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Michael L. McIntyre Steven A. Murphy Carol-Ann Tetrault Sirsly

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Do firms seek social license to operate when stakeholders are poor? Evidence from Africa

Michael L. McIntyre, Steven A. Murphy and Carol-Ann Tetrault Sirsly

Michael L. McIntyre is an Associate Professor at Eric Sprott School of Business, Carleton University, Ottawa, Canada.

Steven A. Murphy is Dean and Professor at Ted Rogers School of Management, Ryerson University, Toronto, Canada.

Carol-Ann Tetrault Sirsly is an Assistant Professor at Eric Sprott School of Business, Carleton University, Ottawa, Canada.

Abstract

Purpose – The purpose of this paper is to test for the salience of social licence to operate in the context of a very poor community. The idea of social license to operate is closely linked to ideas of stakeholder power, legitimacy and urgency (Mitchell et al., 1997). But what if a community is impoverished, and lacks the tools and privileges to effect change? Do the stakeholders believe they have influence over extension of the social license to operate? Does the employer listen to them? To examine this issue, survey data was gathered from 12,000 stakeholders working in a poor township in South Africa. The township is located near a major South African city in an employment market dominated by a single heavy industry. Responders perceived their welfare to be of importance to the employer and that they had a role in extension of the social license to operate.

Design/methodology/approach – A survey of 12,000 employees working in an impoverished township near a large South African city.

Findings – Despite being impoverished and lacking the tools and privileges to effect change that are available in wealthier communities, responders perceived some influence over extension of social license to operate.

Research limitations/implications – While responders expressed clear sentiments, their actual power to extend or withhold social license to operate is unclear, and the study did not test for this.

Practical implications – The practical implication is that firms should be wary of assuming that just because a stakeholder group is impoverished, it is unaware of its role and power as a stakeholder.

Social implications – The more important implication is that under conditions of poverty, responders expressed a clear desire to see impediments to work removed, rather than a desire for handouts.

Originality/value – The authors doubt there has ever been a study of this kind with this large a sample, in conditions of such extreme poverty.

Keywords Stakeholder theory, Corporate social responsibility, Social license to operate

Paper type Research paper

1. Introduction

Going beyond choices of how to help local communities, a corporation today needs to refine stakeholder management to ensure the corporation gets or keeps its social license to operate. The idea of social license to operate is a variation on the traditional approach to assessing salience – an approach that is pinned to the dimensions of power, legitimacy and urgency (Mitchell *et al.*, 1997). While firms have become more aware of corporate social responsibility (CSR) issues and public perception in Western nations, much less is known about how a corporation interacts with stakeholders in developing countries.

Traditional studies of CSR and sustainability have assumed that most stakeholders have the wherewithal to influence change, and these assessments have typically taken place at the individual citizen or small group level. Assessments of an individual or small group within a community (the “atomistic stakeholder”) along the dimensions of power, legitimacy and urgency can entirely miss the point if they fail to take context into account. Commonly, the atomistic stakeholder lacks power. An atomistic stakeholder’s issues may also lack urgency, and under conditions of significant information asymmetry or unequal bargaining

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power, for example, lack of urgency at the atomistic level can prevail even when conditions in the community are grim at the collective level. Some might even contest the atomistic stakeholder's legitimacy on the grounds that prior silence on an issue amounts to a forfeit of rights rather than an abrogation of those rights by the corporation. In other words, a course of conduct by the stakeholder that tacitly approved of the corporation's actions forecloses on that stakeholder's right to complain about the actions later. Even when there are violations, or undertakings are not respected, the capacity of stakeholders to revoke the social license to operate is limited (Luning, 2012; Owen and Kemp, 2013). Furthermore, the underlying principle of accountability (Luning, 2012; Owen and Kemp, 2013) presupposes business accurately reports its actions to the community stakeholders; however, the optimism of corporate communications has been characterized as "historical amnesia" (Luning, 2012, p. 210).

However, in a renewed view of the interaction of business with society, ideas of social license to operate single out the community as a collective. As a collective, it acquires capabilities that imbue it with power, urgency and legitimacy in a way that gives it the ability to extend or deny a social license to operate. This shift in the power equilibrium may be explained by resource dependency (Pfeffer and Salancik, 1978), as well as social contagion (Burt, 1987), where firms depend on the local community to maintain their competitive advantage in the sense that they need to prevent groundswells of discontent and the ensuing challenges to social order. Considering the nurturing of a social license to operate as a relational process between a firm and the community within which it operates supports the importance of a consultative process to exchange expectations, signal priorities and seek amenable solutions, recognizing the need for adjustments over time (Luning, 2012).

It is easy to imagine that a community in a rich, Western democracy can coalesce to create a formidable force. The community probably includes individuals with skill sets that are useful in applying pressure to an ostensibly misbehaving corporation: research skills, communication skills, leadership skills, political connections and even personal wealth. It should not be surprising that the average corporation would be concerned about how its actions affect its local community in such a setting.

But what if a community lacks the tools and privileges to effect change? How do the realities of marginalized communities relate to a corporation's social license to operate? An opportunity arose to include questions that are linked to this issue in a survey instrument whose primary purpose was to examine poverty levels in a jurisdiction in South Africa. We used the opportunity to ask respondents if, in their view, the main employer in the region appeared to respond to their interests.

This opportunity appeared attractive first because papers focussing on corporate governance and CSR in Africa are relatively few, especially those based on data obtained in Africa, but also because the focus of previous research was much different than the focus of the research reported in this paper.

For the most part, articles on corporate governance in South Africa address the corporate governance legal environment, and corporate behaviour within that environment. For example, [Rwegasira \(2000\)](#) makes the case for a particular governance model for South African economies and the need to adapt that model to the peculiarities of specific economies within that region. [Rossouw et al. \(2002\)](#), acknowledging the importance of [King \(1994\)](#)[1], provide an overview of governance in South Africa. [Klapper and Love \(2004\)](#) use firm-level data on corporate governance in 14 developing countries, one of which was South Africa, to examine, among other things, variations across national jurisdictions and the relationship of corporate governance with the strength of local legal systems. [Rossouw \(2005\)](#) analyses national codes of corporate governance in Africa and the relationship between these and business ethics. [Kyereboah-Coleman \(2008\)](#) uses market and accounting-based performance measures to examine the relationship between measures

of corporate governance and firm performance. McGee (2009a) presents an overview of corporate governance practices in South Africa and McGee (2009b) presents a comparative study involving South Africa and the Middle East. So, while much macro information has been postulated, and to a lesser extent evaluated in Africa, few studies have examined the specific context of a village and its relationship with a large multinational operating within its territory (despite the prevalence of this reality). This study provides a rare glimpse into the perceptions of community members in terms of how they relate to their major employer and their expectations of it.

CSR has been linked to ethics, responsibilities, stakeholders and sustainable development, where the World Business Council for Sustainable Development's definition of CSR is "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (WBCSD, 2000, p. 10), best exemplifying the partnership nature of CSR, while singling out a salient and critical stakeholder within the local community. Articles on CSR are also focussed on corporate behaviour, in the early days on the particular issue of whether a corporation should do business with or in apartheid South Africa, and more recently on the manner in which corporate behaviour in South Africa appears to respond to pressures to be socially responsible. For example, Hamann and Kapelus (2004, p. 90) use case studies to consider the sincerity of CSR initiatives in mining in South Africa and Zambia, closing with, "The conclusion is that companies' CSR-related claims, and particularly the reference to a business case for voluntary CSR, need to be treated with caution." Fig (2005, p. 617) examines the relationship between reconciliation in South Africa and the corporate response to pressures to act with social responsibility, concluding that, "[. . .] what passes for CSR is often greenwash, distracting the gullible into believing that business has a serious sustainability agenda". More than making choices of how to best help the local community, corporations today need to manage CSR and stakeholders to obtain the social license to operate which is a lifeline to corporate viability and essential to success (Owen and Kemp, 2013; Pesmatzoglou *et al.*, 2014).

This paper is different in the sense that it focusses on stakeholders' perceptions and their role in influencing corporate behaviour towards the socially responsible. This paper is also based on data obtained from a large sample of individuals living and working in South Africa. The main employer for these individuals was, and still is, a heavy industry owned by a foreign-based multinational enterprise. It employed approximately half of the workers in the community. Almost all of the remaining workers in the community depended indirectly on this employer. Thus, questions in the survey about corporate behaviour were, for practical purposes, questions about this employer's behaviour.

2. Sample population

The specific identity of the jurisdiction cannot be provided to protect the privacy of respondents; however, it is possible to say that the community is one of many comprising a large industrial area. The surveyed community included approximately 12,000 households. Each household was visited by one of the members of a team of fieldworkers who had been trained to gather data from respondents. Thirty-six per cent of the population was educated to Grade 12 or higher. Sixty-six per cent of households lived below the poverty line, where the poverty line was determined in relation to the cost of the basket of goods that amounts to the household subsistence level for the individuals living in the household. In all, 62.2 per cent of workers were unemployed. The poverty gap index, defined as (poverty line – household income)/household income, was 50 per cent.

3. The goal

The goal of this study was to examine the concept of social license to operate within the context of a potentially vulnerable population. Specifically, it seeks to examine the extent to which there was a perception in the community that the main employer exhibited

behaviours towards the stakeholder group that would suggest it is concerned about continued extension of its social license to operate by the community. In this context, survey data are desirable, as there does not appear to be any other research that uses survey data to look at the matter of social license to operate in the context of a stakeholder group with such extreme poverty metrics.

Appendix 2 sets out the survey questions and the reason for asking each question. The themes the questions are intended to address are as follows:

- Company interest in the views of the local people.
- Company concern with the welfare of the local people.
- Company receptiveness to input from the local people.
- Company processes to gauge the approval of the local people.
- Perceived influence of the local people over company decisions.
- Company expenditure for the benefit of the local people.
- Company processes to explain company decisions.
- Perceptions of the company motivation for being in the local community.

The degree of sophistication of the surveyed population was unclear, as was its ability to deal with nuanced questions. The questions were therefore limited to those that were direct and simple, using a five-point Likert agree/disagree scale with a middle neutral option.

Consistent with other research findings (Julian and Ofori-Dankwa, 2013; Pesmatzoglou *et al.*, 2014), it was not expected that the results would cast the employer in a very favourable light. The underlying assumption – that the employer would respond to the incentives and disincentives it faced – suggest that it would exploit its power imbalance and do little to improve the welfare of the local community.

4. Results

While there is some evidence to support the hypothesis that the organization under study exploited its power imbalance, to a surprising extent, the employer seems to be viewed favourably along the dimensions implicit in the survey questions. The results of the survey provide a more accurate and nuanced view of how one corporation interacted with a vulnerable population in relation to its social license to operate.

The survey results are presented in [Table I](#).

General observations concerning the results in [Table I](#) are as follows:

- The failure to obtain much in the way of strong agreement on the positively phrased questions, and 81.6 per cent of respondents strongly agreeing with the negatively phrased Question 8 suggests that there is a definite upper limit to the extent to which the employer is responsive to community needs.

Question	Survey results				
	Strongly disagree	% of respondents			Strongly agree
		Disagree	Neutral	Agree	
1	19.4	10.3	1.7	68.6	–
2	19.4	18.9	10.9	50.3	0.6
3	20.7	29.3	37.9	12.1	–
4	21.1	30.9	40.0	8.0	–
5	20.1	24.1	37.9	17.8	–
6	18.9	24.0	40.6	16.0	0.6
7	20.6	19.4	45.1	14.3	0.6
8	2.3	6.9	6.3	2.9	81.6

- On the other hand, the fact that over 50 per cent of respondents were either neutral or better on six of the seven positively phrased questions is suggestive of a degree of supportiveness in the employer's relationship with the community.
- The fact that, on average, for the seven positively phrased questions, over 20 per cent of the community strongly disagrees, and over 40 per cent of the community disagrees or worse, suggests that, whatever policies the employer is adopting for the benefit of the community, a large number of community members is being left behind.
- Further, respondents were also asked whether large corporations should be more involved in community developments. Hundred per cent of those surveyed responded in the affirmative.

Respondents were also asked about what large corporations should do, and why they should do it. The results for the larger scoring items are presented in [Tables II](#) and [III](#) below. In considering the responses, it should be noted that the roads in the area were in very bad condition, and this appears to be reflected in the results. The poor state of African transportation logistics is notorious, so much so that it has prompted some corporations to intervene where governments have failed. One such example is that of an international fertilizer company making a major investment in roads and ports to enable farmers to access fertilizers and then get their crops to export markets ([Porter and Kramer, 2011](#)).

It is clearly apparent that aside from roads, which captured a large share of results because of their bad condition and the immediacy of the effect this was having, community members are looking for employment rather than contributions of other kinds.

5. Discussion and conclusion

This study set out to explore how a large multi-national enterprise responds to the needs of the local community in an impoverished region in Africa. A unique opportunity to survey marginally literate members of the community, where half subsist below the poverty line provided valuable insights on their perceptions of this firm's social license to operate. While it was anticipated that the firm would take advantage of its power as the sole employer upon which the community was reliant, it was pleasantly surprising to find indications of the community feeling that their welfare was of importance. As such, this paper expands the CSR literature by contributing a data-driven view of corporations and their impoverished

Table II Stakeholders' action items

<i>What should large corporations do?</i>	<i>% of respondents</i>
1. Road construction—getting people to work	40.9
2. Provide work/do more projects	30.8
3. Build clinics	4.3
4. Giving food parcels away to the needy and alleviating poverty	3.9
5. Build schools/colleges	3.6
6. Twelve additional items	16.5
	100.0

Table III Stakeholders' rationales

<i>Why should large corporations do it?</i>	<i>% of respondents</i>
1. Roads are bad/improve travelling	38.8
2. Reduce unemployment and poverty	36.6
3. To reduce travel costs	5.4
4. City is too big for one clinic	3.6
5. Houses are too small	3.3
6. Environment is dirty	2.5
7. Eleven additional items	9.8
	100.0

stakeholders that provides a more nuanced take on the company–stakeholder relationship under conditions of extreme poverty and significantly unequal bargaining power than has been available to date.

This being said, the perception of exploitation by international firms was still firmly embraced. This may also refer to the generalization of the negative question asked, while the other positively phrased questions were specific to *companies in my township*. Of particular interest are the priorities for what local actions corporations should take, being focussed on employment and infrastructure, with very little expectation of charity. It seems as if the respondents sought corporate assistance to emerge from the poverty associated with unemployment, rather than embellishing of their poverty through handouts. The social license to operate is more readily awarded with community involvement in prioritizing needs and respecting their dignity. This is perhaps a key consideration managers in the developing world can integrate into their corporate social initiatives. By advancing the employability of members of the local community, firms are offering a hand-up to sustainable improvements rather than a handout that creates dependence. As managers consider their CSR choices related to operations in developing nations, stakeholder engagement and consultations may provide valuable input in understanding community expectations. Directing CSR spending to alleviate the community's most pressing needs can legitimize the sincerity of the organization's commitment to local society and sustainability.

There are, however, limitations with this cross-sectional research which future research might address. These questions were part of a larger survey so to facilitate response they were deliberately simple and straightforward. Perhaps open-ended questions or semi-structured interviews would provide greater insights on community perceptions. A longitudinal study would be able to capture changes in perceptions over time to relate to the evolution of the social license to operate. Future research might also consider comparing multiple communities involving the same firm to identify local particularities. Another aspect to be integrated to future research would be the inclusion of group interviews, as well as in-depth interviews with key stakeholders such as community elders[2].

This study contributes insights on an international firm's social license to operate in the under-researched African context. The identification of a positive community perception of the corporation's citizenship in some of the responses is, however, not replicated in the responses to the final question which signal a general distrust, expressed as the perception of the corporation as a profit-seeking exploiter of the local community. The priority accorded to job creation and improved transportation infrastructure by the community dispels the view that the impoverished seek charity or more welfare. This finding may be useful to the field of international development in the sense that the sampled population seems motivated to develop itself, if provided with the tools to do so.

Finally, managers who find themselves in situations similar to those evident in the community we studied should:

- Understand that despite significant information asymmetries, massive imbalances in bargaining power, and severe poverty, local populations have aspirations, they have expectations of local employers and they have local employers under scrutiny. In pursuing their aspirations, local populations can be a source of ideas and solutions that are mutually reinforcing for the employer and the local population.
- Understand that the sampled population may be motivated to develop itself, if provided with the tools to do so.
- Advance the employability of members of the local community, thus offering a hand-up to sustainable improvements rather than a handout that fosters dependence.

- Develop policies and practices to respect the dignity of the communities within which the firm operates to earn trust and to reinforce the social license to operate.
- Focus on the pressing social issues faced by a particular community, in this case, infrastructure (roads), and employment.
- Encourage dialogue between the parties to help ensure that the social license to operate is legitimized by common values around a desired, and sustained future for the local community.

Notes

1. King (1994) is the predecessor report to King (2002) and King (2009a and 2009b).
2. We thank an anonymous reviewer for this observation.

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Appendix 1. Definitions

The unemployed are those people within the economically active population who:

1. did not work during the seven days prior to the interview;
2. want to work and are available to start within a week of the interview; and
3. have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.

Survey covered (1) and (2) but not (3), as the surveyors were not in a position to verify this matter.

Household subsistence level

The lowest cost of a basket of necessities of adequate quality. It comprises the total food, clothing, fuel, lighting, washing and cleaning materials required for each person, together with the fuel, lighting and cleaning materials needed by the household as a whole, plus the cost of rent and transport. A calculation can thus be made for any household of any given size and composition.

Poverty line

An estimate of the theoretical income needed by an individual household to maintain a defined minimum level of health and decency in the short term.

Poverty gap \$ = poverty line – household income.

Poverty gap per cent = (poverty line – household income)/household income.

Headcount Index = number of households with income < poverty line/total number of households.

Age dependency ratio

Age dependency ratio is the ratio of dependents (people younger than 15 or older than 64) to the working-age population (ages 15-64).

Appendix 2. The questionnaire

Companies in my township appear to be concerned about whether or not the local people agree with their decisions

The purpose of this question is to examine whether the companies are interested in the views of the local people. As such, it examines whether, in the perception of the local people, the firms consider agreement or non-agreement of the local people as legitimate.

Companies in my township make decisions bearing in mind the welfare of the local people

The purpose of this question is to examine whether, in the view of the local people, the companies are concerned with their welfare. As such, it links welfare of the local populace to a potential source of legitimacy and urgency for the local people.

Companies in my township welcome input from the local people

Welcoming of input from the local people can, in its most favourable light, be considered a signal that the companies consider the concerns of the local community to be legitimate.

Companies in my township have set up processes to gauge the approval or disapproval of their decisions among the local people

Concern over local approval can signal that the companies consider the local people to fall into one or more categories including legitimate, urgent or powerful.

I feel I have influence over the role companies play in our local society

This question is intended to gauge the extent to which the local people feel they have elements of urgency, legitimacy or power.

I see evidence that companies in my township have spent money in the township to make life better for its members

Corporate financial engagement is a signal that companies are responsive to local stakeholders.

I see evidence that companies in my township have set up processes to explain their decisions to the local people

Establishment by companies of processes to explain decisions is a signal that firms are responsive to local stakeholders.

I think that large international companies are just here to make profits that they take overseas and do not care at all for the local people and communities

This is an omnibus question intended to determine on a holistic level whether whatever influence the local people feel they have, that they have used it, and companies have responded to it.

About the authors

Michael L. McIntyre (PhD, CPA, CA) researches in the areas of governance and financial risk management, the latter with a focus on derivative securities and financial mathematics. Michael L. McIntyre is the corresponding author and can be contacted at: mmcintyr@sprott.carleton.ca

Steven A. Murphy (PhD) examines the role of emotions in strategic decision-making, leadership and other facets of organizational life, and conducts research in the area of senior management dynamics and governance.

Carol-Ann Tetrault Sirsly's (PhD, CPA, CA) research focusses on sustainability, governance and strategic corporate social responsibility.

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