



## Toward a theory of local legitimacy by MNEs in developing nations: Newmont mining and health sustainable development in Peru

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### ABSTRACT

This paper describes a current initiative by Newmont Mining Corporation (Newmont) to develop sustainable community benefit in communities around its mining operations in Peru in response to heightened criticism of Newmont by non-government organizations and the media. Using anthropologically oriented methods, a community health assessment project in an area of projected mining is described in detail in this paper. This case adds to London and Hart's social embeddedness strategy for multi-national enterprises (MNEs) working in developing nations by introducing a locally-based community interaction model, which we describe as a local legitimacy strategy, in an effort to bring about sustainable development in the communities that surround a MNE's production activities. The components of our local legitimacy strategy include co-analysis of community needs by MNEs and community partners, and planning and investment in developments to enhance the social fabric and the physical infrastructure needs of communities. The developing world is getting better at publicizing and monitoring the work of MNEs. We argue that it will be increasingly necessary for MNEs, like Newmont, to add local sustainable benefit into their strategic mix to gain the social license and legitimacy that is needed to operate in poorer communities.

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### 1. Introduction

This paper is an exploratory examination of the theoretical dimensions of multi-national enterprises' (MNEs) involvement in poorer population areas of the world. As such, the research questions of this paper are "why do MNEs seek local legitimacy in developing economies?" and "how do they do so?" To date, the lack of interest in developing nation economies has led to a transnational model of global strategy, which is pre-occupied with describing strategies that seek to overcome the lack of a Western-style business environment (Peng, 2001). That is, to the extent the local environment includes features inconsistent with what is typical in developed economies, an MNE will implement strategies to "fix" those features. A transnational model suggests that MNEs generally rely on proven global capabilities to adapt existing business models, such as a subsidiary strategy to control resources, extract knowledge and leverage economies of scales (Bartlett and Ghoshal, 1989). Also, MNEs are accustomed to creating competitive advantage through patents, brands and contracts and are wary of entering emerging markets where their proprietary technology and knowledge cannot be protected through enforceable legal mechanisms (Delios and Henisz, 2000). In effect, this paper argues that the transnational model needs to be amended to allow for a hybrid approach that balances local and global

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strategies by MNEs. Alternatively, a social embeddedness strategy model for MNEs in developing nations has been introduced (London and Hart, 2004). Social embeddedness is defined by London and Hart as the ability of MNEs to create competitive advantage based on a deep understanding of and integration with the local environment. This capability involves the ability to create a web of trusted partnerships with a diversity of organizations and institutions, generate bottom-up development and understand, leverage and build on the existing social infrastructure.

What the case of Newmont in Peru adds to the social embeddedness construct is the extent to which MNEs are reaching out to gain legitimacy in the local communities in which they are working. London and Hart's social embeddedness construct describes, to a greater extent, why MNEs should to take a bottom-up local partnership approach to move their products in emerging economies. The Newmont case, however, isn't about moving product into new markets (Pralhad and Hammond, 2002). This case is about providing sustainable benefit to poor local communities in exchange for the minerals that Newmont is extracting out of the ground for trade on global markets.

This is a remarkable development. As described in detail in this paper, community protests and pressure from NGOs have compelled Newmont to finally consider the welfare of the community. Beyond just providing jobs, Newmont must now convince the community that it can and will provide benefits that offset the environment and social externalities of mining. Newmont has begun to enter the realms of health services development in the communities surrounding its mining sites. To assist this effort, Newmont engaged an independent team of health experts and social scientists from the University of Colorado to visit communities around Newmont's mining sites in Peru and make recommendations as to what actions Newmont could take to improve health conditions in those communities.

Newmont's foray into the development of the health sector is not the only example of extractive resource MNEs attempts to improve health conditions. Anglo-Gold and other mining companies in South Africa have funded and provided anti-retroviral therapy for their workers with HIV. In Mozambique, BHB-Billiton began treating its employees for malaria, but soon realized that public health efforts, in coordination with local government, were necessary to effectively address the disease in its workforce. In Papua New Guinea, Freeport-McMoran launched community-wide treatment for lymphatic filariasis to decrease the impact of this debilitating disease on its workforce (Gifford et al., 2007). The Newmont case in Peru, however, is unique in that the organization did not enter the health arena as a response to employee productivity losses. Instead, Newmont discovered that social license and legitimacy were becoming necessary inputs to its mining operations. The defensive strategies of environmental and social impact assessments alone, and ensuing mitigation efforts, were failing. Addressing health in a health-service shortage area, alternatively, represented an attempt at a proactive investment by Newmont to secure long-term legitimacy in the community.

As Newmont has learned, and non-government development organizations have long known, any social investment requires in-depth knowledge of the community, extending far beyond the demographics of the employable workforce. This realization is the basis for this paper's presentation of a community health assessment case study. We suggest that such assessments will increasingly become the norm as extractive resource MNEs encounter organized community resistance to the development and operation of mining sites in the developing world. More broadly, we argue that the case of Newmont in Peru is an example of a changing equation where mutual benefit will be a new goal and standard for MNEs in developing nations.

Because this case study attempts to address complex phenomena and thus requires a rich, holistic understanding of conditions, our approach is primarily qualitative and includes extensive contact with participants throughout communities and at multiple organizational levels. Also, our data gathering includes extensive use of archival and supplementary data sources. In presenting this study, we first outline the unique challenges for Newmont associated with its mining work within poorer population areas of the world. We then review the international business approach. Unlike similar institutional theory-based research, this paper suggests that Newmont's attempt to gain local legitimacy at its mining sites is expected to be a key element for its success in the global marketplace. The paper concludes with a discussion of the analysis results, limitations of this research, and possible new research directions.

### *1.1. Responding to NGOs' scrutiny*

The fact that the developed world comprises 20% of the world's population, yet uses 80% of the world's resources, shows that the world is not flat yet, to use an expression of a popular recent book on globalization (Friedman, 2005). For example, it is estimated that almost 60% of the world's six billion people live on less than \$2 (US) dollars a day (World Bank, 2001). To a great extent, these poorer populations have not seen the benefits of the globalization of markets. Yet, the areas where poorer populations live in the world have and continue to serve as a very important component in the development of globalization because they often provide the raw materials and labor for extractive industries like oil and mining that drive the globalization process.

In the past, the poor of the world have had little voice, and much of the developed world has had little understanding or appreciation for the plight of the poor. However, with the advent of the internet and the globalization of mass media (Smith, 2007), as well as the proliferation of goodwill-oriented organizations such as NGOs (e.g., CARE), foundations (e.g., Bill & Melinda Gates Foundation), service clubs (e.g., Rotary International) and government aid workers and individuals, the tables have turned. The developing world is now able to monitor and publicize the work of MNEs, and it will be increasingly necessary for MNEs to add local sustainable benefit into their strategic mix to gain the social license and legitimacy that is needed to work in poorer communities.

Newmont, and other gold mining firms, are key actors in globalization with their international operations and the sale of their products on worldwide commodity markets. Yet, these firms have come under heightened public criticism in recent years. The communities around mining operations not only tend to be poor and vulnerable, but also often lack government protection, and

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