveness, innovation and competitiveness (Welch, 2011). After all, it was particularly employee turnover that interrupted the implementation of responsibility.

Communication of responsible lending practices would be beneficial also for the sake of responsible lending, and how it is seen and perceived. In general, effective communication of CSR initiatives is still in its baby steps, and when communicating

CSR, employees have been generally left out from consideration. Yet, employees are a vital source of information, and when in contact with the customers can provide “reliable” information on company CSR programs (Dawkins, 2004). However, in order to do so, they need to have the perception of the identity of the company (Ackerman, 2000 in Chong, 2007), which can only happen with proper communication. Furthermore, company CSR can also increase employee motivation and enhance the images employees hold of the company (Dawkins, 2004; Chong, 2009). Furthermore, formalizing the responsible lending concept would not only enhance its visibility in the company, but also make it more visible in the eyes of the public.

The fact that responsible lending is quite value-impregnated, makes the internalization process of the practice challenging. If you have a practice that is based on values, which stems from somewhere inside and which is built through experience, communicating the practice becomes problematic. In this sense, it could be argued that it is not even possible to transfer or communicate such value-impregnated practices entirely, and one could also consider whether it is meaningful in that sense. Overall, transferring value-based practices, and in this case CSR-practices, bare their distinctive features, and studying more how these types of practices behave, could be an important contribution to literature.

## 5. CONCLUSIONS

The conclusions chapter will now summarize the research, describing the main findings and the key theoretical contributions to literature. Furthermore, it discusses managerial implications and suggests areas for further research.

### 5.1. MAIN FINDINGS AND THEORETICAL CONTRIBUTIONS

One of the main findings was that responsible lending practices are to the most extent not transferred from the parent to the local subsidiary. Thus, this case study introduced a new perspective, a concept of ‘negative transfer’. The findings of this thesis support the idea presented by Blazejewski (2005; 2006) and Sharpe (2001) that transfer of an organizational practice within an MNC cannot be taken in a simplistic manner. Although MNCs are traditionally and broadly conceptualized as knowledge sharing entities, it is not always the case that such knowledge transfer occurs. This is not only because of a strong objection from the subsidiary, but also the parent can be reluctant to push the practices forward. This can also be the case regarding strategically important practices. This is quite contradictory considering that particularly these practices are perceived to be commonly transferred within an MNC (Kostova, 1999).

Kostova (1999) identified that social, organizational, and relational factors can impact whether practices are successfully transferred. However, this case study showed that these factors can also be determinants as to why transfer does not take place, therefore challenging the idea of an MNC as a “naturally transferring” entity. Given this, Sharpe’s (2001: 214) statement that “practices are hybrid and hardly successfully transferred, but are translated, refined, or ignored” would better describe the transfer process and provide more realistic platform to build on in further studies.

It also became clear that transferring of value-based practices is not unproblematic, as they hold distinctive features, which therefore supports the conceptions presented by

Blazjewski (2005; 2006). At least they differ greatly from the other, more “hard” or technology-driven practices. This would suggest that further studies concerning transfer of value-impregnated practices would be essential. In this case, transferring of responsible lending practices appeared to be difficult, if not even impossible or irrelevant. This was true considering both the transfer from the headquarters to the subsidiary, and also within the subsidiary. The reason for this proved to be that the value already existed, in other words, the responsible lending practices were so part of the corporate culture that transfers of the practice were minimal. Studying the local subsidiary, it seemed to be that responsible lending practices were built through experience in the company and was sort of hidden, tacit knowledge, which was difficult to identify. Given this, it was also more difficult to transfer or communicate forward within the subsidiary. Furthermore, what made it difficult or impractical to transfer these practices was the idea that responsible lending practices are very much context-bound and need to be flexible to be adapted in different situations. In this light, it is impossible to provide specific or written guidelines about the topic, implying that transferring these practices becomes challenging.

The individual employee had a major role in implementing the practice due to his or her experience and also personal background. As the literature points out, individuals can for instance influence, interrupt or support practice transfers (Staw, 1991). This is quite true, as also within the case company the practice transfers were influenced by individuals, as the knowledge of the practice tended to turn into implicit knowledge, gained through experience. Given this, individuals actually interrupted the transfer of the practice, yet within the teams it was clear that individuals on the other hand supported the transfers. Then, even though it became clear that there is generally quite a strong coherence within each team, for instance in the Applications and Decisions department, the individual handler can indeed impact the actualization of responsibility.

Finally, the responsible lending practice was scattered across the organization and was therefore not a solid practice. Given this, it was also challenging to discuss and study such a practice, yet it provided a chance to see what kind of implications such type of practices can possess. This also supports the idea of considering practices as

multidimensional and not necessarily from the viewpoint of transfer success: as it became evident, the practice, whether unified or dispersed, can be transferred for instance only in parts.

Table below summarizes the research findings for this thesis.

Table 9. Main Findings

Main Findings
<ul style="list-style-type: none"><li>• In contradiction with general views held about MNCs and knowledge transfers, responsible lending practices are not transferred from the headquarters to the local subsidiary, but these practices are to a high extent formed locally</li><li>• Responsible lending practices are also not transferred vertically within the local subsidiary</li><li>• Responsible lending can be perceived as a value-based practice and as such is part of the corporate culture</li><li>• Individuals have a major role in implementation of responsible lending practices, as their expertise becomes important</li></ul>

## 5.2. MANAGERIAL IMPLICATIONS

The findings of this case study provide relevant and useful insights to the use of company managers, particularly to the management of the case company and the organization.

Certainly, pursuing responsible lending practices brings advantages. As discussed, implementing responsible practices have a positive effect on the company's image, company reputation, solid customer base and secure fewer losses in the case company. Indeed, summarizing earlier research, Helm (2007) states that good company reputation

can result in more loyal and less price-sensitive customers, and attract highly skilled labor. Furthermore, embracing CSR can bring opportunities and competitive advantages (Porter & Kramer, 2006). Summarizing earlier research, Weber (2008) depicts that CSR and its business benefits include for instance improved reputation, risk reduction, efficiency gains, improved relations with authorities, improved brand value, and long term survival. Considering the company and its employees, CSR can also result in employee productivity and increased motivation, better recruitment potential, and employee retention.

As the research shows, responsible lending practices are held important in the case company and in the Group. As the interviews show, the concept is part of the organizational culture, expected and hoped to be implemented by each employee, and therefore hardly communicated by top management. It became clear that the concept of responsible lending can be perceived differently, depending on the individual. With this said, problems can arise regarding the coherence and uniformity of the subject within the company, where it can become problematic that there is little top-down, “company-wide” communication. When the practice is very implicit, employees might find it difficult to understand the concept, let alone have unified ideas about it. Similarly, the latter can cause misconceptions of the importance of the subject and also hinder the actualization of responsibility in some cases. Moreover, better top-down communication would also help the employees in identifying what the responsible lending practice is, where it comes from and why it is important, and reduce the heavy reliance on internal gut feelings and perceptions. It could also assure that the practice does not remain merely as a possession of experienced workers, but would be more visible also for new employees, which becomes particularly important in the case of high employee turnover.

Considering the entire Group, making the concept more solid and explicit would also serve the organization with the globalization and expansion of the company. Implementing CSR practices is particularly important to MNCs, since they are more visible for instance to NGOs and thus vulnerable to pressures coming from these parties

(Rodriguez et al., 2006). Although these practices are to a high degree locally implemented, also the Chief Risk Officer of the subsidiary states that:

*“ Naturally a Group of this size wants to standardize, that this is the way the Group operates”.*

Certainly, with global integration of CSR practices under a centralized department could accrue economies of scale and scope regarding the organization of such practices (Cruz and Boehe, 2010). In other words, having unified policies and strategies to the extent that it is possible and reasonable could be a cost- effective solution. On the other hand, Cruz and Boehe (2010) also highlight that in order for MNCs to gain a strategic advantage from CSR activities, these activities have to be locally responsive.

As a final note, it became apparent that responsible lending was viewed as strategically significant. As also Porter and Kramer (2006) state, linking CSR to a company strategy could bring advantages. Adhering to strategic CSR, contrary to responsive CSR, could enable the firm to build a competitive advantage and positive differentiation from other players in the market.

### 5.3. SUGGESTIONS FOR FURTHER RESEARCH

This study has shed light on the subject of responsible lending and described how these types of practices are transferred within an MNC. I have approached the subject considering in my mind the most relevant company departments, where responsible lending can clearly be seen. Yet, regarding responsible lending, there are still interesting areas that could be studied in the future. Department-wise, responsible lending could also be studied in the debt collections department. This department has also been in the discussion when responsible lending has been considered (see Finnish Consumer Agency, 2006) and also many of the interviewees brought up responsible lending practices of the department. Definitely, there are issues related to responsible lending, such as how to handle situations when the customer has faced severe difficulties and is



unable to manage his or her responsibilities. The department resides at the other end of the operational chain, and studying the department could thus help in identifying more accurately how responsible lending can be seen throughout that chain.

Align with Sharpe (2001) and Blazejewski (2005; 2006), the case study has supported the idea that studying value-infused practices is extremely relevant. Given this, I would suggest particularly concentrating on CSR-practices, since transferring them is at least distinctive. In this case, responsible lending practices turned out to be part of the corporate culture, which could suggest that also other type of CSR practices possess similar features, and thus studying how they are transferred within an MNC could be insightful. For instance, many studies have already focused on the transferring of HR practices in MNCs (see Rosenzweig & Nohria, 1994; Liu, 2004) so perhaps there could be a time for studying CSR practices as well, considering that the concept nowadays is recognized as extremely important to companies worldwide.

Considering the distinctive role of the individual in transfer situations, it could be vital to extend the current knowledge about the impact that these individual actors have on the transfers. This would be important not only regarding the transfer from the headquarters to the subsidiary, but also within the subsidiary. For instance, studying the transfer within the organizational levels of the subsidiary could further enlighten our knowledge on which situations and contexts the individual can actually disturb, or on the other hand support practice transfers. As also Sharpe (2001: 216) suggests, in order to understand the practice transfer in MNCs, one should study relations between institutional structures and also the internal relations within and between organizations, therefore including micro-and macro- levels of analysis. Furthermore, as the author argues, the latter should be done with in-depth case studies, case by case.

Finally, this research considered the perceptions of the corporate headquarters through documentation as well as relying on interview material provided by the regional headquarters and the local subsidiary. It would have been fruitful to also get interview responses from the parent company, yet in this research those interviews were left out due to time-constraints. However, this study also considered the regional headquarters,

which in my perspective provided a better understanding on how the transfer process, or lack of it, functioned and what factors affected the transfer situation. If this thesis had merely considered the corporate headquarters and the local subsidiary, a lot of valuable evidence would have remained untapped.

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Marketing Leader of Finnish subsidiary, subsidiary premises in Helsinki, 5.5.2011.

Marketing Coordinator of Finnish subsidiary, subsidiary premises in Helsinki, 6.5.2011.

Applications and Decisions Team Leader of Finnish subsidiary, subsidiary premises in Helsinki, 30.5.2011.

Customer Service Team Leader of Finnish subsidiary, subsidiary premises in Helsinki, 17.6.2011.

Customer Service Specialist 1 of Finnish subsidiary, subsidiary premises in Helsinki, 9.5.2011.

Customer Service Specialist 2 of Finnish subsidiary, subsidiary premises in Helsinki, 9.5.2011.

Customer Service Specialist 3 of Finnish subsidiary, subsidiary premises in Helsinki, 7.4.2011.

Customer Service Specialist 4 of Finnish subsidiary, subsidiary premises in Helsinki, 7.4.2011.

## APPENDICES

### APPENDIX 1. INTERVIEW BRIEF IN FINNISH AND IN ENGLISH

Hyvä haastateltava,

Kiitos jo etukäteen osallistumisestasi tutkimustyöni haastatteluun. Ohessa on taustatietoa tutkimukseeni liittyen, joka auttaa valmistautumaan haastatteluun. Tekstin lopussa on vielä muutama kysymys (haastateltavan taustatiedot), joihin toivoisin, että vastaisit ennen haastatteluun tulemistä.

Tutkimuksen tarkoitus on kartoittaa yrityksen vastuullisia luotonannon käytäntöjä eri näkökulmista, sekä niiden viestimistä yrityksen ja tiimien sisällä. Haastateltavat tulevat siis olemaan eri osastoilta, sekä organisaation eri tasoilta (sisältäen mm. tiimin työntekijät, tiimin johtajat, ja ylemmät esimiehet)

Haastattelussa on kysymyksiä henkilö-, tiimi-, ja organisaationäkökulmista. Haastattelun arvioitu kesto on noin yksi tunti, ja haastattelut nauhoitetaan. Haastateltavien identiteetti pysyy salassa, ja tutkimuksessani haastateltaviin viitataan anonyymisti (esim. työntekijä 1, työntekijä 2 ).

Haastattelun kannalta on tärkeää hiukan valottaa vastuullisen luotoannon periaatteita. Kuluttajarahoitusharkintojen suuruudesta ja tärkeydestä johtuen, myös vastuulliset käytännöt luotonannossa nousevat tärkeään asemaan. Vastuullinen luotonanto sisältää ajatuksen, että rahoituslaitoksen tuote/palvelu vastaa asiakkaan tarpeisiin, ja on räätälöity asiakkaan maksukykyyn ja tilanteeseen nähden. Ollakseen vastuullisia, rahoituslaitosten tulisikin toimia reilulla, rehellisellä, ja ammattimaisella tavalla ennen rahoitussopimuksen solmimista, sekä sen jälkeen.



Haastattelun tarkoituksena on, että haastateltava kertoisi mahdollisimman vapaasti ja avoimesti omista ajatuksistaan ja toimintatavoistaan aiheeseen liittyen. Ideana on kerätä mahdollisimman kattavasti henkilökohtaisia näkemyksiä aiheeseen liittyen. Yllä olevan määritelmän tarkoituksena on ainoastaan herättää ajatuksia aiheeseen liittyen, ja kaikkein tärkeintä on että jokaisen vastaajan henkilökohtaiset näkemykset ja tuntemukset tulevat esille.

Haastateltavan taustatiedot:

Nimi

Titteli/Työnkuva/Tiimi

Vuodet yrityksessä, vuodet eri yksiköissä/osastoilla

Vuodet alalla yhteensä

Vuodet kyseisessä työssä

Ikä

Sukupuoli

To the interviewee,

I want to thank you already in advance for participating to the interview concerning my research. This letter contains background information regarding my research, which will help in preparing for the interview. At the end of the writing there are a few questions regarding interviewee's background, which I would appreciate if you can answer prior to coming to the interview.

The aim of the research is to identify responsible lending practices of the company from different points of views, and also to look at communication of the practices within the company and teams. The interviewees will therefore be from different departments as well as from different organizational levels, including team members, team leaders and upper managers.

The interview contains questions from individual, team, and organizational perspectives. The estimated duration of the interview is approximately one hour, and the interviews will be recorded. The identity of the interviewees will be hidden, and the research will only refer to the interviewees anonymously, for instance employee 1, employee 2.

For the sake of the interview, it is crucial to enlighten the concept of responsible lending prior to the interview. Due to the significance of consumer credit markets, also responsible practices become important. Responsible lending holds the notion that the product or service of the financial operator responds to customer's needs, and is tailored according to customer's repayment ability and situation. To be responsible, the financial operators should act in a fair, honest, and professional manner, prior to arranging of the credit agreement and also after that.

The purpose of the interview is that the interviewee would tell as openly as possible about his or her own thoughts and practices regarding the subject. The idea is to collect individual insights about the subject as comprehensively as possible. The purpose of the above definition of responsible lending is solely to arouse ideas about the topic, and the most important thing is that each respondent discusses the individual insights and feelings of the topic.

Background information:

Name

Title/Job description/Team

Years in the company, years in different departments

Years in the industry

Years in current job

Age

Sex

## APPENDIX 2. INTERVIEW LAYOUTS

### INTERVIEW LAYOUT: REGIONAL HEADQUARTERS

#### **Part 1: Formulation of responsible lending practices**

1. Do you consider that responsible lending is important in the company? Why/ Why not? Why is it important?
2. How can responsible lending be seen in the company and how would you define it? What types of elements belong to responsible lending in the company? Provide examples.
3. Why do you consider that the company is responsible? What are the reasons behind it? Why is it important?
4. What are the company's strengths in responsible lending compared to markets and other financial operators?
5. What could be improved, how? What would you want to see in the future?
6. What in your opinion is challenging in responsible lending?

#### **Part 2: Transfer of responsible lending practices**

7. Does regional headquarters get guidance and directions considering responsible lending from the corporate headquarters? What practices or elements come from the corporate headquarters and what do not?
8. Are these practices transferred to the regional headquarters in their original form from the corporate headquarters, or are they adapted to fit with the local environment on the way? How? If adapted, what elements have an impact on practice translations or adaptations?
9. How are responsible lending practices transferred within the region, from the regional headquarters to the local subsidiaries in the region?
10. Within the region, do these practices transfer as such or are they translated or adapted on the way?

11. Are there any sanctions if these type or practices that are transferred are not followed or executed? How about, does complying with these required practices bring some kind of a benefit to the unit?
12. Is there anything challenging in transferring responsible lending practices for example within the region?

**HAASTATTELURUNKO: TYTÄRYHTIÖN YRITYSJOHTO / INTERVIEW  
LAYOUT: TOP MANAGEMENT OF SUBSIDIARY**

**Osa 1 / Part 1: Vastuullisten toimintamallien kartoitus / Formulation of  
responsible lending practices**

13. Koetko, että vastuullisuus on tärkeää tai että se näkyy koko yrityksen toiminnassa? / Do you consider that responsibility is important and can be seen in the company's business?
14. Miten näkisit vastuullisen luotonannon yrityksessä Suomessa? Millaiset ovat Suomen yksikön vastuullisen luotonannon käytännöt? Onko yhtiöllä mielestäsi vastuullisen luotonannon linjausta? Jos, niin millainen on linjaus/ohjeistus? / How would you see responsible lending in the company in Finland? What type of practices does the Finnish subsidiary implement? Is there a guideline for responsible lending, if so, what kind of a guideline?
15. Miksi me ollaan vastuullisia? Mitkä on niitä syitä vastuullisuuden taustalla? / Why are we responsible, what are the reasons behind responsible behavior?
16. Miten vastuullinen luotonanto näkyy yrityksessä:
  - a) luotonannossa
  - b) myynnissä ja markkinoinnissa
  - c) asiakaspalvelussa?

Mitkä ovat pääpiirteet?

How can responsible lending be seen in

- a) granting of credit
- b) sales and marketing
- c) customer service

What are the main features?

17. Mitkä ovat yrityksen vahvuudet vastuullisessa luotonannossa markkinoihin ja muihin pankkeihin ja rahoituslaitoksiin verrattuna? / What are the company's strengths in responsible lending compared to markets and other financial operators such as banks and finance companies?
18. Mitä voitaisiin parantaa tulevaisuudessa? Miten? / What could be improved in the future, how?
19. Mikä vastuullisessa luotonannossa on haastavaa? / What is challenging in responsible lending?
20. Missä määrin vastuu on rahoitusyhtiön tai asiakkaan? Onko asiakkaalla, lainaa hakiessaan, velvollisuus myös itse toimia vastuullisesti? / To what extent the responsibility is the company's or the customer's liability? Does the customer, when applying for the loan, also have the responsibility to act responsibly?
21. Oliko uusi kulutusluoton EU-direktiivi mielestäsi tarpeellinen? / In your opinion, was the new EU directive on consumer credit useful?

## **Osa 2 / Part 2: Vastuullisten luotonantokäytäntöjen siirtyminen/Transfer of responsible lending practices**

22. Ovatko vastuullisen luotonannon käytännöt Suomen yksikössä pääkonttorin, alue-pääkonttorin vai Suomen yksikön määrittelemiä? Miksi näin? Onko tiettyjä asioita jotka siirtyvät Suomen yksikköön, ja toisaalta asioita jotka eivät siirry? / Are responsible lending practices defined by the corporate headquarters, the regional headquarters, or the Finnish unit? Why is this so? Are there elements that are transferred to the Finnish unit, and on the other hand, elements that are not?
23. Voisiko linjauksia mielestäsi tulla Suomeen enemmänkin, vai tapahtuuko siirtoa tai viestintää jo nyt tarpeeksi? / Would you want to see more guidelines to be transferred to the Finnish unit or is it enough as it is?
24. Mukautuvatko nämä ohjeistukset mitä Suomen yksikköön tulee, Suomen ympäristöön sopiviksi vai tuleeko ne ihan sellaisenaan? / Are these guidelines that are transferred to the Finnish unit adapted to suit the local environment or do they come as such?
25. Onko siitä seurauksia, jos näitä siirrettyjä käytäntöjä ei noudateta? Entäpä onko joidenkin asioiden noudattamisessa jonkinmoista "porkkanaa"? / Are there consequences if these transferred practices are not followed? On the other hand, is there some kind of a benefit for complying with these practices?

**Osa 3 / Part 3: Vastuullisten luotonantokäytäntöjen siirtyminen ja viestintä tytäryhtiön sisällä / Transfer and communication of responsible lending practices within the Finnish unit**

26. Koetko tärkeäksi että vastuullisen luotonannon käytäntöjä kommunikoidaan eteenpäin yrityksen sisällä ja eri osastoille? / Do you consider it important that responsible lending practices are communicated forward within the unit and to different departments?
27. Millaisia haasteita näiden käytäntöjen kommunikoimiseen liittyy? / What kind of challenges are related to communicating of these practices?
28. Mikä on tärkein asia jonka toivot vastuullisessa luotonannossa välittyvän? / What is the most important thing you wish that is communicated through responsible lending?

**HAASTATTELURUNKO: TYÖNTEKIJÄT JA TIIMIN VETÄJÄT / INTERVIEW LAYOUT: EMPLOYEES AND TEAM LEADERS**

**Osa 1 / Part 1: Vastuullisten toimintamallien kartoitus / Formulation of responsible lending practices**

1. Koetko että vastuullisuus on tärkeää työssäsi? Miksi tai miksi ei? / Do you consider acting responsibly is important in your job? Why or why not?
2. Miten kokisit tai näkisit vastuullisen luotonannon yrityksessä? Koetko, että vastuullisuus näkyy koko yrityksen toiminnassa? Miksi se on tärkeää? Näkyykö tämä eri osastojen välillä? / How would you see responsible lending in the company? Do you feel it can be seen in the company? Why is it important? Can it be seen between the different departments?
3. Millainen on mielestäsi yrityksen ja ylimmän johdon ohjeistus vastuullisessa luotonannossa? Kuvaile joitakin tärkeitä kriteerejä tai käytäntöjä. / In your opinion, what kind of guidelines comes from top management regarding responsible lending? Describe some of the important criteria or practices.
4. Riittääkö lait suojaamaan kuluttajaa vai tarvitaanko jotain muuta? / Do you think laws are enough for protecting the consumer?

5. Miten uusi kuluttajaluottolain EU-direktiivimuutos on vaikuttanut osastosi työhön? / How has the new EU directive on consumer credit impacted the operation of your department?
6. Onko vastuullisuudesta mielestäsi jonkinlaista hyötyä yritykselle? / Is there some kind of a benefit for the company to act responsibly?
7. Miten onnistumme vastuullisuudessa muihin yhtiöihin verrattuna? / How do we compare to other financial operators in responsible behavior?

## **Osa 2 / Part 2: Omat vastuulliset käytännöt / Individual responsible practices**

8. Miten vastuullinen luotonanto näkyy osastollasi? / How can responsible lending be seen in your department?
9. Mitä vastuullinen luotonanto sinulle merkitsee? Miten sinä harjoitat vastuullisen luotonannon käytäntöjä? / What responsible lending means for you? How do you implement responsible lending practices yourself?
10. Innovaatioiden ja kehityksen myötä, rahoitustuotteet ja palvelut ovat tulleet yhä monimutkaisemmiksi, ja siksi vaikeammiksi kuluttajien ymmärtää. Kuluttajien rahoitusalan kunnollisesta tuntemuksestakin on oltu jo pitkään huolissaan. Miten tiimisi ottaa tämän seikan huomioon? Koetko asian ongelmalliseksi? / Because of innovations and development, financial products and services have become evermore complex and therefore more difficult for the consumers to understand. There has been concern over the consumers' adequate knowledge when it comes to the financial industry. How does your team take these issues into account? Do you consider these issues problematic?
11. A) Myynti ja markkinointi / Sales and marketing:

Vastuullinen luotonanto liittyy myös markkinointi - ja myyntikäytäntöihin. Alalla on käyty paljon keskustelua vastuuttomista ja harhaanjohtavista markkinointitaktiikoista luotonannon yhteydessä. Miten tiimisi ottaa tämän seikan huomioon? Koetko asian ongelmalliseksi? /Responsible lending has to do also with sales and marketing practices. There has been a lot of discussion in the industry on irresponsible and misleading marketing tactics in relation to granting of credit. How does your team take these issues into account? Do you consider these issues problematic?

B) Luotonanto / Applications and Decisions:

- Vastuullisessa luotonannossa on kyse siitä, että tuote on asiakkaan tarpeiden mukainen. On esimerkiksi käyty paljon keskustelua siitä että lainaa annetaan liian heppoisin perustein, asiakkaan tilannetta tai maksukykyä huomioimatta.

Miten tiimisi ottaa tämän seikan huomioon? Koetko asian ongelmalliseksi? / Responsible lending has to do with that the product is in line with customer's needs. There has been for instance a lot of discussion that loans are granted too easily without considering of customer's situation or repayment ability. How does your team take these issues into account? Do you consider these issues problematic?

- Raha- ja lainamarkkinat ovat ensiarvoisen tärkeitä jokaiselle kansalaiselle ja vastuulliseen luotonantoon kuuluu vahvasti se, ettei ihmisiä jää näiden markkinoiden ulkopuolelle, ja että ihmisiä ja ihmisryhmiä kohdellaan tasa-arvoisesti lainan myönnössä, ketään syrjimättä. Miten tiimisi ottaa tämän seikan huomioon? Koetko asian ongelmalliseksi? / Money- and credit markets are of primary importance to everyone, and responsible lending holds the idea that people are not excluded from these markets, and that people are treated equally without discriminating anyone. How does your team take these issues into account? Do you consider these issues problematic?

C) Customer service:

Tuleeko tilanteita vastaan, missä asiakas kokee että häntä on johdettu harhaan ja että hän ei ole ollut tietoinen kaikista lainaan liittyvistä asioista? Tai tuleeko vastaan tilanteita missä hän valittaa meidän yrityksen toiminnasta? / Do you encounter situations in your work where the customer experiences that he or she has been misled in some way and that he or she has not been aware of all of the issues related to the loan? Or do you encounter situations where the customer would complain about our company?

12. Onko asiakkaalla lainaa hakiessaan velvollisuus myös itse toimia vastuullisesti? / Does the customer, when applying for the credit, have the responsibility to also act responsibly?

### **Osa 3 / Part 3: Vastuullisuus tiimissä / Responsibility in the team**

13. Koetko että tiimissäsi ollaan vastuullisia? Onko vastuullisuus tärkeää tiimissäsi? Millaisia vastuullisia käytäntöjä on havaittavissa? / Do you consider that your team is responsible? Is responsibility important in your team? What type of responsible practices can be seen?
14. Onko linja tiimissä samanlainen? Vai onko havaittavissa erilaisia, yksilöllisiä linjauksia? / Are the views within the team similar? Or are there different, individual viewpoints to be seen?
15. Koetko, että yksilöllä on suuri rooli vastuullisissa käytännöissä, toisin sanoen päättääkö jokainen henkilökohtaisesti vastuullisuuden toteutumisesta? / Do you consider that the individual has a major role regarding responsible lending



practices, in other words, does everyone decide individually on execution of responsibility?

16. Onko tiimissä havaittavissa ristiriitaa/epäjohdonmukaisuutta vastuullisten käytäntöjen osalta? / Is there contradiction or inconsistency considering responsible lending practices within your team?
17. Koetko tärkeäksi, että vastuullisia käytäntöjä viestitään tiimissä? Miten tämä tapahtuu? Mitkä ovat sinun viestinnän keinosi? / Do you consider it important that responsible lending practices are communicated within the team? How is this done? What are your ways in communication?
18. Viestiikö esimiehesi, ylin johto, yrityksen pääkonttori tai alueellinen pääkonttori vastuullisuuden periaatteista? / Does your supervisor, upper management or the corporate or the regional headquarters communicate about responsible lending practices?
19. Mikä vastuullisessa luotonannossa on haastavaa? Tuoko käytännön ”pehmeys” tai arvo-aspekti haasteita esimerkiksi viestimisessä? / What is challenging in responsible lending? Does the ”soft or value aspect” of the practice create challenges for example in communication?
20. Mitä voitaisiin parantaa tulevaisuudessa? / What could be improved in the future?