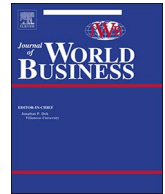




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## Internationalization as a driver of the corporate social performance of extractive industry firms

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### ABSTRACT

In this paper, we investigate the impact of internationalization on the corporate social performance (CSP) of extractive industry firms (EIFs). We argue that internationalization positively impacts their CSP because, as they internationalize, they increasingly benefit from actions that help them enhance their social licenses to operate (SLOs) and hence have a greater need to increase both the overall social (SP) and environmental (EP) aspects of their CSP. We hypothesize that as EIFs internationalize, both their SP and EP grow; that SP grows more relative to EP; and that the level of development of EIFs' home countries moderates these relationships.

### 1. Introduction

Internationalization is an important driver of corporate social performance (CSP)<sup>1</sup> (Kang, 2013; Zyglidopoulos, Williamson, & Symeou, 2016). This is particularly so for extractive industry firms (EIFs). As they internationalize, in search of mineral deposits and sometimes markets, EIFs often use their CSP to address the major social and environmental disruptions their extractive operations can cause (Slack, 2012; Warnaars, 2012). EIFs often use their CSP to deal with the negative externalities their operations can create (Slack, 2012), share with local communities the benefits from their operations (Prno & Slocombe, 2012), or make up for public service and regulatory deficiencies in the areas in which they operate, especially since many EIFs operate in developing countries, where such deficiencies are common (Banerjee, 2001; Hilson, 2012). Given then these unique aspects of EIFs, what is the impact of internationalization on their CSP?

Drawing on the literatures investigating the internationalization of multinational corporations (MNCs) and extractive industries, we develop a number of hypotheses regarding the impact of internationalization on the CSP of EIFs, which we perceive as consisting of two parts: environmental performance (EP) and social performance (SP).<sup>2</sup> EP refers to those aspects of CSP addressing issues related to the natural environment, while SP refers to aspects related to the EIF's social environment. In agreement with the extant literature on the

internationalization of MNCs (Attig, Boubakri, El Ghou, & Guedhami, 2016; Becker & Henderson, 2000; Kang, 2013; Zyglidopoulos et al., 2016), we expect internationalization to have a positive impact on both of these aspects of the CSP of EIFs. However, counter intuitively, we hypothesize that as EIFs internationalize, their SP increases more than their EP. Furthermore, we expect these relationships to be positively moderated by the level of development of an EIF's home country (Jamali, 2010; Muller, 2006). Of course one could argue that it is not internationalization that drives CSP, but vice versa. However, while capabilities to manage CSP might help firms internationalize (Attig et al., 2016; Blake, 2016), we do not believe that such capabilities alone are sufficient to underpin internationalization. It seems more likely that the relationship between internationalization and CSP capability would be iterative such that as a firm internationalizes it is forced to improve its CSP and internationalization, in turn, leads to improved capabilities in managing CSP which can assist its further expansion abroad. This view is supported by the extensive international business literature, which suggests that firm-specific advantages (FSAs) of types beyond CSP are necessary to motivate and underpin internationalization (Dunning, 1980; Kirca et al., 2011; Williamson & Zeng, 2009).

We make two major contributions. First, through a more fine-grained investigation into the impact of internationalization on the CSP of EIFs, we contribute to the literature that investigates the links between CSP and internationalization. We highlight the different impacts

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<sup>1</sup> According to Wood (1991, p. 693), CSP is "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships."

<sup>2</sup> When we refer to the SP or EP of EIFs, we mean their global (both home and abroad) SP or EP.

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that internationalization has on different aspects of CSP and the role that the level of development of the firm's home country has in this relationship. Second, we contribute to the extractive industries literature by better understanding the role different CSP aspects play as EIFs internationalize. Within this literature, researchers have argued that in order for EIFs to operate effectively, they have to acquire a social licence to operate (SLO), which exists “when a mining project is seen as having the ongoing approval and broad acceptance of society to conduct its activities” (Prno & Slocombe, 2012, p. 346). Given that EIFs try to acquire an SLO through their CSP (Ernst & Young, 2016; Prno & Slocombe, 2012; Slack, 2012), our contribution consists of a better understanding of the different roles that EP and SP play in the acquisition of SLOs.

To achieve these goals, the remainder of the paper proceeds as follows. First, we discuss the role that CSP (EP and SP) can play for EIFs in their attempt to acquire an SLO. Second, we investigate the relative importance of SP and EP, as EIFs internationalize. Third, we investigate whether EIFs from less developed countries are more or less sensitive to pressures associated with internationalization. We test our hypotheses using hierarchical linear modeling on data from a sample of 363 EIFs from 15 home countries for the years 2002–2014.

## 2. Theoretical development

### 2.1. The role of CSP for extractive industry firms

EIFs often face social and environmental issues, which not only have the potential to seriously disrupt their operations, but can also damage the environment and neighboring communities. First, given the nature of their business, EIFs can cause environmental problems in the areas they operate in (Slack, 2012; Warnaars, 2012). For example, as Gifford et al. (2010) report, gold mining typically takes place in large open pit mines that leave large areas of scarred earth and waste including toxins like lead, mercury and arsenic. As a result, the potential for pollution and environmental accidents is ever-present even if EIFs take all possible precautions (Perrow, 2011). Unfortunately, EIFs do not always do so, and the resulting pollution can not only cause environmental damage but also disruptive boycotts, hold-ups and campaigns against the EIFs responsible by many stakeholders, including local communities, international NGOs and the media (Doh & Guay, 2006; Teegen, Doh, & Vachani, 2004).

Second, EIFs frequently locate their extractive operations in developing countries<sup>3</sup> with poor populations, which provide the labor for their various extraction operations, but often do not benefit in proportion to the wealth generated for foreign investors, governments and other stakeholders (Gifford, Kestler, & Anand, 2010). The result of this “unfair” distribution of benefits, even if this unfairness is sometimes only perceived, can seriously disrupt the extraction operations, as surrounding communities increasingly demand a greater share of the benefits (Prno, 2013). Moreover, given that developing countries often suffer from poor government services and infrastructure, EIFs are often asked to provide such services, as a way of sharing the benefits they generate (Banerjee, 2001).

Third, extraction operations can often disrupt more traditional ways of life. In addition to pollution, even the simple selection of a location as a site for operations can disrupt the cultural life of such communities. As Kraemer, Whiteman, and Banerjee, 2013 report, the selection of the Niyamgiri mountain range in India as the location for a mine, given that the area had deep religious significance for a local tribe, led to a resistance movement, supported by international NGOs, which eventually prevented the relevant EIF from developing its plans. EIFs try to address these issues by acquiring an SLO (Prno & Slocombe, 2012; Prno, 2013).

<sup>3</sup> Gifford et al. (2010) report that about 70% of gold mining takes place in poorer areas of developing nations.

In trying to insulate themselves from the effects of the potentially negative consequences of their operations, EIFs try to acquire, maintain, repair, and enhance their SLO. An SLO is important in the extractive industries as a way of avoiding the numerous conflicts with local communities and NGOs that have caused project delays and cancellations in many mining operations over recent decades (Davis & Franks, 2011). An SLO is the industry's response to the stakeholder opposition that EIFs have frequently experienced over the years (Owen & Kemp, 2013), which has led some to conclude that the industry is “distrusted by many of the people it deals with day to day” (IIED/MMSD, 2002, p. xiv). Of course, the SLO concept is imperfect and has been criticized for its intangibility/informality and the fact that it can often limit the discussion on the sustainable development implications of EIF activities (Owen & Kemp, 2013). Nevertheless, for our purposes in this paper, the SLO concept encapsulates the nature of the intangible assets that EIFs are trying to build, preserve and sometimes repair through their EP and SP activities.

Through their EP, EIFs try to address the potential negative impact their operations have on the natural environment (i.e. pollution, environmental accidents). These negative externalities can have important negative consequences for the communities close (and sometimes not so close) to their operations, resulting in boycotts or other stakeholder mobilizations against their current or future operations, which can damage or even revoke the EIFs' SLO (Ali & O'Faircheallaigh, 2007). As Velásquez (2012) reports, a Canadian mining company decided to conduct extensive quality water studies at a site in Ecuador it wanted to mine, beyond meeting its legal obligations, as a way of securing the support of the local farmers, who initially resisted its presence.

However, EP is not enough. EIFs need to engage in SP, which addresses the social issues surrounding its operations. EP alone, even if the firm operates above full compliance levels and has an outstanding EP record, cannot deal with the issues arising from distribution of benefits between parties and disruption of the traditional way of life, which often cause societal opposition to the EIF's operations and damage to their SLO. In order to address benefit redistribution, EIFs might need to engage with local communities, which are “key arbiters” (Prno & Slocombe, 2012), to provide increased job opportunities for community members, support community development projects, engage with and take into consideration local culture and so on. As Prno and Slocombe (2012) note, “full legal compliance with state environmental regulations has thus become ... increasingly insufficient” (p. 347) to acquire, maintain or repair an SLO. Nor can EP generally deal with the full range of threats to the SLO from various parties. Governments, pressure groups and other national or international stakeholders may threaten the SLO not because they are concerned with the EP of an EIF, but because they regard the broader benefits to the country and its society as insufficient or even net negative. A recent industry report found that many mining projects fail to acquire an SLO for political reasons (Ernst & Young, 2015). To mitigate these risks, EIFs rely on their SP.

According to Boutilier and Thomson (2011), EIFs use their CSP activities not only to acquire, maintain, or repair their SLO, but also to enhance it. They identify four levels of SLO: withdrawal, acceptance, approval and identification, which are inversely related to the level of socio-political risk firms face. At the lowest level, a firm under threat of having its SLO withdrawn is in danger of being refused access to essential resources (mineral deposits in the case of EIFs). The next level involves acceptance, where a firm has acquired enough legitimacy<sup>4</sup> to be accepted by the relevant stakeholders. The third SLO level is approval, where a firm has passed a “credibility boundary” and is not only

<sup>4</sup> Legitimacy refers to the “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574).

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