WHO ISSUES THE LICENSE TO OPERATE?

HOME AND HOST COUNTRY STAKEHOLDERS IN THE EXTRACTIVE INDUSTRIES

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Abstract

This explorative paper sets out to integrate international business and stakeholder literature. It explores the theoretical literature of these relatively separate academic orientations and applies it to the case of the Extractive Industries. In particular this industry faces a strong trade-off between the interests of home and host country stakeholders and has supported the idea of ‘corporate citizenship’. The paper stresses that local host communities need to be taken into account as a separate stakeholder, which can provide the multinational enterprise with legitimacy (or deprive it thereof). In the Extractive Industries, the relationship with host indigenous peoples provides a specific challenge for the development of an appropriate stakeholder approach.

1. Introduction

Besides purely economic considerations, firm managers are confronted with a variety of institutional pressures that determine their strategic choices {DiMaggio, 1983 #84; Scott, 1995 #30}. With the relative retreat of governments – due to privatisation and liberalisation – and the growing assertiveness of Non-Governmental Organisations (NGOs) corporations in general and multinational enterprises in specific are expected to contribute more directly to the creation of wealth and the provision of collective goods. Policy-makers and civil society increasingly perceive multinational enterprises as actors that can and should contribute to sustainable development rather than as cause of social and environmental problems (Blowfield & Frynas, 2005; Den Hond & De Bakker, 2007). Some even argue that especially in developing countries, firms from industrialised nations have a broader set of responsibilities than in their home countries (Reed, 2002).

Legitimacy, socially constructed in the institutional field, is necessary for firms' long-term economic survival {DiMaggio, 1983 #84, DiMaggio, 1991 #460}. Legitimacy is dependent upon the way corporations manage the institutional pressures exerted by an increasing number of stakeholders. Expectations towards multinationals vary with industry type and the kind of operations carried out in developing nations. Manufacturing firms and especially the clothing industry face demands to make their international supply chains more sustainable and deal with social issues like child labour. Retailers and service providers are asked to provide goods and services (e.g. microcredits) to the poor and even discover them as consumers and a source of potential profit (Prahalad & Hammond, 2002). The extractive industry (EI), due to the nature of their operations and the impacts on a local as well as national level, is confronted with perhaps the most long-standing, the broadest – but at the same time also the most fragmented – set of requests by governments, NGOs, shareholders and stakeholders. For example, host country governments perceive investments by resources-seeking foreign multinationals as the road out of poverty but often also want to maintain control over strategically relevant resources; poor local communities expect jobs, infrastructure development and service provision; NGOs push for attention to human rights, environmental and social problems; and indigenous communities demand respect for their ancestral land rights and alternative perspectives on development. In the World Bank's Extractive Industries Review (EIR) it is argued that the negative public image and the high pressures at a local as well as international level necessitate high investments in corporate citizenship in the EI {Salim, 2003 #245}.. The 'social license to operate' is considered a necessity for successful operations especially in the upstream part of the extraction business. This makes the extractive industry a particularly relevant example for examining the conditions under which a social legitimacy is constructed at a local level and how the license to operate is obtained.

Expectations towards EI multinationals have influenced the success and costs of foreign operations in that industry, while also affecting their generic strategies through the working of the reputation mechanism (cf. Van Tulder with Van der Zwart, 2006). In response, EI firms have been amongst the first MNEs to formulate codes of conduct and engage in relatively sophisticated reporting initiatives (KPMG, Kolk, 2006). Firms like Royal Dutch Shell, British Petroleum or Rio Tinto are regularly chosen as 'best practice' or 'icon' cases in the area of CSR. The adoption of CSR activities however, might also develop into a risk for firms. Especially in industries with a generally low public reputation like the weapons or petroleum industry, CSR might be seen as window dressing and its effects on firm legitimacy are unclear at best {Heugens, 2007 #459}.

The study of resources-seeking multinationals adds a specific locational dimension to international stakeholder relations, because national host governments as well as local communities are important stakeholders with often diverging interests. EI firms regularly try to portray themselves as good 'corporate citizens', but what does this concept imply and is it understood as being a citizen in the host country or at the community level? In the internationalisation of upstream[1] EI operations the relationship with local indigenous communities is particularly relevant.

Firms with their strategy in mind are likely to adopt those CSR measures that will be recognised and approved by those stakeholder groups that grant them their license to operate. It seems unclear from the literature, which groups are actually most important in that respect. According to the EIR it is the free prior informed consent of the affected

[1] The focus of this paper is on the internationalization of EI firms' extractive operations prior to refinement and distribution.

parties and local (indigenous) communities in the area where the operation takes place that leads to a social license to operate for the firm {Salim, 2003 #245}. However, the mechanisms by which obtaining local consent grants a social license in the institutional field with other than the local stakeholders seem to be unclear.

This paper aims at exploring the role of indigenous communities as one stakeholder group in the EI that have the potential to influence other stakeholders. It departs from an international stakeholder perspective and starts off by distinguishing between home and host country stakeholders. The paper explores whether this circumstance necessitates a novel stakeholder approach.

At the moment, the link between international business (IB) literature and stakeholder theory remains relatively weak and usually only two main stakeholder groups are considered. The traditional MNE-stakeholders relation is the one with host governments (e.g. Fagre & Wells, 1982; Vernon, 1971). With the emergence of transnational advocacy networks (Keck & Sikkink, 1999) NGOs as stakeholders entered the IB debate (Doh & Guay, 2004; Doh & Teegen, 2002; Teegen, Doh, & Vachani, 2004). Host country communities however, have not received a lot of attention so far in IB and rarely did so even in the stakeholder literature (Dunham, Freeman, & Liedtka, 2001; Phillips, Freeman, & Wicks, 2003; Walton, 2007). This paper draws from stakeholder, corporate citizenship, and IB literature to explore who provides firms with the license to operate in host (often developing country) communities. The case of indigenous communities and multinational extractive industry firms is used as an example to illustrate the assumptions proposed.

The remainder of this paper consists of six sections. The second section departs from the notion of the 'global corporate citizen' (Logsdon & Wood, 2002) to explore which stakeholders multinational firms are accountable to. The third section explores the concepts of legitimacy and reputation and outlines mechanisms that explain the importance of certain stakeholders in particular positions.

In the fourth section the IB literature will be added to those considerations in order to further underline the importance of home country stakeholders in issuing the license to operate for MNEs entering developing countries. Then (section 5), the specific case of the extractive industry will be examined against the theoretical background outlined earlier. Characteristics of indigenous communities will be added that establish them as a distinct force influencing the success of EI operations that only recently received attention in the management literature (section 6). Their potential influence on the publicly perceived legitimacy of EI operations via their engagement in transnational advocacy networks makes them an important stakeholder group for EI firms. A research agenda for future research in this area will be outlined in the final section of the paper.

2. The multinational firm as a 'citizen' of the home or host community?

Especially practitioners and corporations, but also scholars, NGOs, and international organisations, employ the rhetoric of 'corporate citizenship' when describing or reporting on corporate social activities. Corporate citizenship (CC) as a concept is used in a more or less broad way by different actors (i.e. firms, NGOs, academics) and the distinction between CC and corporate social responsibility (CSR) is not always clear (Norman & Neron, 2008). However, the notion of CC builds on the idea of individual citizenship and the rights and duties of citizens within their communities and thus seems to be more closely linked to firms' relations to the local communities they operate in (Logsdon, 2004) than the more broad concept of CSR. To provide an understanding of what corporate citizenship can mean in the international context of MNEs, Logsdon and Wood (e.g. Logsdon, 2004; e.g. Logsdon et al., 2002) developed the notion of 'global corporate citizenship'. Businesses act as global corporate citizens when following a general set of 'hypernorms' during their operations and try to implement those norms where not present in local practice (Logsdon, 2004). Logsdon and Wood (2002: 169) argue that the "profound economic, social, and political consequences that stakeholders are able to achieve by using market forces" create a need for firms to act as global citizenship out of self-interest. However, possible conflicts of interest, managing claims from stakeholders in different locations, and home country influences on the need to adhere to hypernorms are not considered in the global citizenship literature so far. One could ask which stakeholders actually have the power to request global citizenship behaviour from MNEs. Do firms act responsible in a developing country community out of loyalty to that specific community or is it rather the loyalty to home country stakeholders and customers that drives responsible firm conduct? It has been argued that corporations do only satisfy a few connotations associated with the individual citizenship conception and that they are only loyal to a select range of stakeholders instead of being loyal to a certain community or nation as a whole (Norman et al., 2008).

Citizenship activities differ between industries and are often focused on the home countries of multinational firms or very similar to the measures applied at home {Post, 2001 #461}. For the extractive industries it seems a different citizenship model is necessary that satisfies home as well as host country communities and the ‘community’ of internationally networked NGOs that acts as an intermediary between the two. At the local level extraction firms have to distinguish between citizenship activities for the local community of employees (‘company towns’) and the remainder of the local population they are involved with, especially so if this concerns communities of indigenous peoples where they usual citizenship activities employed in the home country might not be appropriate.

Ownership is often mainly located in the home country of the firm and so are oftentimes the main customers. Thus, the number and importance of firm stakeholders is likely to be higher in the firms’ country of origin (Wartick & Wood, 1997). This is reflected in higher citizenship activities at home {Post, 2001 #461}. It is the stakeholders in the host countries though that are most likely negatively affected by the international operations of MNEs (Getz, 2004: 25). The case of resource extraction on indigenous peoples’ land is in most cases an extreme example for high impacts of firm operations on host communities and a concentration of ownership and customers in the home country. Added to this often is the difference between a developing and developed country.

The controversy about Shell’s operations in Nigeria in the midst of the 1990s provides a classic case to illustrate this setting. The Ogoni people that were affected most by Shell’s operations were not in a position to demand responsible firm conduct in the first place. When Ogoni leaders got arrested for their protests against Shell operations, it was only after customers in the home region of Shell became active, that the company initiated steps (albeit unsuccessful) to lobby with the Nigerian government to free the captives. Based on this case and general considerations on ownership and who are the primary stakeholders of a firm it can be argued that firm loyalty and citizenship will always be restricted to certain key stakeholders that have the power to influence the firm.

Customers, suppliers, employees, shareholders and investors, and the public stakeholder group that has the ability to influence the other stakeholders, are usually considered the primary or critical stakeholders of the firm (Clarkson, 1995). Local communities, and especially host communities, are mostly missing on this list of important stakeholders (Dunham et al., 2001; Phillips et al., 2003; Walton, 2007). If host country communities want to influence MNE conduct they have to resort to civil society and shareholders in the home region of the MNE.

International NGOs often take the lead in targeting multinational firms and their foreign entry, operating practices, and the outcomes of their operations (Teegen et al., 2004). They can be seen as the ‘global stakeholders’ representing the counterpart and watchdogs of the global corporate citizens. Those international NGOs are usually based in developed countries where also the majority of their constituents and donors are located (thus the acronym ‘NNGOs’ to signify the location in *northern* developed nations). They work together with national NGOs in the developing nations (*southern* or SNGOs) that, in exchange for funding, engage in grassroots action and provide information for the campaigns of their international counterparts. It has been argued that, because of their dependence of donor funds, NNGOs will be likely to attend to the wishes of their developed country donors rather than to those of the SNGOs and their constituencies should an interest conflict occur within the international NGO network (Schepers, 2006). Schepers further concludes that the CSR strategy of MNEs from developed countries therefore is skewed towards the wishes and expectations of those constituents in the developed countries that support the NNGO rather than focusing on the needs of those directly affected. Firms are therefore likely to adopt highly visible and short-term projects in order to *appease* home country constituents rather than focusing on longer-term solutions that would bring true benefits to affected stakeholders (Barkemeyer, 2007). Examining the reactions of sports goods manufacturers, football associations, and international organisations to the ‘discovery’ of child labour in football manufacturing in Pakistan, a recent study supports this view {Khan, 2007 #435}. The authors find that through the measures introduced by football manufacturers together with international organisations (ILO, UNICEF) “the sensibilities of western consumers had been soothed” {Khan, 2007 #435: 1070} but that benefits for the local communities in Pakistan were low because the measures taken did not tackle the real issues (e.g. earning a living wage) and created disadvantages for people.

A number of factors are likely to influence the susceptibility of firms to stakeholder pressure. First, this is the motive for firm internationalisation. Firms looking for strategic assets or markets abroad are more likely to be responsive to local demands than firms that are export oriented and use the foreign location as a cheap production or resource base for products they sell at home. Privately held companies might be more willing to implement global citizenship activities because they can be pressured by their shareholders to do so. State- or family owned firms on the other hand are rather independent of shareholders but can still be influenced via their reputation with customers. Another factor is the level of vertical integration of the firm. MNEs that are highly vertically integrated are on the one hand involved in potentially reputation-threatening upstream operations in developing countries (such as the extraction of raw materials or the mass production of consumer goods) but do on the other hand also directly relate to their customers in the home country. The importance of brand names and a favourable corporate reputation in that respect cannot be overestimated (Alsop, 2004) and makes those firms prone to react to stakeholder pressures. Likewise, the membership in industry associations or international initiatives such as the Global Compact or Business Partners for Development might be an indicator for firms' sensitivity to stakeholder action and threats to their reputation. With respect to the extractive industry and indigenous peoples another factor becomes salient: the relation of the indigenous peoples to the government in their home country. Here the question is if the host country government supports their claims or if indigenous peoples have to deal with discrimination and violation of their rights. The idea of CSR regimes, stemming from different historical and institutional developments and traditions in particular regions of the world, (Van Tulder & van der Zwart, 2006) also suggests differences between MNEs from different countries. For example differences in corporate governance of the Anglo-Saxon system where the focus is on shareholder value can be distinguished from a European system focusing on a number of different stakeholders. This is likely to impact the ways in which CSR strategies are drafted and firms react to pressures from different stakeholder groups.

3. Multinational enterprises and CSR strategy – Reputation, legitimacy and the license to operate

Multinational enterprises are especially vulnerable to public pressure for responsible firm conduct from stakeholders in various locations (Campbell, 2007; Rodriguez, Siegel, Hillman, & Eden, 2006; Zyglidopoulos, 2002). Investments in CSR activities are valuable for building reputation, legitimacy, and competitive advantage and thus help to secure long-term growth of the firm (Gardberg & Fombrun, 2006). MNEs do strategically manage their CSR activities and even the calculation of an 'optimal level' of strategic CSR has been suggested in which corporations balance social benefits and costs with their financial efforts (Husted & De Jesus Salazar, 2006). When reacting to their multiple environments, MNEs have the strategic choice between local adaptation (multidomestic strategy) and global integration (Bartlett & Ghoshal, 1989). Logsdon and Wood (2002) apply this notion to corporate citizenship and hold that neither approach alone is sufficient and firms are required to combine the need for local adaptation with the adherence to a set of global norms and values depending on the pressures they face from different stakeholder groups. Although a good start to integrate international business knowledge with social strategies of firms, their model is not very sophisticated in terms of distinguishing different stakeholder groups and the force of their claims. An option would be to link Logsdon and Wood's ideas to the measurement of the relative Transnationality Index (TNI) of the firm, a combined measure of the internationalisation of sales, assets and employment (see Van Tulder et al., 2006: 47), in order to determine the importance of particular stakeholder groups for the firm on three 'reputation markets' and predict the CSR strategy that might be chosen by the firm: consumer markets (sales), labour markets (employment) and capital markets (assets and equity).

Although often used interchangeably legitimacy, reputation, and license to operate are different concepts that need to be distinguished. Reputation and legitimacy are both socially constructed by stakeholders of the firm and – if managed successfully – have been linked to positive outcomes and are thus often used interchangeably (Deephouse & Carter, 2005). However, if compared in more detail reputation signifies the relative standing of a firm compared to other firms on a number of dimensions whereas legitimacy characterises more the acceptance of an organisation resulting from adhering to regulative, normative, and cognitive norms (for further discussion see e.g. Deephouse et al., 2005; Thomas, 2007). Social responsible firm conduct has a legitimising effect within an industry and over time firms can build a positive reputation for being more social responsible than others (Thomas, 2007). Thus, a certain base level of CSR – depending on the pressure exerted by civil society – is necessary to gain the license to operate which has been defined as the acceptance of a firm's operations by "all stakeholders who can effectively impact the profitability" of the firm (Graafland, 2002: 297). Following this view, power and ability of those stakeholders to define base requirements determine the extent of corporate social activities (ibid.).

MNEs operating outside their home country have to deal with liability of foreignness that results in higher operating costs compared to local firms and is caused, among other factors, by a lack of legitimacy of the MNE in the host country (Zaheer, 1995). The wish to manage firm legitimacy is a main driver for corporate social performance (Wood, 1991). Legitimacy, the acceptance of the firm in its environment[2], is an essential external factor for organisational survival (Hannan & Freeman, 1977), has been linked to political bargaining power with host governments (Eden, Lenway, & Schuler, 2004), and can even function as an entry barrier for multinational firms (Kostova & Zaheer, 1999). The legitimation process, the institutional environment, and the characteristics of the organisation seeking legitimacy are more complex in the case of MNEs (Kostova et al., 1999). Multinational firms need to adjust to different legitimising environments with different institutions that might be more or less distant from those in their home environment (Van Tulder et al., 2006) and often face higher expectations than local companies in terms of social responsibility, which adds to their liability of foreignness (Kostova et al., 1999).

Legitimacy is hard to earn for a number of reasons. First, firms are often unable to translate their global CSR strategies into local action that is able to embrace the same broad definitions of communities and firm responsibilities (Kapelus, 2002). Second,

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[2] This broad definition is based on Suchman's definition of legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or approporiate within some socially constructed system of norms, values, beliefs, and definitions."
Suchman, M. C. 1995. Managing legitimacy: Strategic and institutional approaches. ***Academy of Management Review***, 20(3): 571-610.

proactive firms are putting their reputation at risk when they are recognised as frontrunners in their sector because activist groups are likely to target those firms if they want to demonstrate need for broader field-level changes with the argument that even the most progressive firms are unable to live up to their standards (Den Hond et al., 2007). In that respect Shell became an icon for the environmental (Brent Spar) and human rights movement (Nigeria) and Rio Tinto was criticised by the environmental and the indigenous peoples movement (Papua New Guinea). The distinction between home and host country stakeholders is, therefore, especially important in the extractive sector.

4. Extending international business literature – The internationalisation of upstream EI operations under the influence of stakeholders

The specific stakeholder challenges EI firms face when investing abroad have largely been ignored so far in the IB literature. Nevertheless in particular EI firms are confronted with a range of stakeholder claims resulting from their upstream operations in indigenous communities (often in developing countries). Resources-seeking is one of the main four traditional motives for the internationalisation of operations that is also most easily fitted into a neo-classical (comparative advantages) welfare maximising framework. EI firms have two options to access raw materials: (1) spot purchases and/or long-term contracts or (2) internalisation of production (Jones, 2005; Ollinger, 1994). In the OLI paradigm MNEs are considered to have an internalisation advantage and therefore try to avoid external market transactions and uncertainties of operating in the free market (e.g. Dunning, 2000). This internalisation advantage leads to the high vertical integration that we see in most extractive industry firms and to foreign direct investment (FDI) from those firms into locations with abundant natural resources.

But foreign investment into upstream resource development operations is also associated with a number of effects uncommon to other industries. Especially the creation of external diseconomies in the form of adverse effects on local consumption patterns or income distribution and the absorption of resources that would have been used elsewhere and also political impacts such as threats to host country sovereignty and influence on national politics have been named in that respect (O'Faircheallaigh, 1984). On a national level it seems that developing nations with large amounts of natural resources lack the absorptive capacity to reap the benefits of FDI in mineral development and instead face serious economic and political problems (e.g. creation of local elites, civil war). The terms ‘resource curse’ or ‘paradox of plenty’ that are used in relation to natural resource development draw a sombre picture of its effects on national economies (Ballard & Banks, 2003; Karl, 1999; Sachs & Warner, 2001; Stevens, 2005). Poverty alleviation and development built on mineral resource income has proven possible in some developing countries such as Botswana and Chile aided by good governance and effective institutions (Acemoglu, Johnson, & Robinson, 2001; Stevens, 2003). Nevertheless, similar conditions are lacking in most developing nations that rely on resource extraction as a main source of national income. It has created pressure for EI firms to take over state roles in the absence of strong government institutions, but has clearly also contributed to the very existence of the resource curse. Political approaches to the causes of the resource curse note that weak host governments – with weak legitimacy towards other local stakeholders - have also been weak in representing a solid bargaining partner for the entering extractive firms – other than the obsolescing bargaining theory of Vernon would have expected.

The nature of the resources industry adds another characteristic to the stakeholder relationship. Locally, resource development often is accompanied by what has been called ‘windfall development’ meaning a sudden influx of money into an area through job creation, resource rents, and increased economic activity (Ali & Behrendt, 2001). Inherent to this type of economic development is the fact that the stream of money will run dry once the mine or well is being closed thus rendering it harder to provide sustainable development to the affected local communities. Especially in remote and indigenous communities the profound changes in peoples’ lifestyles, introduction of a cash economy, access to consumer goods, and the creation of infrastructure associated with resource development create a demand that often cannot be met in the long run and beyond project closure (Young, 1995). In general it is the large scale, capital intensity, and highly technical nature of industrial resource development that runs counter to the type of development indigenous populations in remote areas could easily participate in (Young, 1995). Difficulties in rent distribution and weak or differing legislation create further sources of conflict around resource development (McPhail, 2000; Young, 1995).

The emergence of often severe local and national economic and social effects of resource development indicates that host country considerations are not very high up in the corporate agenda of EI MNEs. Going back to the notion of citizenship referred to earlier in this paper, it seems that multinationals from the oil and mining sector do not fulfil the criterion of solidarity with the nations or communities they operate in and also do not engage in political activities to implement a set of (so far unspecified) hypernorms (Logsdon, 2004) within the countries they operate in.

Multinational EI firms that are headquartered in developed countries and vertically integrated into refining and sales are subject to extreme public scrutiny and often face a relatively low public reputation in their home countries compared to other sectors (MMSD, 2002). Their upstream operations on indigenous peoples' lands in particular are closely watched by a number of national and international NGOs, organisations of indigenous peoples, and activist groups. They therefore do not have the option to stay below the 'public radar' and operate without being recognised, as might be the case for smaller, less well-known EI firms and those that are state-owned and thus less susceptible to public influence. They are among the frontrunners when it comes to CSR activities following the need to improve their image (Evans, Goodman, & Lansbury, 2002). Scholars argue that, in order to gain public legitimation in their home markets, mining and oil companies are expected not only to compensate but also "perhaps even upgrade the local community" they operate in (Gardberg et al., 2006: 339). International oil companies, for example, with their increasing need to obey certain rules of conduct in developing countries seem to be disadvantaged when competing with state owned firms from developing or newly industrialising countries. A recent example for this tendency is the huge investments of the Chinese CNPC into Sudan's oil industry. Concerns about human rights issues made international oil companies reluctant to invest in that area (Hoyos, 2007). This can be interpreted as a new form of entry barrier for oil MNEs from developed countries. Their multinationality and need to build legitimacy on various levels (home/host country, corporate/subsidiary) thus creates additional pressures for multinationals from developed nations. In the case of the extractive industry the high public vigilance and poor reputation of the whole industry, based on a history of negative environmental and social impacts of resource development, further contribute to that pressure for legitimacy.

In itself, the extraction of non-renewable resources is non-sustainable and the environmental and national economic impact of EI operations also oftentimes has proven detrimental. Negative impacts of resource development on a local level led to an extremely high conflict potential between firms pursuing that kind of development and affected communities. Thus, societal expectations towards EI firms are growing and they need not only to consider the traditional locational determinants for FDI (geological potential, quality, accessibility and risks associated with production of the resource, infrastructure) but also reputation risks and costs caused when projects have to be abandoned due to political instability or conflicts e.g. with indigenous peoples.

Kapelus (2002) argues that the communities hosting the mining or oil operations are most directly affected by the negative impacts of resource development and that their claims therefore possess the highest credibility of all stakeholders. This might be true. However, credibility of stakeholder claims is not the only factor influencing firm attention to stakeholders. As Mitchell, Agle and Wood (1997) outline in their seminal paper it is power, legitimacy and urgency that determine stakeholder salience for the firm. Thus although the credibility and moral legitimacy of the claims might be high but not supported by the other two attributes, which would render the indigenous community a discretionary stakeholder with low salience for the firm (ibid.). Kapelus (2002: 280) further argues that firms that are able to prove that local communities benefit from their presence can earn a "cloak of legitimacy" able to shield them from claims by other groups such as environmental or labour organisations. The question remains who weaves that sought-after cloak – is it the local community, the host government, or rather the customers and interest groups located in the firm's home country or is it a blend of colours and fabrics all woven together?

6. Indigenous communities as stakeholders of FDI in the extractive sector

Scope and direction of CSR activities in the extractive industry is determined by pressure from civil society in the home country, called to action by international NGOs and leading to an increasing self-commitment of EI multinationals to responsible conduct in their host countries. Indigenous communities in the host countries that are affected by the resource development represent another group pressuring EI firms to adopt certain CSR practices, which is rarely considered in the management literature {Imbun, 2007 #413}. Facing incompetent and/or unreliable governments, those communities turn to EI firms and demand service provision beyond the resource rents agreed upon with governments in return for smooth uninterrupted operations (Imbun, 2007). However, only if local indigenous communities can articulate a serious threat (e.g. violent attacks that would endanger safe and uninterrupted operations), firms will give in and provide extra services. The other – and more likely – option available to local indigenous peoples is to team up with international NGOs and make their claims heard through stakeholders from the firms' home country. This section explores some characteristics of indigenous communities and their implications for stakeholder and international business theory that could provide a justification to include indigenous communities as a stakeholder group that has to be considered by EI firms.

Indigenous communities in particular have been shown to fervently resist resource development on their ancestral lands. First this is because indigenous peoples all over the world are disproportionally affected by oil & gas operations or mineral extraction (O'Rourke & Connolly, 2003). The depletion of resources in existing extraction sites and increasing resource development in more remote areas will even lead to an increase in operations near or on indigenous peoples' lands in the years to come (Davis & Softestad, 1995; Kapelus, 2002; McMahon, 1998). Second, indigenous communities possess certain characteristics that make their claims towards EI firms different from those of other local communities[3] (Crawley & Sinclair, 2003).

A handful of studies examine communities of indigenous peoples and their relationships with firms from a range of industries such as forestry (Lertzman & Vredenburg, 2005; Whiteman, 2004a), hydroelectrics (Moore, 1998; Whiteman, 2004b), tourism (Dyer, Aberdeen, & Schuler, 2003), and oil or minerals (Ali, 2003; Banerjee, 2000; Whiteman & Mamen, 2002). Those studies however, do not consider indigenous community resistance as a factor that might pose a risk to foreign direct investments by multinational firms.

[3] Without assuming that any claim by either an indigenous or other community has more merit than the other.

This section will therefore focus on the link between indigenous communities and the legitimation of MNEs in the extractive sector.

Differences in the claims and expectations of different communities towards multinational firms exist. They depend for example on the level of development present in the country where the firm operates and the services that are provided by local and national governments. On an individual level, basic life and safety needs have to be fulfilled before higher order needs like esteem and self actualisation can be tackled (Maslow, 1970). The same can be assumed for local communities at a mine or oil development site. It can be expected that a community in a developed nation that receives infrastructure, social security, and safety from government poses different demands to a firm than a community in a developing country where fulfilment of basic community needs cannot be taken for granted. Additionally, local communities in developing countries have been said to be more vulnerable to externalities produced by firm activities. Lower material capacity, low ability to influence governments and call in their rights, a direct reliance on natural surroundings for subsistence, different cultural values and lifestyles and a lower integration into the market economy have been named as reasons for this higher susceptibility to disruption by firm operations (Reed, 2002).

Communities of indigenous peoples are frequently reported to have a more holistic approach to their environment that does not distinguish between environmental and other resources. Social, cultural, political, economic, and environmental aspects of landscapes are related in a way that is unique to indigenous worldviews (Banks, 2002). Landscape represents a part of the identity of many indigenous peoples. Myths and songs about creation and ancestors are related to features of the landscape (Weiner, 2004). Whole areas or parts of the natural environment such as mountains, rocks or rivers can be associated with indigenous culture and play a major role in their stories. Those places are considered sacred and might be ‘no-go’ zones or areas of restricted access for certain people or at certain times. If resource development projects confront indigenous communities with the destruction or desecration of such sites, strong opposition often is the result (see e.g. Moore, 1998). Loss of traditional lifestyles and cultural changes have been associated with the emergence of social problems such as drug abuse and domestic violence and are widely documented for indigenous peoples (Evans et al., 2002;

O'Rourke et al., 2003; Salim, 2003; Young, 1995). Therefore, focusing on environmental management and sustainability alone without considering the spiritual and cultural impacts of large scale land transformations associated with most mining and oil projects will not mitigate the conflicts experienced between indigenous communities and EI firms (Banks, 2002). Likewise, a more flexible conceptualisation of the stakeholder notion seems to be needed when firms deal with indigenous peoples. Complex and constantly changing systems of indigenous land tenure that are grounded in kinship, use and cultural association have been reported (Guddemi, 1997) and make differentiation between legitimate stakeholders and those who are not nearly impossible. The internationalisation of resistance and stakeholder activism further blurs the borders between stakeholder groups where besides 'communites of place' communities of interest and practice as well as communities of virtual advocacy groups can form and exert influence on the firm and therefore need to be considered as stakeholders (Dunham et al., 2001).

7. Discussion and further research

This paper departed from the stakeholder, corporate citizenship and international business literature to outline the importance of home/host country considerations when assessing the importance of different stakeholder claims. The specific case of extractive industry firms and their relation to indigenous communities in areas of upstream operations was used to provide further insights and evidence for the importance of this concept. Several factors were discussed that might, on different levels and in different locations, impact the 'legitimacy' or the 'license to operate' of EI firms. The general considerations outlined in this paper can be applied and tested for a range of industries taking into consideration the factors that influence firms' susceptibility to reputation and legitimation challenges.

Suchman's (1995) different levels of legitimation should also be included when looking at legitimation dynamics towards different stakeholders. It can be assumed that host country stakeholders, at least in the extractive industry, can be considered part of a passive legitimation of firm operations (gaining acquiescence for their operations) whereas firms want to garner active support from primary stakeholders at home. Legitimation conflicts when interests of various stakeholder groups clash might be a source of valuable information on which stakeholders are given precedence and how firms strategically manage their legitimacy. Further research could for example examine which stakeholder interests are reflected in the key performance indicators used during the internal evaluation of the CSR performance of firms. Those very likely reflect the demands of those stakeholders that the firm considers important in providing legitimacy and the license to operate. Taking those 'hard' indicators and comparing them to the soft firm rhetoric about community relations and corporate citizenship seems to be a promising path to determine what really matters for firms and if they managed to adjust their CSR mechanisms to the demands of increasingly well organised and powerful local communities.

The role of opportunities for stakeholder action also could be further explored. It has been suggested that international NGOs approach local NGOs to collaborate with them on a particular issue and that this opens up an opportunity window for the local organisation which it might not have opened up proactively (Hendry, 2005). It seems interesting to explore in how far opportunity creation by external actors influences indigenous resistance to resource development.

Further, the role of power exercised in the context of CSR and its linkages with e.g. a postcolonial approach to managing host country stakeholders should be explored in more detail. The question that could be asked here is how postcolonial relations are embedded in the mechanisms of losing or gaining legitimacy {Khan, 2007 #435}.

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