

# **Stakeholder Capital and Performance in Tough Times**

Sinziana Dorobantu  
The Wharton School and The Lauder Institute  
University of Pennsylvania  
[sdor@wharton.upenn.edu](mailto:sdor@wharton.upenn.edu)

Witold J. Henisz  
The Wharton School  
University of Pennsylvania  
[henisz@wharton.upenn.edu](mailto:henisz@wharton.upenn.edu)

and

Lite Nartey  
Darla Moore School of Business  
University of South Carolina  
[Lite.Nartey@moore.sc.edu](mailto:Lite.Nartey@moore.sc.edu)

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# Stakeholder Capital and Performance in Tough Times

## Abstract

Corporate operations are increasingly contested and occasionally disrupted by opposition from political and social actors. We argue that stakeholder capital, which we define as the level of mutual recognition, understanding and trust established by the firm with its stakeholders, mitigates the adverse financial impact of negative stakeholder events. Stakeholder capital preserves a firm's social license to operate during times when the firm's actions and operations are being challenged by opponents. The mechanism is two-fold: first, firms with higher levels of stakeholder capital are more likely to get the benefit of the doubt when they become the target of criticism, lowering the risk that stakeholders will be easily swayed to rally against them; second, these firms are also more likely to see some of their stakeholders rise to defend their activities, thus increasing the likelihood that the companies will maintain their social license when this is being challenged. In this way, investments in stakeholder capital can, like insurance, generate benefits or payoffs after adverse events. We use a media-based measure of stakeholder capital that considers a broad range of engagements, including activities related to community relations, CSR programs, lobbying, employee training and public relation campaigns. Using an event study, we evaluate the stock market impact of adverse stakeholder events affecting 19 gold mining firms between 2000 and 2008 and show that firms with higher levels of stakeholder capital fare better financially during tough times. Our results also analyze the evolution of stakeholder capital at the stakeholder level and, consistent with the underlying psychological mechanisms we identify, show that actors with low stakeholder capital reinforce their negative priors of the firm during tough times whereas stakeholders with high stakeholder capital actually rally to support the firm mitigating the impact of the event on the overall level of stakeholder capital.

## ***Introduction***

Dialogue and activities undertaken by companies across multiple spheres—*e.g.*, community relations, corporate social responsibility (CSR) programs, employee training, lobbying, and public relation campaigns—shape firms’ *stakeholder capital*, or the level of mutual recognition, understanding and trust established by the firm with its stakeholders.<sup>1</sup> By reaching out and engaging stakeholders during normal times companies build a stock of stakeholder capital that can help preserve a company’s social license to operate when the firm is subsequently challenged or criticized by stakeholders, that is, when it experiences negative stakeholder events.

We argue that efforts to engage stakeholders *both* create economic value and protect it during tough times. We show in parallel research that cooperative relations with stakeholders lead to higher market value by lowering the probability of delays, disruptions and pressures to redistribute the financial gains (Henisz, Dorobantu & Nartey 2011). We argue in this paper that in addition to generating value by enhancing stakeholder cooperation, which increases the market value of tangible assets *ceteris paribus*, stakeholder capital protects financial value by reducing the likelihood that a negative stakeholder event will lead to the revocation of the social license to operate and the erosion of financial value.

We propose that stakeholder capital functions as a form of insurance: firms with higher stakeholder capital experience less market value destruction in response to negative stakeholder events than firms with lower stakeholder capital. The mechanism is two-fold. First, stakeholder capital provides a “reservoir of goodwill” (Jones, Jones & Little, 2000; Fombrun, 2001), which predisposes stakeholders to give the firm the benefit of the doubt when it becomes the target of criticism, lowering the likelihood that the firm’s operations will be disrupted and thus leading to a lower negative financial impact in response to adverse

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<sup>1</sup> Following Freeman, a stakeholder is defined as “any group or individual which can affect or is affected by the achievement of the organization’s objectives” (1984: 46).

stakeholder events. Second, firms with high stakeholder capital may see some of their stakeholders rally to defend the company's activities against those who criticize them.

Our argument reinforces existing work highlighting the insurance-like property of CSR, provides underlying micro-level mechanisms for this property, and allows for the empirical identification of these mechanisms. Scholars have argued that corporate citizenship programs mitigate the risk of reputational losses (Fombrun, Gardberg & Barnett, 2000; Minor and Morgan, 2011), or similarly, that corporate philanthropy builds moral capital that provides insurance-like protection for a firm's intangible assets, thus preserving shareholder value (Godfrey, 2005). Empirical studies offer general support for this proposition, but reveal an effect only in the case of CSR activities that target secondary stakeholders (Godfrey, Merrill & Hansen, 2009) or CSR activities designed to minimize harm (Minor, 2011).

We build upon this argument but we expand its scope beyond CSR programs and consider a wide range of activities that affect firms' stakeholder relationships and their ability to maintain a social license to operate. We argue that a broad range of activities pertain to the domain of stakeholder engagement: community relations programs, CSR initiatives, lobbying and other forms of political activity, employee-related activities, and public relation events. If well designed and carried out, such engagements build stakeholder capital, which helps the firm maintain its social license to operate when its operations are under challenge.

Our measure of stakeholder capital is constructed using more than 50,000 media sentences that capture a wide variety of positive and negative stakeholder interactions ranging from ceremonial "red-ribbon" proceedings to the renovation of a local school to physical attacks on firm property and employees, and from harsh criticisms targeting the company to strong expressions of support. Measuring stakeholder capital in this fashion moves beyond a somewhat artificial differentiation of CSR initiatives from other types of stakeholder engagements, and allows various types of corporate activities to define the tenor of a firm's

relations with all its media-relevant stakeholders (communities, politicians and regulators, non-governmental organizations, social and religious groups, employees and business partners in proportion to their perceived importance by the media) across time.

We use an event study to assess the effect of stakeholder capital on the extent to which the stock market responds to news about intensified criticism or withering support for the gold mining operations of 19 publicly traded firms between 2000 and 2008. Our sampling strategy allows us to compare the impact of almost identical events on very similar firms in one industry, thus controlling for industry-level and event-level heterogeneity. Our results show that firms with higher levels of stakeholder capital perform better financially during tough times. We also provide evidence for the proposed underlying mechanisms by showing that individual stakeholders' reactions to negative events are mediated by the level of stakeholder capital that defines their relationship with the firm. Consistent with the underlying psychological mechanisms we identify, actors with low stakeholder capital reinforce their negative priors of the firm during tough times whereas stakeholders with high stakeholder capital actually rally to support the firm mitigating the impact of the event on the overall level of stakeholder capital.

We proceed with a discussion of the social license to operate. We then elaborate on the concept of stakeholder capital and our argument that it provides insurance for firms' market value in response to adverse stakeholder events. We continue with a description of the empirical context, the data, and the event study analysis. We conclude with a discussion of our results and the importance of recognizing the strategic value of building enduring stakeholder capital through stakeholder engagement.

### *The social license to operate*

In a recent report reviewing its strategy towards community relations, Newmont Mining Corporation defined the social license to operate as “the acceptance and belief by society, and specifically, our local communities, in the value creation of our activities, such that we can continue to access and extract mineral resources” (Smith and Feldman, 2009; see also Lassonde 2003). At a minimum, the social license to operate implies *acceptance* by stakeholders who recognize the value proposition as a legitimate one (Boutilier, 2009, 2011; see also Joyce and Thompson 2000). Stronger forms of this license involve *approval* by stakeholders who also recognize the credibility of the value proposition, and *co-ownership*, which implies that the value proposition has also surpassed a trust boundary (Figure 1). The critical threshold to obtaining this license is the legitimacy boundary, or 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: 574). In the absence of this perception, the social license to operate is withheld or withdrawn, firm operations are contested by stakeholders as illegitimate, and the companies are unable to create economic value or protect existing assets.

The social license to operate is a relationship-based intangible asset. It is gained and maintained through continuous interactions with stakeholders. “You don't get your social license by going to a government ministry and making an application or simply paying a fee. It requires far more than money to truly become part of the communities in which you operate” (Pierre Lassonde, former president of Newmont, cited in Murphy 2010). Preserving it entails a constant process of engagement of the various stakeholder groups through which the company makes itself known to them, aims to understand their preferences and works to meet their legitimate demands.

The social license is also context-specific: the nature of the industry and the socio-political context in which the firm operates dictate which stakeholders weigh in more heavily in the calculus of granting this license. Companies in fast-moving consumer industries are more sensitive to the perceptions of consumers, who can boycott their products when they believe company operations have breached social or environmental standards (Smith 2003). By contrast, companies in extractive industries depend to a greater extent on the approval of local communities, government authorities and non-governmental organizations, which can stall the development of their projects. Similarly, the socio-political context determines the relative power of different stakeholders and therefore the weight of their positions when assessing the level of social support. For example, non-governmental organizations can carry the day opposing large-scale natural resource extraction projects in democratic societies where they can mobilize publicly and can get their voice heard through media channels. In non-democratic regimes, however, such mobilization is rarely allowed and having a social license to operate usually refers to the approval of a small group of powerful political and economic elites, who control the decision-making channels and figure preeminently in media reports.

Scholars of instrumental stakeholder theory recognize the imperative for companies to maintain the continuous support of various stakeholder groups, including employees, communities, governments, suppliers, customers, investors, and political and social groups (Donaldson and Preston, 1995; Evan and Freeman, 1993; Freeman, 1984, 1994, 1996; Freeman and Evan, 1990; Hill and Jones, 1992; Jones, 1995; Mitchell, Agle, and Wood, 1997; Rowley, 1997). As Clarkson argues, “the corporation’s survival and continuing success depend upon the ability of its managers to create sufficient wealth, value, or satisfaction for those who belong to each stakeholder group, so that each group continues as part of the corporation’s stakeholder system” (1995: 107).

In this view, the social license to operate is an essential intangible asset. Like other assets—*e.g.*, reputational capital (Fombrun, 1996) and employee commitment (Turban and Greening, 1996)—for which substitutes do not exist and which competitors cannot easily imitate, it is a source of competitive advantage (Barney 1991). Without it, companies have no choice but to forgo opportunities for value creation. Millions of dollars of gold in the ground are worth next to nothing if the company does not have the stakeholder support to extract it. Opponents can block access, lobby for permits to be revoked or raise prices on necessary inputs. When the social license is granted and then withdrawn, companies lose the value of existing assets, future income, and real options. The risk of expropriation or re-contracting—that is, the withdrawal or reinterpretation of the social license to operate—is a risk faced by many multinational companies after resources that were mobile *ex ante* are sunk in the ground (Vernon, 1971; Moran, 1973; Moran, 1974; Fagre and Wells, 1982; Poynter, 1982; Lecraw 1984; Woodhouse, 2006).

The relational and idiosyncratic nature of the social license to operate implies that companies cannot insure against its loss with a financial instrument (Godfrey 2005). Instead, firms must find their own means to ensure the continuance of the social license. We argue that strategies of stakeholder engagement, if well designed and implemented, build a corporate stock of stakeholder capital that serves to protect the value of the social license to operate. When faced with increased criticisms from social or political actors challenging its operations and practices, a firm can preserve and reaffirm its social license by leveraging its positive stakeholder relations in ways we discuss below. Stakeholder capital thus acts as insurance against the loss of financial value when the firm's social license is at risk due to negative stakeholder events.



### *Stakeholder capital*

We define stakeholder capital as the level of mutual recognition, understanding and trust embedded in a company's relations with its stakeholders. High levels of stakeholder capital imply that the firm knows the stakeholders and is known to them (mutual recognition), that the firm and the stakeholders understand each other's preferences and objectives (mutual understanding), and that they trust each other to behave according to a set of mutually acceptable norms (mutual trust). This definition builds directly upon the concept of *social capital* (Adler & Kwon, 2002), which refers to "an instantiated informal norm that promotes cooperation between two or more individuals" and manifests itself in forms such as trust, networks, and civil society (Fukuyama, 2000). Drawn into popular attention by the writings of Fukuyama (1999) and Putnam (2000), the concept of social capital has been used in management literature as incorporating three dimensions: (1) a *structural* quality, which refers to the structure of the social network in which the relationship is embedded; (2) a *relational* quality, which reflects the level of mutual trust and reciprocity; and (3) a *cognitive* quality, which highlights the level of shared understanding and goals (Nahapiert and Ghoshal, 1998; Tsai and Ghoshal, 1998; Cohen and Prusak, 2000; Adler and Kwon, 2002).

But as Adler and Kwon note, the concept of social capital has become an "umbrella concept" that "risks conflating disparate processes and their distinct antecedents and consequences" (2002: 18). The level of analysis at which the concept is construed is among the sources of imprecision: social capital is sometimes conceived as an attribute of a community linking organizations or the individuals within it (*e.g.*, Putnam, 1993) and therefore having a "public good aspect" (Coleman 1990), and sometimes as a resource belonging to an actor or organization (Adler and Kwon, 2002; Nahapiert and Ghoshal, 1998). To emphasize the focus of our analysis and avoid confusion, we adopt the term stakeholder capital to refer to an *organization's* relations with its stakeholders and the tenor of these

relations. Our definition is parallel to that of Nahapiet and Ghoshal, who define social capital as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit” (1998: 243), and that of Adler and Kwon, who emphasize that “Social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor’s social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor” (2002: 23).

It is important to note that stakeholder capital is not merely the contemporaneous reputation of the firm in the eyes of its stakeholders (Fombrun, 1996; Rindova and Fombrun 1998), but rather a resource which the firm has developed over time and can use in order to enhance the value of existing tangible assets and preserve the value of those same assets in the face of negative stakeholder events which threaten to undermine its social license to operate. Stakeholder capital reflects the extent to which a firm can rely on its stakeholders to provide continuous support, to speak out to defend the firm’s activities in public or private interactions with other stakeholders.

Companies accrue stakeholder capital through sustained stakeholder engagement, that is, through repeated interactions in formal and informal settings with their stakeholders. These interactions provide opportunities for the company to offer information about its value proposition and to gather information about the preferences and demands of the stakeholders; they are also opportunities for the company to solicit input from the stakeholders and to be held accountable to them.<sup>2</sup> Thus, stakeholder capital is accumulated over time through interactions with stakeholders and can deteriorate as a result of diminished engagement or inappropriate actions by the firm.

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<sup>2</sup> Practitioner-oriented models of stakeholder engagement define levels or stages of such interactions, such as information provision, information feedback, consultation, joint planning, and delegated authority (BSR 2003).

### *Stakeholder capital as insurance*

Stakeholder capital is valuable because it forms the basis on which the social license to operate is obtained and maintained. In prior work using the same sample of mining firms, we show that positive stakeholder relations explain more of the market valuation of a company than the objective value of its fixed assets (Henisz, Dorobantu & Nartey 2011). We highlight one causal link through the ability to start mining operations sooner and operate with fewer delays and disruptions. But in addition to allowing for the creation of more financial value from an existing set of assets, positive stakeholder capital has an insurance-like property: it ensures that a firm keeps its social license to operate when this license is challenged by adverse stakeholder events. We argue that the benefits from stakeholder capital come not only from increases in the financial value of tangible assets *ceteris paribus*, but also from decreases in the adverse financial impact of negative stakeholder events. (Figure 2 provides a schematic interpretation of this framework.)

Prior work has similarly proposed that CSR is a form of insurance that protects firms during adverse events (Fombrun, Gardberg & Barnett, 2000; Godfrey, 2005; Vogel, 2005; Godfrey, Merrill & Hansen, 2009; Klein & Dawar, 2004; Peloza, 2006; Minor, 2011). Through CSR activities firms accrue moral capital because “CSR activities signal that the firm is *not* completely self-interested, that its leaders can, do, and will consider the social good in their decisions; in short, that managers and their firms possess an ‘others-considering disposition’ toward their various stakeholders” (Godfrey, Merrill & Hansen, 2009: 428; see also Godfrey, 2005). Moral capital and goodwill temper the impact of adverse events by allowing firms the benefit of the doubt in the *mens rea* (“guilty mind”) attribution process and reducing the overall severity of the penalties (Godfrey, 2005). “As stakeholders consider possible punishments and sanctions, positive moral capital acts as character evidence on behalf of the firm [... and] encourages stakeholders to give the firm the benefit of the doubt

regarding intentionality, knowledge, negligence or recklessness” (Godfrey 2005: 788; see also Godfrey, Merrill & Hansen, 2009; Minor and Morgan, 2011). More specifically, consumers might attribute less blame for the failure of a product to companies with strong CSR records (Klein and Dawar, 2004). Similarly, NGOs might limit their wrath following negative incidents (Minor, 2011) and regulators might turn a blind eye and choose not to prosecute incidents associated with firms with better CSR reputation, assuming that they are more likely to have been the result of factors outside the firm’s control rather than the result of negligence (Minor and Morgan, 2011; Minor, 2011).

A few empirical studies offer preliminary support for the insurance value of CSR activities. Godfrey, Merrill and Hansen (2009) show that firms with greater participation in CSR activities involving secondary stakeholders or society more broadly better withstand negative legal and regulatory actions against the firm. Minor (2011) tests whether firms that rank higher in terms of CSR fare better during product recall events. His analysis of three types of firms—irresponsible, responsible, and stellar—reveals that responsible firms which are successful at avoiding “bad” activities lose less value when one of their products is recalled; however, stellar firms that have become exceptional corporate citizens by investing extensively in “doing good” activities, do not derive additional insurance benefits from their supplementary efforts. Thus, when a firm suffers an adverse event, being known for “not doing harm” is more important than the recognition of “doing good” (Minor and Morgan, 2011). This finding resonates with research showing that accidents incurred by both firms with strong CSR reputations (“stellar firms” in Minor’s typology) and firms with bad environmental records (“irresponsible firms”) are more newsworthy than similar accidents involving firms that do not stand out in either dimension (“responsible firms”), suggesting that a strong CSR record can attract unwanted attention to negative events and thus exacerbate their financial impact (Lou, Meier & Oberholzer-Gee, 2011).

We argue and seek to demonstrate that the insurance value of stakeholder capital is realized via two specific psychological mechanisms. First, firms with positive stakeholder capital enjoy a “reservoir of goodwill” from stakeholders (Jones, Jones & Little, 2000; Fombrun, 2001). When such firms become the target of accusations or criticism, their stakeholders are likely to give them the benefit of the doubt and instead question the validity of the allegations. This theoretical argument draws upon the well-established psychological mechanism of a prior belief or prior attitude effect (Lord, Ross & Lepper, 1979; MacCoun, 1998) in which arguments and evidence that support prior attitudes and beliefs are reinforced (Redlawsk, 2002; Taber & Lodge, 2006; see Nickerson, 1998 for a review) whereas arguments and evidence that conflict with an actor’s prior beliefs are either discounted (Ditto & Lopez, 1992), more critically analyzed (Edwards & Smith, 1996) or perceived as biased (MacCoun & Paletz, 2009). As a result, initial preferences or beliefs are reinforced even in the face of conflicting information or evidence. A stronger emotional attachment (Taber, Dann & Kuscova, 2009) or motivation (Kunda 1987, 1990; Taber & Lodge, 2006) reinforces this tendency. In our context, such indulgence translates into a lower likelihood that the firm’s operations will be disrupted during times of adverse stakeholder events, and consequently into a lower negative financial impact.

Second, firms with high stakeholder capital may see some of their stakeholders rally to defend the company’s activities against those who challenge their legitimacy. Such behavior has long been studied within political science under the “rally-round-the-flag” effect (Mueller, 1970) which shows increasing support for political leadership in times of external attack. The psychological basis for this behavior draws upon social identity theory in which individuals who perceive themselves as members of or linked to an individual or organization will respond more forcefully to an attack on that organization than to an otherwise identical peer with which they feel no connection or perceive greater distance (Dumont, Yzerbyt,

Wigboldus & Gordijn, 2003; Yzerbyt, Dumont, Wigboldus & Gordijn, 2003). Such actions, in addition to providing value by reiterating that the company enjoys a social license to operate, also imply that the company needs to spend fewer resources to defend itself in response to criticisms. Thus, following a negative stakeholder event, the firm can rely on its stakeholders to protect its reputation and its social license.

Let us consider how these mechanisms play out for three firms with different values of stakeholder capital: a firm with positive stakeholder capital (“the partner”), a firm with neutral stakeholder capital (“the stranger”), and a firm with negative stakeholder capital (“the opponent”). When a stakeholder withdraws its support or intensifies its criticism of the firm, the response of other stakeholders will depend on the type of the firm being targeted. When stakeholders perceive the firm as a “partner” whom they recognize, understand and trust, they are less likely to be swayed by the criticism of another stakeholder. They are likely to afford the company the benefit of the doubt when there is ambiguity over the motives and actions that have stirred the criticism (Weber, 1994; Kramer, Brewer & Hanna, 1996; Uzzi, 1997). Moreover, stakeholders may rally to reiterate their support of the firm publicly and defend its activities. In this scenario, the firm can rely on its stakeholders to reaffirm the legitimacy of the firm’s operations and as a result, it will need to spend fewer resources on tempering the impact of the negative event, including the preservation of the social license to operate.

By contrast, when stakeholders know little about the firm and perceive it as a “stranger” (or when stakeholder engagement has created little stakeholder capital), stakeholders are more susceptible to being influenced by other actors’ negative opinions (Baumeister, Bratslavsky, Finkenauer & Vohns, 2001; Rosin & Royzman, 2001) and consequently more likely to focus on negative information that confirms their perceptions (Nickerson, 1998; Redlawsk, 2002; Taber & Lodge 2006). The “reservoir of goodwill” is dry and there is no reason for the firm to get the benefit of the doubt (Weber, 1994). For the same

reasons, stakeholders are not motivated to speak out to defend the firm in front of other stakeholders or the broader public. To maintain its social license to operate, the firm will have to dedicate significant resources towards this purpose and there are fewer guarantees that it will be successful.

Finally, when a firm is known but strongly disliked by most of the stakeholders who see it as the “opponent,” the withdrawal of support or intensified criticism by one stakeholder can re-open the conversation about the legitimacy of the firm’s operations, rally other stakeholders against the firm, trigger a re-alignment of their positions, and possibly result in the withdrawal of the social license. A negative statement or event can reveal to other stakeholders trapped in a situation of “pluralistic ignorance” (Miller, Monin & Prentice, 2000; Westphal & Bednar, 2005) that they are not alone in opposing the firm, and may even lead to a cascading effect of increasing opposition towards the firm. At this point, engagements intended to forestall the loss of the social license may be perceived as reactive and manipulative, and therefore less effective. Even if the firm commits significant resources to engage its stakeholders, there is less certainty that it can preserve its social license.

We synthesize our main hypothesis regarding the financial impact of adverse stakeholder events for firms with different levels of stakeholder capital and the two hypotheses regarding the underlying mechanisms discussed above as follows.

***Hypothesis 1:*** *The financial impact of negative stakeholder events will be negatively correlated with the level of a firm’s stakeholder capital.*

***Hypothesis 2a:*** *In the aftermath of adverse events, stakeholders with whom the firm has low stakeholder capital are more likely to react negatively.*

***Hypothesis 2b:*** *In the aftermath of adverse events, stakeholders with whom the firm has built high levels of stakeholder capital are less likely to react negatively and may even rally in support of the firm.*

### *Empirical setting*

We test this argument using data for all the mining companies that are publicly traded on the Toronto Stock Exchange and that own and operate one, two or three mines outside the United States, Canada and Australia. We restrict the sample in this way for several reasons. First, because the companies are publicly traded, we have information on their stock, which allows us to assess how firm value fluctuates in response to news about negative stakeholder actions targeting the company. Second, listing on the Toronto Stock Exchange implies strict disclosure requirements of financial and operational information. As a result, we are able to collect from publicly available documents sufficient data about each company's mining projects and operations. Third, by limiting our sample to firms with at most three operations, we can study how a firm's stakeholder capital affects financial performance during adverse stakeholder events without the concern that the firm's varying degrees of success engaging stakeholders across multiple sites introduces too much noise in this relationship. The resulting sample includes 19 Canadian companies that own and operate 26 mines in 20 countries around the world (Table 1).<sup>3</sup>

The empirical setting in which we test our argument is thus that of small to mid-size publicly traded companies investing abroad in the gold mining industry. For these firms preserving the social license to operate is critical for performance, yet extremely difficult because of the nature of the industry in which they operate, their foreignness, and their size. A social license to operate is essential in most industries, but particularly critical in the resource extraction sector where the investment location is determined by the relative abundance of natural resources. Without it, companies cannot access the resource and must forgo opportunities to generate value. If they have a social license to operate but lose it as a

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<sup>3</sup> The sample was generated using information on mine properties and ownership from the Raw Materials Database ([www.rmg.se](http://www.rmg.se)).



result of heightened stakeholder opposition, they face delays, disruptions, possible re-contracting, or even outright expropriation.

Looking ahead, maintaining a social license to operate in this industry will be even more challenging as companies have to look for resources in tougher socio-political environments. As a recent report by the Control Risk Group highlights, the low-hanging fruit has already been picked, forcing companies to push against the boundaries of social and political risk management. “Across most commodities, the number of world-class deposits in “safe” countries are harder and harder to come by. ... [T]his means that mining companies must look to develop new mines in higher-risk environments. Across boardrooms countries are being mentioned as possible investment destinations that would not have been considered even a few years ago” (2006).

A social license to operate is also critical, as well as more difficult to obtain, for companies operating in foreign markets. Foreign firms face a “liability of foreignness,” or perhaps more accurately, a set of liabilities associated with their foreignness (Mezias, 2002), including higher information asymmetries and transactions costs (Hymer, 1976), a lack of familiarity with the environment in the host country and a deficit of legitimacy for their operations there (Zaheer, 1995), and nationalistic biases (Vernon, 1971). As a result, firms operating in foreign environments are more likely to find obtaining and maintaining the social license to operate quite challenging. Yet, this license is crucial for their performance, as the legitimacy of their operations can be easily challenged by drawing attention to their foreignness. In addition, small firms operating abroad confront the added handicap of no global reputation that could afford some legitimacy to their foreign operations.

Thus, our sampling strategy delivers a set of firms for which the social license is difficult to obtain and maintain, yet critical for ensuring performance. We therefore expect the stock market to be very sensitive to new information about the stakeholders’ positions

vis-à-vis the firms' mining operations. At the same time, these firms' ability to generate enough stakeholder support to preserve their social license differs significantly both across firms and within firms across time, allowing us to assess whether variations in stakeholder capital affect financial performance during tough times.

This research design strengthens our analysis in several ways. First, we compare firms within one industry: gold mining. Since the insurance value of stakeholder capital is expected to vary across industries with the level of business exposure and the potential costs of harmful events (Peloza, 2005), previous studies have accounted for such heterogeneity using industry-levels effects (Godfrey, Merrill & Hansen, 2009; Minor, 2011). Instead, we limit our analysis to only one industry and therefore can be certain that our results are not driven by heterogeneity across industries. Second, we compare very similar firms that are small in terms of their market value, but control mines that are large relative to the economies in which they operate (Table 2). Third, we have panel data, which allows us to examine whether changes in a firm's stakeholder capital over time affect its ability to better withstand adverse stakeholder events controlling for time invariant firm-specific effects (i.e., unobserved firm-level heterogeneity). Fourth, the financial impact of negative events may depend on the nature of the risk involved in the event. For example, product recalls of infant milk, medicine or defective car brake systems are more severe than the recall of a pocket calculator. Our research design allows us to analyze events that are very similar both in type and severity and therefore control for event-level heterogeneity.

### ***Data***

To examine the extent to which stakeholder capital affects how a firm performs following an adverse event, we collected stock market data and compiled an extensive dataset of stakeholder engagements for the 19 firms in our sample. Daily stock data was obtained

from the Toronto Stock Exchange (directly or through Yahoo!Finance) for the entire time period during which the companies have been publicly listed. We use these data to estimate the abnormal returns and the cumulative abnormal returns following an event, as described in the following section.

An original dataset of stakeholder engagements allows us to capture each firm's stakeholder capital over time and to identify the date of significant adverse stakeholder events. To code the stakeholder engagement data, we compiled the corpus of *all* media articles in the Factiva database that include either the company name or the mine name. The resulting corpus of more than 20,000 articles was carefully perused to identify all "stakeholder events," that is all subject-verb-object triplets that reflect interactions between the firm and its stakeholders or their statements of position towards the other. We code the information about each dyadic relationship between the firm and a stakeholder to record whether the firm is the source or the target of the action or statement. We also code the tenor of the relationship by matching the verb onto a carefully constructed Conflict/Cooperation scale that ranges from severe conflict (valued as 0) to strong support (valued as 20).<sup>4</sup> The complete dataset comprises 51,754 such interactions and expressions of opinion between 1993 and 2008, and involves 4,623 unique stakeholders for the 19 firms (Table 1).

Our focus is the extent to which market capitalization responds to negative stakeholder events that raise the perceived risk among investors that the firm will lose its social license to operate. Using only stakeholder data in which the company is the *target* of a stakeholder action or statement, we identify adverse stakeholder events as significant shifts in the position of a stakeholder vis-à-vis the company and its mining operation. Such shifts include both the withdrawal of support and the intensification of criticism targeting the mining company. For example, Banro Corporation, one of the firms in our sample, learned on

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<sup>4</sup> An Appendix describing the categories of the Conflict/Cooperation scale and the full vocabulary defining each category are available from the authors upon request.

August 6, 1998 that the Government of the Democratic Republic of Congo will terminate its 25-year mining convention, which they had signed the previous year. Up to that point, the government had indicated its support for Banro's mining project by confirming the validity of the venture's historic title to its concession (June 20, 1997), helping Banro move a load of equipment to the site of its Twangiza deposit (September 4, 1997), recognizing the need for the country to develop its resources quickly (September 24, 1997), and citing Banro as an example of the kind of company it wants to do business with (February 18, 1998). The termination in August 1998 of the contract it had with Banro for more than a year is a clear shift in the position of the country's government towards the company. In Bulgaria, where Dundee Precious Metals is planning to develop two mines, the Cyanide-Free Bulgaria Coalition, an NGO, first declared themselves against the gold mining projects (January 22, 2006), and later started protesting against the investment proposal (March 10, 2006). This shift reflects an intensification of the opposition raised by the NGO, which also warned that it will appeal any government decision to allow the project to go forward.

We measure the severity of such events against two different thresholds—changes of at least three and at least two points in the level of stakeholder support as measured on the conflict/cooperation scale—and identify 96 and 155 such events, respectively. The examples described above fall in the former group (*i.e.*, more significant changes of position).

Broadening the definition to incorporate negative changes of two points allows us to also capture less severe events. Continuing with the Bulgarian example, we also include the moments when Bulgarian, Greek and Turkish environmental activists and local officials have joined forces in order to fight against Dundee Precious Metals (October 14, 2005), and when the environment minister ordered a revision of the environment impact assessment despite it having been approved by a council of experts just days before (March 17, 2006).

Our main hypothesis suggests that firms with higher levels of stakeholder capital experience smaller reductions in their financial value in response to equivalent negative stakeholder events. We measure stakeholder capital as a 100-day moving average of the tenor of stakeholder relations that weighs more heavily more frequently reported and more recently reported stakeholder engagement events. More specifically, we calculate:

$$SC_{it}^* = \sum_{l=0}^w \frac{\delta^l n_{i,t-l}}{\sum_{m=0}^w \delta^m n_{i,t-m}} cc_{i,t-l}, \text{ where}$$

$SC_{it}^*$  = stakeholder capital for firm  $i$  at time  $t$ ,

$cc_{it}$  = level of stakeholder conflict-cooperation for firm  $i$  at time  $t$ ,

$n_{it}$  = number of new media reports for firm  $i$  at time  $t$ ,

$w$  = window of the moving average, and

$\delta$  = discount factor.

To calculate stakeholder capital we use a discount factor of 0.9 and we test the sensitivity of our analysis to a broader range of values.

### ***Event Study Methodology***

We analyze the impact of adverse stakeholder events on firm financial performance using an event study methodology. An event study measures the effect of a specific event on the value of a firm using financial market data. As MacKinlay argues, “The usefulness of such a study comes from the fact that, given the rationality of the marketplace, the effects of an event will be reflected immediately in security prices. Thus a measure of the event’s economic impact can be constructed using security prices observed over a relatively short time period. In contrast, direct productivity related measures may require many months or even years of observation” (1997: 13). Another reason why the event study has been used extensively not only in finance but also in management research is that, unlike accounting-

based measures of profit which can be manipulated by managers, stock prices come closer to reflecting the true value of the firm (McWilliams and Siegel 1997).

An event study involves several steps: (1) the definition of the event of interest; (2) the identification of the event window, that is the time period over which the effect of the event will be assessed; (3) the estimation of a “normal” return for the event window without conditioning on the event taking place; and (4) the calculation of the “abnormal” return as the difference between the observed return of the security and the predicted value for the normal return of the firm over the event window. More specifically, for firm  $i$  and event date  $t$ , the abnormal return is

$$AR_{it} = R_{it} - E(R_{it}|R_{mt}),$$

where  $AR_{it}$ ,  $R_{it}$ , and  $E(R_{it}|R_{mt})$  are the abnormal, actual, and normal returns respectively at time  $t$ , and  $R_{mt}$  is the conditioning information for the normal return model. We estimate normal returns using the *market model*, which assumes a linear relationship between the market and the firm stock return (MacKinlay 1997). For firm  $i$ , the market model is

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it},$$

$$E(\varepsilon_{it}) = 0, \text{ and } \text{var}(\varepsilon_{it}) = \sigma_{\varepsilon_i}^2$$

where  $R_{it}$  and  $R_{mt}$  are the returns on firm  $i$  and the market portfolio at time  $t$ , respectively,  $\varepsilon_{it}$  is the zero mean disturbance and  $\alpha_i$ ,  $\beta_i$ , and  $\sigma_{\varepsilon_i}^2$  are the parameters of the model.

We estimate the market model over a period of 100 days that ends 10 days before the event. Thus, the estimation window does not include the event or the days immediately before it to avoid capturing the effect of possible news leakages or the anticipation of potentially negative news. Because the companies in our sample are all listed on the Toronto

Stock Exchange, we approximate  $R_{mt}$  using the S&P/TSX Composite Index for this exchange.<sup>5</sup>

Using the parameters estimated by the market model, we predict daily normal returns for up to 12 days following the event. We then calculate the abnormal returns ( $AR_{it}$ ) for each of these days and the cumulative abnormal returns ( $CAR_i$ ) for 5-day, 7-day, 10-day, and 12-day event windows. These event windows include the day prior to the event, the day of the event, and 3 days, 5 days, 8 days, and 10 days after the event, respectively. The shortest event window has 5 days to ensure that even windows which go over a weekend incorporate a minimum of 3 days of stock return data.

## ***Results***

To test our hypothesis that the financial performance of firms differs during adverse events as a function of stakeholder relations, we regress cumulative abnormal returns on our measure of stakeholder capital. The results are estimated with and without firm fixed effects and a set of control variables including the length of a firm's stakeholder engagement history, time since last stakeholder engagement effort, time since the last adverse event, an indicator variable reflecting whether this is the first such event for the firm, and the history of similar events.

The results are presented in Table 3 and Table 4 and show the effect of stakeholder capital on cumulative abnormal returns calculated over 5-day, 7-day, 10-day, and 12-day event windows following the intensification of criticism or withdrawal of support reflected by a minimum 3-point decrease and a minimum 2-point decrease, respectively, in stakeholder cooperation of more than 3 points and more than 2 points, respectively. As expected, the

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<sup>5</sup> The S&P/TSX Composite is the headline index for the Canadian equity market. It is the broadest in the S&P/TSX family and is the basis for multiple sub-indices. The Toronto Stock Exchange (TSX) serves as the distributor of both real-time and historical data for this index. <http://www.standardandpoors.com/indices>

effect is stronger when we consider a narrower set of 96 negative events defined by a decrease of stakeholder support of 3 points or higher (Table 3) than a sample of 155 events identified by a decrease of stakeholder support of 2 points or higher (Table 4).

These findings indicate that increasing stakeholder capital by one point on a 20-point scale would reduce the impact of a more severe negative stakeholder event on market returns by roughly 3 percentage points (Table 3). Increasing stakeholder capital by one standard deviation would increase cumulative abnormal returns by more than 10 percentage points. For example, Gabriel Resources, one of the companies in our sample, lost \$82 million or 9 percent of its market value over a period of 7 days after March 7, 2007, when members of the Romanian Parliament vocally expressed their disapproval of the company's project following a visit to Rosia Montana, the proposed site of Gabriel Resource's gold mine. Our results suggest that a hypothetical firm identical to Gabriel Resources but with stakeholder capital that was one point higher over the 100 days leading up to the event would be predicted to have experienced only a \$54.7 million loss. Thus, efforts to slightly increase stakeholder capital would protect \$27.3 million.

Our results are estimated using firm fixed effects to control for firm-level heterogeneity. With this estimator, the results are driven by variation over multiple events within firms. We are therefore confident that our findings highlighting the impact on stock market value are not driven by firm effects. The same firm will experience a larger negative impact on its financial value during times of intensified criticism or withdrawal of stakeholder support when it has lower levels of stakeholder capital than when it has higher levels of stakeholder capital. The results are similar when we exclude the firm dummies and the control variables, which are not significant in the estimation.

To further check the robustness of our findings, we estimated normal returns using both longer (200 days) and shorter (50 days) estimation windows. Our results are not



sensitive to this modification. We also consider the sensitivity of our results to the choices we made while constructing our measure of stakeholder capital. We changed the size of the window over which the measure is calculated to values between 30 and 180 days, and also used a range of values for the discount factor when calculating this measure. The results are robust to these modified measures of stakeholder capital.

### ***Testing the underlying mechanisms***

The results for our main hypothesis indicate a strong relationship between the level of stakeholder capital and the size of the negative financial impact of an adverse stakeholder event. We propose that the mechanism explaining this relationship is two-fold: first, firms with higher levels of stakeholder capital are more likely to get the benefit of the doubt when they become the target of criticism, lowering the risk that stakeholders will be easily swayed to rally against them; second, these firms are also more likely to see some of the stakeholders which whom they enjoy good relations rise to defend their activities.

Our unique dataset of stakeholder engagements allows us to test the validity of these underlying mechanisms in a systematic way. We do this by considering how negative stakeholder events—that is, a stakeholder’s withdrawal of support or intensification of criticism—affect the tenor of *other* stakeholders’ individual relationships with the firm. We use the stakeholder-level information in our dataset to construct a time-varying measure of a firm’s stakeholder capital with each of its stakeholders, and build our dependent variables to reflect the average of this measure over 1-day, 7-day, 30-day, and 100-day windows.

We estimate the effect of negative events on subsequent levels of stakeholder capital using fixed effects for each firm-stakeholder dyad and assuming that the error term follows an AR(1) process. The results are shown in Table 5 and portray stakeholder reactions to negative effects of a 3-point drop in one stakeholder’s level of cooperation. Results looking at

responses following negative events defined by a 2-point drop are similar and not shown here. For each of the dependent variables, the results indicate that indeed, following a negative event, the level of stakeholder capital is expected to drop (models 1, 3, 5, and 7). The effect is not a linear one, however. Models 2, 4, 6, and 8, which include an interaction term between the level of stakeholder capital and the incidence of a negative event, indicate that for stakeholders with low levels of stakeholder capital the net effect is negative, whereas for stakeholders with high levels of stakeholder capital the net effect is positive.

In the aftermath of a negative event of magnitude -3, a stakeholder with a level of stakeholder capital one standard deviation below the mean, would be expected to heighten its criticism by 0.291 or 4.5 percent below its prior level. By contrast, companies with one standard deviations above the mean levels of stakeholder capital, would be expected to actually heighten its support of the firm by 0.262 on the conflict-cooperation scale or 2 percent above its prior level. Figure 2 shows marginal impact of stakeholder capital on the effect of a negative stakeholder event on subsequent level of stakeholder capital.<sup>6</sup>

These results seem to suggest that stakeholders who dislike the firm are, on average, unlikely to afford the firm any benefit of the doubt but will instead use the information provided by a negative event to reinforce or even strengthen their opposition. At the same time, the stakeholders with whom the firm enjoys good relationships are, on average, likely to speak or act in support of the firm, suggesting that negative events may have a “rally-round-the-flag” effect (Mueller, 1970) and giving investors the confidence that the social license to operate will be preserved.

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<sup>6</sup> A similar effect is revealed in analysis looking at the contingent effect of negative events using separate indicator variables for decile levels of stakeholder capital.

## *Discussion and conclusion*

In our research, we recognize two mechanisms through which stakeholder capital affects financial performance. On the one hand, stakeholder capital increases the market value of the tangible assets possessed by a firm, by reducing the risk of stakeholder induced delays, disruptions, re-contracting, and expropriation (Henisz, Dorobantu & Narthey, 2011). On the other hand, stakeholder capital has an insurance value. Higher levels of stakeholder capital ensure that when the firm is criticized, other stakeholders will either afford it the benefit of the doubt as they judge the value of the allegations or even rally to defend it against opponents. As a result, the firm is in a better position to preserve its social license to operate in response to adverse stakeholder events, and therefore it is more likely to protect its market value during such tough times.

Our event study of 19 gold mining companies between 2000 and 2008 shows that, indeed, market capitalization of firms with higher levels of stakeholder capital better withstands negative stakeholder events. An otherwise identical firm with one standard deviation more stakeholder capital would be predicted to preserve almost 10 percent more of its market value in the aftermath of a negative stakeholder event than its peer with lower levels of mutual recognition, understanding and trust. We acknowledge that the impressive size of this effect might be due in part to the fact that the performance of small to mid-size foreign firms in the resource extraction industry is very sensitive to the preservation of the social license to operate. The effect would likely be smaller for firms in other industries or for domestic firms in extractive industries, but should be observable in any context in which the social license to operate is critical in determining a firm's ability to generate economic gains.

We also directly identify the mechanisms we posit in this paper. Specifically, we show that stakeholders respond differently to a negative stakeholder event depending on the degree of stakeholder capital that ties them to the firm. Stakeholders with who the firm enjoys

good relations, *i.e.*, high stakeholder capital, will give the firm the benefit of the doubt and are likely to step up to defend it. By contrast, stakeholders with whom the firm shares low levels of stakeholder capital are likely to respond to a negative event by turning against it or reasserting their opposition. Subsequent research will consider whether these effects are further mediated by the strength of stakeholders' ties to the firm and the strength of their ties to the critical stakeholder. We can further explore whether the structural position of the stakeholder in the overall network, the historical pattern of their relationships with the two actors or their nationality similarly moderate their reaction to the negative shareholder event.

Our work builds upon and extends existing studies arguing for an insurance value for CSR (Fombrun, Gardberg & Barnett, 2000; Godfrey, 2005; Vogel, 2005; Godfrey, Merrill & Hansen, 2009; Klein & Dawar, 2004; Peloza, 2006; Minor, 2011) in several ways. First, we use our data on stakeholder engagements to measure not only the insurance-value of stakeholder capital but also the underlying mechanisms we propose. We show that stakeholder capital provides insurance during adverse events because the stakeholders with whom the firm enjoys positive relations are not only not swayed by the negative opinions and actions of other stakeholders but are likely to rally in support of the firm following the event.

Second, while our argument mirrors that of CSR as insurance for financial performance during adverse events, rather than assuming that CSR activities improve a firm's standing with its shareholders as existing studies do (Godfrey, Merrill & Hansen, 2009; Minor, 2011), we measure the extent to which this has been realized. In addition, rather than assuming that CSR activities are sufficiently known to stakeholders to influence their perceptions of the firm (Godfrey, Merrill, and Hansen, 2009), we code stakeholder reactions to activities that are sufficiently visible and substantial to engender media coverage.

Third, we analyze the insurance value of stakeholder capital in the context of almost identical events affecting similar small gold mining companies. Our research design thus

controls for possible conflating factors pertaining to differences across industries, across types of firms, or across types of events, and confers confidence to the fact that we correctly attribute the effect to variation in the levels of stakeholder capital. Most importantly, we show that the effect we observe is not firm-specific; instead, the insurance value of stakeholder capital varies within the firm over time depending on its stakeholder relations.

Finally, our work also highlights that a broad range of engagements, not just CSR activities, have an effect on intangible assets—*i.e.*, stakeholder capital, reputational capital, moral capital—that in turn affect firm performance. In this case, using CSR ratings to proxy for moral or reputational capital without considering parallel engagements might introduce measurement bias in the analysis. This oversight might be yet another reason why despite its growth, the literature assessing the link between CSR and corporate financial performance reveals only an ambiguous relationship between the two concepts (see Margolis and Walsh, 2001; Roman, Harybor & Agle, 1999; Griffin and Mahon, 1997 for reviews). We argue that all activities through which firms develop and maintain their relations with stakeholders should be considered in conjunction when studying their effect on financial performance, and take a first step in this direction.

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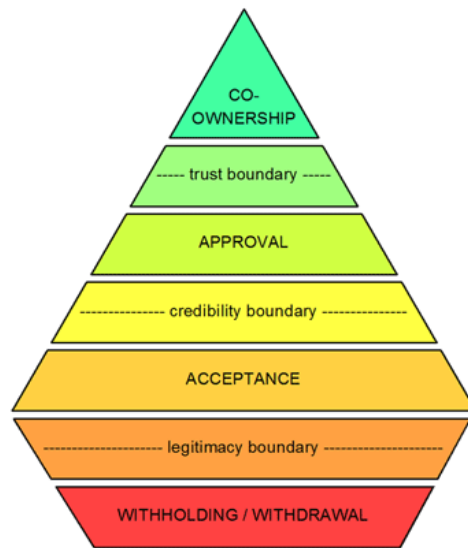
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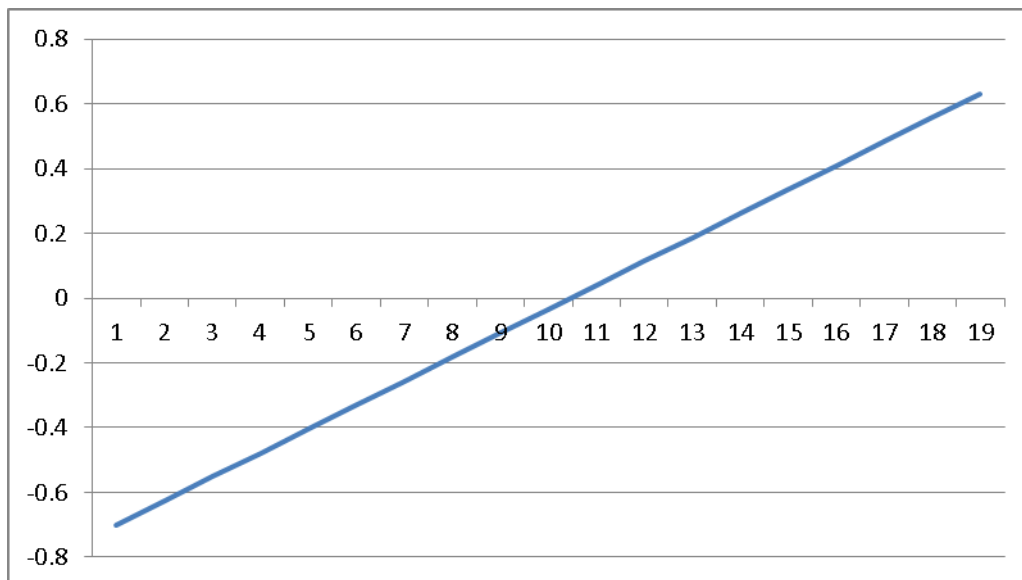
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**Figure 1.** Levels of the Social License to Operate (Boutilier 2011: 20)



**Figure 2.** The marginal impact of stakeholder capital on the effect of a negative stakeholder event on subsequent level of stakeholder capital.



**Table 1.** Summary of stakeholder relations dataset.

<b>Company</b>	<b>Mine</b>	<b>Country</b>	<b>Articles</b>	<b>Events</b>	<b>Stakeholders</b>	<b>Start year</b>	<b>End year</b>
Alhambra Resources Ltd.	Uzboy	Kazakhstan	499	362	51	2001	2008
Australian Solomons Gold Ltd	Gold Ridge	Solomon Islands	300	896	100	2004	2008
AXMIN Inc.	Passendro	Central African Republic	400	277	20	2003	2008
Banro Corporation	Twangiza	DR Congo	2744	4255	1007	1995	2008
Centamin Egypt Limited	Sukari	Egypt	1400	508	25	1997	2008
Dundee Precious Metals Inc.	Chelopech	Bulgaria	936	3342	338	2003	2008
Dundee Precious Metals Inc.	Krumovgrad	Bulgaria	587	2630	230	2003	2008
European Goldfields Limited	Certej	Romania	700	413	62	2000	2004
European Goldfields Limited	Olympias	Greece	700	6633	232	2003	2008
European Goldfields Limited	Skouries	Greece	650	6394	178	2003	2008
European Minerals Corporation	Varvarinskoye	Kazakhstan	523	527	57	1996	2008
Gabriel Resources Ltd.	Rosia Montana	Romania	1593	4543	254	1997	2008
Gold Reserve Inc.	Brisas	Venezuela	1525	6650	457	1993	2008
Infinito Gold Ltd./Vannessa	Crucitas	Costa Rica	480	616	90	2001	2008
Infinito Gold Ltd./Vannessa	Las Cristinas	Venezuela	653	7620	756	1995	2005
Luna Gold Corporation	Aurizona/Piaba	Brazil	569	197	19	2006	2008
Minefinders Corporation Ltd.	Dolores	Mexico	1125	164	61	1996	2008
Mundoro Mining Inc.	Maoling	China	629	342	69	2004	2008
Nevsun Resources Ltd.	Bisha	Eritrea	1131	2387	177	2003	2008
OceanaGold Corporation	Didipio	Philippines	534	1783	120	2006	2008
OceanaGold Corporation	Macraeas	New Zealand	554	97	46	2004	2008
OceanaGold Corporation	Reefton	New Zealand	457	153	36	2004	2008
Olympus Pacific Minerals Inc.	Bong Mieu	Vietnam	476	111	74	1997	2008
Olympus Pacific Minerals Inc.	Phuoc Son	Vietnam	763	132	48	1997	2008
Orezone Resources Inc.	Essakane	Burkina Faso	583	230	34	2004	2008
Orvana Minerals Corp.	Don Marino	Bolivia	1718	492	82	1994	2008
<b>19 companies</b>	<b>26 mines</b>	<b>20 countries</b>	<b>22,229</b>	<b>51,754</b>	<b>4,623</b>	<b>1993</b>	<b>2008</b>

**Table 2.** The economic importance of mine reserves relative to GDP.

<b>Company</b>	<b>Mine</b>	<b>Country</b>	<b>GDP, 2008 (\$US millions)</b>	<b>Value of Mine Reserves (% GDP)</b>
Alhambra Resources Ltd	Uzboy	Kazakhstan	133,442	0.11
AXMIN	Passendro	Central African Republic	1,988	56.01
Banro Corporation	Twangiza	Democratic Rep. of Congo	11,668	27.14
Centamin Egypt Limited	Sukari	Egypt	162,283	1.98
Dundee Precious Metals Inc.	Chelopech	Bulgaria	49,900	4.35
Dundee Precious Metals Inc.	Krumovgrad	Bulgaria	49,900	1.39
European Goldfields Limited	Certej	Romania	200,071	0.92
European Goldfields Limited	Olympias	Greece	355,876	0.83
European Goldfields Limited	Skouries	Greece	355,876	0.96
European Minerals Corporation	Varvarinskoye	Kazakhstan	133,442	1.33
Gabriel Resources Ltd.	Rosia Montana	Romania	200,071	4.40
Gold Reserve Inc.	Brisas	Venezuela	314,150	2.83
Infinito Gold Ltd./Vannessa	Crucitas	Costa Rica	29,664	2.97
Infinito Gold Ltd./Vannessa	Las Cristinas	Venezuela	314,150	4.69
Luna Gold Corporation	Aurizona/Piaba	Brazil	1,575,151	0.03
Minefinders Corporation Ltd.	Dolores	Mexico	1,088,128	0.20
Mundoro Mining Inc.	Maoling	China	4,326,997	0.06
Nevsun Resources Ltd.	Bisha	Eritrea	1,654	59.69
OceanaGold Corporation	Didipio	Philippines	166,909	0.87
OceanaGold Corporation	Macraes	New Zealand	129,940	0.74
OceanaGold Corporation	Reefton	New Zealand	129,940	0.23
Orvana Minerals Corp.	Don Mario	Bolivia	16,674	2.55
Olympus Pacific Minerals Inc.	Bong Mieu	Vietnam	90,645	0.03
Olympus Pacific Minerals Inc.	Phuoc Son	Vietnam	90,645	0.23
Orezone Resources Inc.	Essakane	Burkina Faso	7,948	32.79
Australian Solomons Gold Limited	Gold Ridge	Solomon Islands	645	155.41

**Table 3.** Cumulative abnormal returns when stakeholder cooperation decreases by more than three points.

	(1)	(2)	(3)	(4)
	<b>5 days</b>	<b>7 days</b>	<b>10 days</b>	<b>12 days</b>
Stakeholder capital	3.078** (3.04)	3.248** (2.86)	3.011* (2.24)	2.765 (1.89)
<i>Control variables</i>	Yes	Yes	Yes	Yes
<i>Firm dummies</i>	Yes	Yes	Yes	Yes
Constant	-31.11 (-1.43)	-40.84 (-1.67)	-29.08 (-1.01)	-32.73 (-1.04)
<i>N</i>	96	96	96	96
	<b>5 days</b>	<b>7 days</b>	<b>10 days</b>	<b>12 days</b>
Stakeholder capital	2.382** (3.15)	2.523** (2.86)	2.584* (2.62)	2.413* (2.24)
<i>Control variables</i>	Yes	Yes	Yes	Yes
<i>Firm dummies</i>	No	No	No	No
Constant	-21.58* (-2.24)	-23.14* (-2.05)	-27.97* (-2.21)	-27.66* (-2.01)
<i>N</i>	96	96	96	96
	<b>5 days</b>	<b>7 days</b>	<b>10 days</b>	<b>12 days</b>
Stakeholder capital	2.404** (3.22)	2.551** (2.94)	2.538* (2.63)	2.308* (2.19)
<i>Control variables</i>	No	No	No	No
<i>Firm dummies</i>	No	No	No	No
Constant	-25.80** (-3.12)	-27.56** (-2.86)	-28.19* (-2.63)	-25.59* (-2.19)
<i>N</i>	96	96	96	96

*t* statistics in parentheses, \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Table 4.** Cumulative abnormal returns when stakeholder cooperation decreases by more than two points.

	(1)	(2)	(3)	(4)
	<b>5 days</b>	<b>7 days</b>	<b>10 days</b>	<b>12 days</b>
Stakeholder capital	1.840* (2.34)	2.441** (2.74)	2.164* (2.14)	1.919 (1.64)
<i>Control variables</i>	Yes	Yes	Yes	Yes
<i>Firm dummies</i>	Yes	Yes	Yes	Yes
_cons	-10.86 (-0.73)	-29.90 (-1.77)	-18.47 (-0.96)	-16.11 (-0.73)
<i>N</i>	155	155	155	155
	<b>5 days</b>	<b>7 days</b>	<b>10 days</b>	<b>12 days</b>
Stakeholder capital	1.887** (3.11)	2.290** (3.29)	2.257** (2.89)	1.889* (2.12)
<i>Control variables</i>	Yes	Yes	Yes	Yes
<i>Firm dummies</i>	No	No	No	No
_cons	-18.68* (-2.26)	-21.30* (-2.24)	-23.94* (-2.25)	-26.38* (-2.16)
<i>N</i>	155	155	155	155
	<b>5 days</b>	<b>7 days</b>	<b>10 days</b>	<b>12 days</b>
Stakeholder capital	1.650** (2.78)	1.979** (2.89)	1.911* (2.51)	1.521 (1.75)
<i>Control variables</i>	No	No	No	No
<i>Firm dummies</i>	No	No	No	No
_cons	-18.08** (-2.80)	-21.84** (-2.93)	-22.20** (-2.67)	-17.12 (-1.81)
<i>N</i>	155	155	155	155

*t* statistics in parentheses, \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

<b>Table 5.</b> Testing how stakeholders respond to a negative stakeholder event of a magnitude of -3.								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Stakeholder Capital</i>		<i>Stakeholder Capital</i>		<i>Stakeholder Capital</i>		<i>Stakeholder Capital</i>	
	(1-day window)		(7-day window)		(30-day window)		(100-day window)	
<i>Stakeholder Capital</i>	0.995***	0.995***						
(Lag, previous 1-day window)	(31993.59)	(32425.44)						
<i>Negative event</i>	-0.0151***	-0.830***						
	(-24.45)	(-43.98)						
<i>Negative event * Stakeholder Capital (lag)</i>		0.0797***						
		(46.84)						
<i>Stakeholder Capital</i>			0.970***	0.970***				
(Lag, previous 7-day window)			(12954.52)	(12981.28)				
<i>Negative event</i>			-0.0163***	-0.774***				
			(-10.97)	(-41.18)				
<i>Negative event * Stakeholder Capital (lag)</i>				0.0741***				
				(43.7)				
<i>Stakeholder Capital</i>					0.897***	0.897***		
(Lag, previous 30-day window)					(6703.37)	(6706.76)		
<i>Negative event</i>					-0.0135***	-0.650***		
					(-5.10)	(-35.06)		
<i>Negative event * Stakeholder Capital (lag)</i>						0.0625***		
						(37.39)		
<i>Stakeholder Capital</i>							0.746***	0.746***
(Lag, previous 100-day window)							(3813.11)	(3813.71)
<i>Negative event</i>							-0.0191***	-0.485***
							(-4.99)	(-27.18)
<i>Negative event * Stakeholder Capital (lag)</i>								0.0459***
								(28.55)
Constant	0.0534***	0.0521***	0.318***	0.317***	1.080***	1.079***	2.662***	2.661***
	(163.14)	(161.08)	(403.47)	(402.43)	(766.77)	(766.08)	(1292.62)	(1292.1)
Observations	9253935	9253817	9253935	9253817	9253935	9253817	9253935	9253817