

Preuss L, Vazquez-Brust D, Yakovleva N, Mutti D.

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**Sustainability Issues Turning into Subnational Political Risk: Lessons from Gold Mining in Argentina**

Preuss, Lutz (Sussex University, UK), Vazquez-Brust, Diego (University of Portsmouth, UK), Yakovleva, Natalia (Newcastle University London, UK), Mutti, Diana (University of Buenos Aires, Argentina)

**Abstract**

Industrial development has been accompanied by a multitude of social and environmental externalities. Often it is social movements who highlight such concerns and put pressure on companies to change their practices. One strategy social movements can utilize here is to increase a company's political risk. While the extant literature on political risk has largely focussed on national government, we draw attention to the importance of subnational levels of government. We discuss specifically how political risk can arise from the processes through which a sustainability discourse generated by social movements infuses a local community's sustainability orientation, the generalized manner in which the community deals with trade-offs around sustainability issues. Presenting data from two case studies of foreign direct investment into the Argentinian mining sector, we show how a strong and coherent sustainability orientation can generate substantial political risk at subnational level, irrespective of whether similar risk develops at national level.

**Keywords:** Developing countries, Local community, Mining, Subnational government, Political risk, Sustainability orientation

## **1. Introduction**

Over the last 200 years industrial development has generated unprecedented wealth at least for some humans in some countries; however, it has also been accompanied by a growth of social and environmental externalities (Shrivastava, 1995). Many of these issues have been taken up by social movements which seek to amplify their concerns through media exposure and other means to put pressure on companies to take greater account of their social and environmental externalities (den Hond & De Bakker, 2007; Teegen, Doh, & Vachani, 2004). In doing so, social movements have several strategies available: in addition to disrupting company operations, they can also influencing the perception of company practices held by key stakeholders, in other words they can increase a company's political risk (Bekefi, Jenkins, & Kytte, 2006).

Political risk has attracted attention in the management literature for some time now, in particular in the context of the operations of multi-national enterprises (MNEs) across a range of host countries (see e.g. Fitzpatrick, 1983; Henisz & Zelner, 2005; Kobrin, 1979; Stevens, Xie, & Peng, 2016). However, this literature largely focused at the national level; by comparison, it is less well understood how political risk can emanate at subnational levels of government. Furthermore, the focus of the literature on political risk has been on government-business relations, whether these are ownership risks where a host government attempts to nationalise a firm or whether these are transfer risks where government intervention threatens to interrupt the flow of products, capital, people or technology (Keillor, Wilkinson, & Owens, 2005; Ring, Lenway, & Govekar, 1990). Only recently has the literature honed in on the ways in which social movements can turn concerns over social and environmental externalities into political risk for the company (Kobrin, 2009). However, we

do not fully understand how sustainability issues can become a source of risk for foreign companies and how these processes operate at a sub-national level of government.

To shed more light on this question, we build on insights from the literature on social movements. This literature examines how groups form to make claims against political institutions as well as businesses (King & Soule, 2007; Schneiberg & Lounsbury, 2008). We build on this literature to enquire how social movements can become a source of political risk at subnational level of government. To do so, we utilize the concept of a local community's sustainability orientation, the generalized manner in which a community deals with trade-offs between economic, environmental and societal aspects of sustainability issues. Many social and environmental externalities are accompanied by a critical discourse that opposes unfettered economic activity; however, this discourse generated by various social movements often remains ineffective. Whether a social or environmental issue becomes a source of political risk seems to hinge on whether the corresponding social movement discourse succeeds in forging a strong and coherent local community sustainability orientation.

We develop our argument through data from two cases of FDI projects in the gold mining industry of Argentina. In both cases, central government had approved the project, declaring both to be beneficial in terms of economic development and to be relatively safe in environmental ones. Both projects attracted criticism from grassroots sustainability movements over environmental externalities and a perceived lack of local economic development opportunities. However, in one case – the mine El Desquite in Esquel in Chubut province – the activities by the grassroots movement spawned a strong and coherent sustainability orientation in the local community. A local referendum decisively rejected mining, and a local magistrate suspended the company's operations. The suspension was later

ratified by local and provincial authorities, causing the company a reported loss of USD 350 million. In the other case – the mine Bajo de la Alumbrera near Andalgalá in the province of Catamarca – the sustainability orientation of the local community remained fragmented, despite grassroots demands and lawsuits to suspend mining activities. The company overcame these criticisms and successfully continued operations with a yearly profit of USD 500 million. The crucial difference between the two cases hence seems to lie in the ways in which the critical grassroots discourse contributed to a strong and coherent anti-mining orientation in one local community but failed to do so in the other.

Building on these two cases, we make a number of contributions to the literature. We contribute to a better understanding of a relatively less explored form of political risk, the risk of suspension of company activities by subnational levels of governments. We show how the ability of social movements to increase political risk for foreign firms hinges on their ability to foster a sustainability orientation in a local community that is coherent and strong. When such coherence is generated, political risk, produced at local level, can grow to a degree where it impacts on corporate strategies and operations, irrespective of whether similar risk develops at national level or not. We also draw out implications of our argument for the management of political risk. Here we extend the distinction by Hillman and Hitt (1999) between three overarching strategies for political action, namely (1) information, (2) constituency building and (3) financial incentives, to the management of political risk. Although derived from only two cases in one national context, our argument has wider implications for understanding political risk more generally.

The remainder of the paper is structured as follows. The next section reviews the literature on political risk, social movements and local community sustainability orientation. Thereafter,

we introduce the research setting of our study, the Argentinian gold mining industry, introduce our two cases and explain our procedures for data collection and analysis. This is followed by the presentation of our findings, where we draw out salient factors at subnational government level that seem to have driven the differences between the two cases. In the discussion section, we tease out the contributions our data can make to the literature, discuss lessons for managerial practice as well as commenting on the limitations of the study. Last but not least, the conclusions summarize our main arguments.

## **2. Theoretical background**

### *2.1. Political risk*

Simon (1982, p. 68) defines political risk as “governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of, foreign business operations and investments.” Crucially for the purposes of this paper, Simon (1982) distinguishing between “governmental or societal actions”, i.e. between intervention by the various levels of government and intervention by non-governmental actors (see also Jakobsen, 2010). Governmental political risk is often classified into two broad categories: (1) ownership and control risks, where the host government attempts to change firm ownership or influence managerial control in its favour and (2) transfer risks, where government intervention threatens to interrupt the flow of products, capital, people or technology (Keillor et al., 2005; Ring et al., 1990).

Political risk induced by nongovernmental actors covers a vast range of issues, from public demonstrations against a company through trade union demands for employee ownership to

political violence or civil disorder (Busse & Hefeker, 2007). Additionally, non-governmental risk usually triggers or increases the likelihood of governmental risks, as governments are sensitive to changes in social sentiment (den Hond & de Bakker, 2007). Political risk thus varies with firm type, where the challenges faced by exporting firms are different from those faced by firms with substantial assets abroad (Boddeyn & Brewer, 1994). Political risk also varies with the institutional context of a country, and different institutional contexts give more prominence to certain types and sources of risks.

The literature has predominantly focussed on national government, yet political risk may also emanate from subnational levels of government. The multi-layered nature of modern government is, in general terms, well understood in the literature (Boddeyn & Brewer, 1994). There is also a recognition that, while policy making is undertaken by individual policy makers or groups, these individuals have their own subjective priorities and may be under conflicting pressures from constituency members (Putnam, 1988). Furthermore, the policy process is hardly ever undertaken by just the state apparatus; rather, decision-making is often the result of attempts by an array of interest groups to influence these decisions (Grant, 1995; Rhodes, 2007). Last but not least, most states are embedded in international relations and various interstate alliances, which offer additional avenues for influencing public policy making at subnational or supranational levels (Richardson, 2000).

At the same time, 'the government' often gets treated as a single actor. For example, Busse and Hefeker (2007, p. 389) write: "Political risk is related to the risk that a sovereign host government will unexpectedly change 'the rules of the game' under which businesses operate." The assumption, at least implicitly, is one of "the government" as *the* sovereign, ultimate rule-maker for all activities within its jurisdiction. Gosse and Behrman (1992, p. 95)

make this assumption explicit. Acknowledging that MNEs often negotiate with subnational governmental units, they argue: “Sub-national Governments are *not* sovereign, so there is always an appeal feasible to a higher level”. The literature thus seems to treat subnational government in an abbreviated fashion where the notion of *the* sovereign state with a monopoly of coercive power obfuscates a more complex picture as aspects of the state monopoly to power are often delegated to supra- or subnational political institutions. This situation has led to a call for “a broader, multilevel, and multiactor conceptualization” of political risk (Stevens et al., 2016, p. 960).

Managing political risk is particularly important for multinational firms. As governments have specific objectives they wish to foster through the operations of MNEs, differences in the treatment the firm receives from governments across its various locations may create a complex picture (Makhija, 1993). Hillman and Hitt (1999) distinguish between three overarching strategies firms can use to manage political action, based on differences in the underlying resources exchanged, namely (1) information, (2) financial incentives and (3) constituency building. Although not specifically designed for this purpose, this typology can be extended to the management of political risk. An information strategy seeks to reduce political risk for a firm by providing policy makers with specific information regarding the benefits of its continued operation in the country and the costs of alternatives. A financial incentive strategy seeks to reduce political risk through aligning the incentives of policy makers with the interests of the firm, e.g. through financial inducements to the official or to their political party. A constituency-building strategy seeks to reduce political risk by attempting to garner support for the firm among individual citizens, thus influencing public policy in an indirect fashion.

## *2.2. Social movements and political risk*

Social movement theory has its roots in sociology and political science and examines how groups of social actors come together to make claims against certain practices of other social actors (McCarthy & Zald, 1977). Diani (1992, p. 13) defines a “social movement [as] a network of informal interactions between a plurality of individuals, groups and/or organizations, engaged in political or cultural conflict, on the basis of shared collective identities”. Social movement theory facilitates the study of process, of the collective processes of contestation, framing of meaning and mobilization for alternatives to challenge taken-for-granted practices (Schneiberg & Lounsbury, 2008). Social movement theory with its emphasis on bottom-up change through emergent collective action thus provides a complement to the focus in organization studies on hierarchy, formally assigned goals and structural mechanisms of control (de Bakker, den Hond, King, & Weber, 2013).

Crucial to the successful operation of a social movement are two capabilities. On the one hand, they need to be able to mobilize external resources for action from their supporters, such as money, time or expertise (McCarthy & Zald, 1977). On the other hand, their success depends on their ability to develop broader systems of meaning to contest existing arrangements and to offer new visions that provide coherence to otherwise unconnected protest events (Schneiberg & Lounsbury, 2008). Social movements originally made claims against political systems of authority (King & Soule, 2007; Schneiberg & Lounsbury, 2008). Following the rise of large corporations to prominence not only in economic but also in political terms (Vogel, 2010), other systems of authority – not least multinational corporations – have also become targets for social movement actors seeking to alter societal conditions and creating alternative governance structures (de Bakker et al., 2013). Another

arena where social movements seek to influence company decision-making is the latter's engagement in corporate social responsibility (CSR). Here social movements seek to position themselves as watchdogs over corporate social activities, as guardians of consumer or employee interests or as partners in joint projects, thus taking an active role in defining and guiding the responsibilities of firms (Teegen et al., 2004).

In addition to bilateral NGO-company interaction, there are also more complex forms of interaction. For example, Kraemer, Whiteman and Banerjee (2013) examine resistance against plans by Vedanta Resources to open a bauxite mine on tribal land in the Niyamgiri mountain range in India. They detail the operations of various coalitions of social movements at local, national and transnational levels; yet the event that decisively stopped Vedanta's plans was the decision by the Indian Ministry of Environment and Forests to revoke the 'in principle' environmental clearance it had granted the company for the proposed mine. As de Bakker and colleagues summarize the current state of the literature: although many studies "attest of the ability of movement activists and civil society entrepreneurs to influence powerful firms, in many other cases forcing corporations to change their behaviour through non-state channels has proven difficult" (de Bakker et al., 2013, p. 578).

### *2.3. Community sustainability orientation*

In order to examine how social movements can become a source of political risk at subnational level, we introduce the concept of a local community's sustainability orientation. Initially, sustainability orientation has been used as a psychological construct that captures the extent to which an individual is "concerned with environmental and societal issues" (Kuckertz & Wagner, 2010, p. 524). It is an extension of a social value orientation, which is

typically defined in terms of the importance an individual attaches to outcomes in a situation of social interdependence that are beneficial to themselves versus those that are beneficial to others (Cameron, Brown, & Chapman, 1998; Joireman, Lasane, Bennett, Richards, & Solaimani, 2001). In such situations, individuals tend to fall into one of three categories: prosocials are those who maximize joint gain, individualists are those who maximize their own gain and competitors are those who maximize their relative advantage over others (McClintock, 1978).

In addition to the individual level (Calic & Mosakowski, 2016; Kuckertz & Wagner, 2010), the concept has also been utilized at a supra-individual level. For example, Agyeman and Evans (2004) apply sustainability orientation to social movements to explore the ideological differences between environmental protection and environmental justice movements. For Roxas and Coetzer (2012, p. 464) an environmental sustainability orientation operates at the level of the firm and is defined as “the overall proactive strategic stance of firms towards the integration of environmental concerns and practices into their strategic, tactical and operational activities” (see also Arnold, 2015).

We follow such conceptualizations of sustainability orientation at the supra-individual level and conceive of it as operating at the level of a local community. We define a local community sustainability orientation as the generalised manner in which the community deals with trade-offs between economic activities and environmental and societal issues. This definition allows us to hone in on how different local communities weigh different aspects of sustainability and how they deal with trade-offs and tensions between those (Hahn, Pinkse, Preuss, & Figge, 2015). A community’s sustainability orientation is likely to be informed by (pro-environmental and other) social movements, yet we see movements and communities as

distinct entities. In particular, there is no automatism concerning the impact of movements on communities. As Khan, Munir and Willmott (2007) show, the transnational movement to end child labour in the football industry in Pakistan was outwardly successful in stopping child labour but ultimately plunged football making families into deeper poverty. At same time, a focus on local communities allows us to examine how activities by social movements – through influencing the sustainability orientation of local communities – are linked to political risk.

### **3. Research methods**

Since the implications of subnational levels of government for the political risk of firms are still not fully understood, we employed the case method for this paper. Case research allows a comprehensive understanding of the complexity of phenomena and lends itself to exploratory investigations when phenomena are still insufficiently understood (Bansal & Corley, 2012; Eisenhardt, 1989). As we wanted to contribute to a better understanding of the conditions under which subnational government would become a source of political risk, we selected two high-profile cases of FDI in the Argentinian gold mining industry.

#### *3.1. Research setting*

We chose mining because the industry has characteristics that set it apart from other sectors, whether manufacturing or services. Most importantly, the critical resources it needs are tied to a particular geographic location. Hence companies in the industry cannot play off countries or provinces against each other to generate more favourable conditions. It is not surprising then that the industry is one of the sectors that is particularly prone to political risk (Jakobsen,

2010; Makhija, 1993). The extractive industry also requires high levels of investment in the prospection and exploration phases before governments grant permit to start exploitation, heightening the importance of political risks before the start of operations.

We selected Argentina because the country possesses rich reserves of mineral resources (Mutti, Yakovleva, Vazquez-Brust, & Di Marco, 2012). Since 1995, the country has attracted large-sale FDI inflows in mineral exploration and exploitation. In the period 2000 to 2015, Argentina received over USD 3.8bn of foreign investment into mining (Secretaria de Minería, 2016). The Argentinian mining sector is highly internationalised, as 85% of the production is controlled by foreign multinationals, chiefly Canadian, Australian, British and Swiss firms. The mining industry employs some 80,700 people and provides employment opportunities for 316,000 people directly and indirectly. However, the industry has also come under criticism from anti-mining movements over its social and environmental externalities. Following public protest against large-scale mining projects, more than half of the country's mineral-rich provinces banned metal mining activities on their territories and some very large mining projects were put on hold.<sup>1</sup>

It is important to stress in this context that Argentina has a federal political system. The national government is the sovereign rule maker – but only in those aspects explicitly delegated to it by the 23 provinces, such as foreign policy. At the same time, each province is the absolute sovereign within its own territory. The provinces are thus charged with the application of national legislation, but they also create their own legislation. With regard to mining, the national government legislates on the conditions under which foreign investment

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<sup>1</sup> By 2016 the following provinces still banned open-pit gold mining: Chubut, La Pampa, Mendoza, Tucuman, Cordoba, Tierra del Fuego and San Luis.

is allowed in the mining sector; but it is the provinces who own underground resources, and they are sovereign to decide whether or not to exploit these. At national level, the main piece of legislation is Law 24.195: Mining Investment. Sanctioned in 1993 during a neoliberal government, it aims to attract international investment, e.g. by providing fiscal stability for 30 years and capping the royalties the provinces can claim of mining companies to three percent (Mutti et al., 2012).<sup>2</sup> Each province then draws up its own procedures to implement the national laws and addresses aspects not regulated by these. In addition to the national government and the 23 provincial governments, the lowest level of government comprises municipal authorities which can, for instance, impose fines on polluting companies or deny exploration permits. Mining in Argentina is thus carried on in a context of high institutional and regulatory heterogeneity, where multiple levels of government and even some informal rule-makers co-exist.

### *3.2. Description of the two cases*

We selected two high-profile cases with very different trajectories: ongoing profitable operations in one case and abandonment of operations after significant investment in the other case. The first case, Bajo de la Alumbrera, is the largest mining project in Argentina. It is located 40 km from Andalgalá city in Catamarca, a poor province with limited sources of employment but with a tradition of metal mining. The project is undertaken by a consortium in which Swiss mining giant Xstrata – now merged with fellow Swiss Glencore – owns 50% of shares, while two Canadian companies GoldCorp and Yamana Gold own 37.5% and

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<sup>2</sup> There has been a degree of fluctuation in national government attitudes to mining FDI. Between 2002 and 2015, Argentina had 3 presidents, all from the Peronist party, namely Eduardo Duhalde 2002-2003, Nestor Kirchner 2003-2007, Cristina Fernandez de Kirchner, 2007-2015. As centre-right candidate, Duhalde was supportive of mining FDI, whereas Mrs Kirchner adopted a more centre-left discourse with anti-foreign business elements. Although important, we treat these shifts in attitude as context as both our focal firms are affected by them in the same way.

12.5% respectively.<sup>3</sup> The project proceeded relatively smoothly during the exploration (1993-1997), construction and pre-production (1997-2000) phases (WBCSD, 2014). Two years after it moved fully into the exploitation phase, local unrest began. Since the operation of the mine is highly automatized and requires specialist skills, only 80 of the 200 permanent workers are from Andalgalá. Most of the population thus perceived a growing divide between the few employees and the rest of the inhabitants. In addition, allegations of environmental incidents started to emerge in 2001. When in early 2003 two Andalgalá residents visited the town of Esquel, in the south of Argentina, they learned about the grass-roots anti-mining movement there (see the second case) and soon Andalgalá too saw anti-mine demonstrations (Misoczky & Böhm, 2015). Local residents seemed to increasingly sympathize with the environmental arguments of anti-miners – a poll in 2010 revealed that 60% of the population in Catamarca opposed new mining investment – but the anti-mining movement never generated the momentum it reached elsewhere in Argentina. From 2003 to date, grassroots movements have applied strategies that worked successfully in other parts of the country, including road blocks, media exposure, lawsuits, intimidation of miners and smear campaigns (Machado-Araoz, 2009). However, Bajo de la Alumbrera continued operations with an average yearly profit of US\$ 500 million (Bajo de la Alumbrera, 2014).

The other case, El Desquite, is located near Esquel in Chubut province. Chubut is a wealthy province with well-developed tourism and agriculture sectors and no mining tradition.

Following a minor gold discovery in 1996, a major gold deposit was discovered in 1999. In 2002, El Desquite was acquired from the exploration consortium by American firm Meridian Gold. Expectations were again high, since Esquel had almost 25% unemployment following

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<sup>3</sup> Ownership of the company operating the mine went through a series of consolidations, culminating in the buy-out of prior owners by the present consortium members in 2003.

the financial crisis of 2001. The company itself kept a low-profile in terms of media exposure and was reluctant to discuss technologies or impacts (BSR, 2003). In July 2002 two chemistry teachers saw a notice in a local newspaper announcing a public hearing for the transportation of hazardous substances, as are required in such cases by Argentinean legislation. At the hearing they learnt that DuPont would be supplying Meridian Gold with 180 tons of cyanide per month (BSR, 2003). The teachers also managed to obtain a copy of the Environmental Impact Assessment for the mine and asked the regulator, the Direction of Mines, to postpone the public hearing until the community could have assessed the EIA. The request was declined on the grounds that lay persons would not be able to understand the content of such a technical document. This answer triggered a spontaneous gathering of 600 residents in September that resulted in the creation of the *Asociacion Vecinos Autoconvocados*, a leaderless grassroots organization. By November it had become *Autoconvocados por el No* and argued that the only way forward was to reject unequivocally the mining project. The movement gathered support from experts in Buenos Aires and local economic actors whose interests would be threatened by the mine, such as tourism operators. By February 2003, growing resistance forced the local authorities to authorise a public referendum concerning mining at El Desquite. The provincial government campaigned with Meridian Gold for ‘Si’ (Yes), portraying ‘No’ supporters as technically ignorant and misinformed. On 23 March 2003, 82% of the population voted ‘No the Mine’. Amidst increasing social unrest, a local magistrate paralysed all further work on the mine site. The incumbent governor lost the next elections and the new governor – who had supported the ‘No’ campaign – suspended the company’s license on a technicality. This was followed by a ban of open pit mining in the province of Chubut by Provincial Law 5001. At the end of 2003 the company stopped working on the project. It wrote off the investment as a loss in 2005, yet still retains exploitation rights in the area.

### *3.3. Research design*

Our research design applies interpretive theory-building (Eisenhardt, 1989; Gioia & Pitre, 1990). Its goal is to improve the understanding of phenomena, developing narratives, insights and explanations of events “so that the system of interpretations and meaning, and the structuring and organizing processes, are revealed” (Gioia & Pitre, 1990, p. 590). Interpretive analysis is based on induction; existing theory about relations between concepts is considered late in the process of analysis (Eisenhardt, 1989). Interpretive analysis is iterative and non-linear with data collection and data analysis processes being intertwined. Tentative conjectures are confirmed or disconfirmed by further consultation with respondents or re-coding of data (Gioia & Pitre, 1990).

The research design started with informal interviews and meetings with mining companies and policy-makers. Respondents consistently mentioned Esquel and Andalgala as paradigmatic cases. Inductive methodology recommends taking measures to prevent emerging theories from being biased towards existing theories, particularly during data collection stages (Gioia & Pitre, 1990). To account for this, data was collected and initial conjectures built without any particular theoretical leaning. An initial round of coding identified Sustainability orientation, Conflict over distribution of risks and benefits and Behaviour of multinational companies as dominant themes emerging from the data. One researcher who was external to the data collection team was brought in at a later stage to integrate existing theory in the process of interpretive theory building. This researcher provided three coding schemes drawing on the literature on political risk and other literatures related to themes originally conjectured: Sustainability orientation, Governmental and nongovernmental political risk and Corporate Behaviour (which evolved into Corporate

Management of Risk). The original team of coders used these theory-based coding schemes to re-analyse the data, identifying main concepts and relationships emerging from the new code schemes. The concepts and structural linkages derived from the literature were thus only integrated after interpretive theory building had led to a series of findings. A last round of analysis looked for confirmation of the linkages constructed between emerging explanations and existing theory. All the above methodological steps follow closely Gioia and Pitre (1990) and Eisenhardt (1989).

### *3.4. Data collection*

Data for the two cases were generated in stages through three types of sources: (a) 69 semi-structured interviews conducted between 2008 and 2010 in Buenos Aires, Catamarca, Chubut, Rio Negro, Tucuman and Santa Fe, (b) participation in public meetings, audits and workshops between 2008 and 2015 and (c) secondary data, such as newspapers, sustainability reports or environmental audits. The interviews were conducted with key stakeholders of the Argentine mining sector: major mining MNEs operating in Argentina; domestic mining companies; officials of national, provincial and local government; members of local community groups and others. Initial interviewees were approached after being identified as major stakeholders of the sector in a review of the secondary literature, while subsequent interviewees were approached using a snow-balling technique. The interviews lasted between 45 and 120 minutes, seven key interviewees were interviewed more than once.

All interviews were conducted in Spanish by the same two interviewers to achieve consistency of data collection. The interviews used a semi-structured format, i.e. respondents were asked to give their opinions following a standard interview schedule but were

encouraged to elaborate freely. Opening questions to all interviewees were general questions aimed to elicit views on sustainability orientation, causes of political risks and corporate management of risks and community relations. Depending on the background of each interviewee, subsequent questions explored a variety of social and environmental externalities, types of political risk, legal and technical aspects of mining operations, the influence of the political and institutional context on the development of risks as well as strategies applied by firms, government and non-government actors.

### *3.5. Data analysis*

All qualitative sources (interview transcripts and notes) were translated from Spanish into English and then coded in different stages using axial and open coding techniques in the NVivo software. The node named political risk was created collecting data with content relating to governmental and nongovernmental risks at the subnational level. This node was created in the last stage of analysis. Since it responded to a consolidated stream of the literature, content analysis based on keywords was chosen as coding method. Keywords included risks from all the risk forms described in the literature review, i.e. ownership, transfer and prohibition of activities.

A second node collected views on the sustainability aspects of mining and social movements, including sub-nodes for community sustainability orientation and narratives used by grassroots movements. The focus was on the extraction of data discussing, on the one hand, externalities and sustainability trade-offs and, on the other hand, data containing references to sustainability principles underlying the two sustainability orientations. This node had been built in an earlier stage of coding. It was based on transcripts of interviews in their original

language and served to approve/disprove initial conjectures on sustainability orientation. Rather than using keywords with a retrieval tool, we carried out a qualitative content analysis, reading and interpreting all responses. This approach was deemed more adequate since many pro-mining respondents avoided explicitly naming an environmental externality. For instance, several interviewees referred to the use of cyanide as “the big issue”, “the thing” or “their flagship”. An additional advantage of this method is that during the process we could classify the data more easily into sub-nodes. All these nuances were carefully explored when classifying the data. We also explored the internal cohesion of respondent’s principles and the consistency of narratives across different community actors.

Finally, a code named “Managing Risk” was built mapping onto the strategies for political activity by Hillman and Hitt (1999) of information, constituency building and financial incentives and onto Khanna and Palepu’s (2010) strategies for managing in institutional voids in emerging markets. Through the interpretive analysis, the information on the nodes was screened to retain only data relating to the case studies of Esquel and Andalgala and to separate context information about national level risks from the data related to subnational-level risks, sub-national sustainability orientation and corporate management of risk at the subnational level.

#### **4. Findings**

In this section, we present our findings with particular emphasis on three aspects (1) how the sustainability orientations in the two communities changed in response to the anti-mining discourse generated by critical grassroots movements, (2) how provincial governments

responded to these developments and (3) how, in turn, the mining companies adapted their strategies.

#### *4.1. Differences in local community sustainability orientation*

Catamarca has quite some history of metal mining, although not of the scale of the Bajo de la Alumbrera project. When this project started, many residents of Andalgala were well aware of the trade-off between economic benefits and social environmental disbenefits mining can bring, in particular with regard to human health:

We have had mining for a long time in Catamarca, we all know the risks, everybody knows. ... the legacy [of mining for metals] are chronic lungs diseases such as mucinosis, people working in mining have a life expectancy of 60 years, 10 years less than other people. People knew what will happen to them ... Communities here live in the present, their main concern is to have money to put food on the table and send children to school. Long term consequences to health are not a main concern, they are fatalist about it... everybody dies sooner or later.

(Medical worker, Catamarca province, 2009)

The starting point was very different in Esquel, which had no prior experience of mining and its social and environmental externalities. Many local residents initially did not have any pre-existing awareness of the trade-offs between mining and sustainability:

In the beginning, the community thought, since people would be coming to work in the mine, more money to spend, all this leading to growth. Employment in Esquel is

mainly in services and public administration: police, military, a theatre [now closed], but no manufacturing. The city needed an industry to impulse the people. Therefore, most of the people were very keen on the mine. In Esquel, there is nothing.

(Member of local government, Esquel, Chubut province, 2008)

As the mining activities commenced, both locations saw significant activities by anti-mining grassroots movements. However, there also were crucial differences between the grassroots movements in the two places. In Catamarca, views on how to deal with the trade-offs around mining were not cohesive. Some groups aimed to ban mining, often advocating care for nature as a matter of principle:

Mining is not sustainable, it does not benefit the community and it will never do.

Companies take our gold, deplete our water, exploit our people and leave nothing but misery as legacy. If you go to a former mining town, what you see is devastation, ghost towns, holes filled with poisonous water.

(Member of grassroots movement, Andalgalá, Catamarca province, 2009)

Others advocated drastic changes to regulation in order to increase benefits for local communities if not to nationalize foreign companies outright:

Mining has a bad reputation here in Catamarca, state-owned companies were not efficient and nobody controlled them. Now, people suffer from hunger in Andalgalá, we need to make the most of this opportunity. Now we have large multinational companies with corporate social responsibility policies and we can have independent controls. The authorities have not got the resources to control them, yes I agree.... We

should retain part of the profits of mining companies to allow local authorities hire independent auditors.

(Church worker, Andalgalá, Catamarca province, 2008)

The effectiveness of the anti-mining grassroots movement in Catamarca was also hampered by the fact that it had limited resources to build resistance:

We have to do all the legwork by ourselves, we are all workers, our time is limited.

The university [of Catamarca] did not help, they are with the company, the local authority say we were trouble-makers wanting to make some money out of the company, the Provincial Government will not let us see [Alumbrera's] Environmental Impact. Even internet access is a problem here!

(Member of grassroots movement, Andalgalá, Catamarca province, 2008)

By contrast, opinion in Esquel congealed quickly around a mistrust in the mining company and its political backers in provincial government. The implications of mining suddenly became clear to residents when chemical company DuPont announced a public hearing, as required by Argentinean law whenever a company wishes to transport a hazardous substance. The fact that residents learned about key aspects of the planned mining development through DuPont – rather than the mining company or the provincial government – nurtured the perception that neither the company nor the government can be trusted to prioritize sustainability and community interests when trade-offs arise:

A DuPont expert came to town to explain health and safety precautions being taken to transport the cyanide that was meant to be used to extract gold. Only then we realised

that they will dynamite 40,000 tons of rock very day, day-in day-out, for 10 years. 10,000 tons will be pulverised and put in large pools where the gold would be lixiviated with cyanide. The remaining 30,000 tons per day would be dumped back into the mountain. The gold stream is in a direct line from the city, only six kilometres away. It would have been horrific pollution.

(Member of grassroots movement, Esquel, Chubut province, 2008).

Distrust grew when the company refused to comment on their use of cyanide, arguing their processes were confidential. Refusal by both company and provincial government to discuss technical details and to engage with critics of the mine reinforced the perception that environmental risks cannot be managed and therefore increased the cohesiveness of the anti-mining orientation in the local community:

Who was going to control the use of cyanide? I ask you, can you tell me? The company, who says that cyanide cannot be discussed because of business confidentiality, but says it will all be ok, no worries...? The local authority, which would not be able to detect cyanide if they had it spilled in their drinks? The governor, who was already counting his share? You know what they [the authorities] would have done? They would have asked for some more money and get a pawn to write a report and agreed with the industry to introduce some useless CSR code that nobody enforces and we would have had spill after spill.

(Medical worker, Esquel, Chubut province, 2010)

Furthermore, residents of Esquel were well educated and the community had a history of defending local public interest against controversial ventures. In the 1980s communities in

Chubut had successfully thwarted an attempt to open a nuclear waste site in town of Gastre. The community perceived similarities between Gastre and El Desquite. Both projects involved significant environmental and health risks. In both cases there was a trade-off between short-term economic benefit and exposure to a highly hazardous substance. In both cases the government backed the company, playing down risks and emphasising short-term benefits. In Gastre, the community won the battle against the nuclear waste project, using sustainability arguments. By framing El Desquite as a new Gastre, fears about cyanide activated latent community capabilities to generate their own knowledge and to mobilize resources:

Esquel was a spectacular place for global activists to start. Esquel is a town of public servants and tourist operators with plenty of time in their hands, swathes of educated people with boring, unfulfilled lives yearning for a cause to defend, fondly remembering their ten minutes of fame in Gastre. Many of them came from Buenos Aires looking for nature, the flowers, the lakes. They sat in the town's hotels and saw the cranes on the mountain.

(Official from provincial government, Buenos Aires, 2009)

Additional key players, such as the Chamber of Tourism and the Chamber of Agricultural Producers, also opposed mining. Catholic priests in the city of Esquel did not take sides, but the bishop of the province warned that defenceless communities should not be exposed to any activity that has not been unequivocally proven to be safe. The provincial government soon was the only source of institutional support for mining.

These findings show how the sustainability orientations of the two communities developed in fundamentally different ways. Although residents of Catamarca were well aware of the social and environmental implications of new mining projects, the community did not develop a cohesive sustainability orientation. Many residents took a fatalistic view of the trade-offs around mining and accepted social and environmental damage as part of the status-quo because they had a long experience of mining-related diseases and pollution. The grassroots movement itself was fragmented in the potential solutions it put forward, from a radical perspective that mining would never be sustainable and had to be resisted as a matter of principle to a moderate view that the way forward was to focus on generating more benefits from mining activities for local communities. The emergence of a coherent sustainability orientation was furthermore hampered by the fact that powerful institutions, not least the Catholic Church, actually endorsed mining in Catamarca.

By contrast, a cohesive and strong sustainability orientation did emerge in the local community of Esquel. This orientation had been latent in the community since the successful resistance against the nuclear waste project in the 1980s. However, it was the lack of the transparency and resulting trustworthiness of those promoting the mine, which triggered a bottom-up “us” versus “them” identification process. Since those empowered to manage the trade-offs around mining became seen either incapable or not to be trusted, local residents became convinced of the impossibility of a deal with trade-offs; in other words, the only solution was to reject mining. This position received additional institutional support from key local institutions, such as the Chamber of Tourism. Last but not least, the anti-mining grassroots movement was well resourced and could position itself as successor to those who had fought against the nuclear waste site in the 1980s. The community orientation in Esquel thus centred around three sustainability principles: subsidiarity (people cannot leave

important decisions to power holders in government or business), non-commoditization of the environment (based on the precautionary principle) and distributive justice. These three were consistently mentioned by grassroots activists, the media, educators, the church and other stakeholders. By contrast, in Catamarca only the principle of distributive justice appears consistently across community groups.

#### *4.2. Differences in subnational government responses*

The sustainability orientation of a local communities does, of course, not automatically translate into political decisions. Rather these depend on how decision-makers interpret the strength and cohesion of the orientation and weigh it against other factors, such as the interests of other interested parties. For instance, one such concern for policy makers in Andalgalá is weighing the economic contribution of mining to the provincial budget against environmental costs:

The mining industry provides 70% of their takings and so, whether they like it or not, they're going to support it and that's why they have become ever more exasperated with regards to environmental issues. Because they know that it is an area that requires great care.

(Senior manager of mining company A, Buenos Aires, 2008)

By contrast, Esquel is located in a fertile valley near the Andes range. It is predominantly inhabited by a well-educated community with middle to high income inhabitants. Esquel's economy consists of companies operating in services, health care, banking, tourism as well as public administration. The tourism sector in the area is strong and centres on a natural

landscape that includes a national park and several areas of outstanding beauty. Furthermore, the proposed mining project would have competed with agriculture and farming for the use of water.

Differences in political risk also emanate from differences in the political situation in the two provinces. Catamarca had a much higher degree of political stability during the period of interest, as the governor and local authorities had not changed since contract negotiations with the mining consortium began. Not only were provincial and local leaders skilled negotiators with knowledge of the mining sector, they were also very popular. In other words, they did not need to use anti-mining sentiments to win political support. On the contrary, they seem to be able to use their position in a relatively stable political situation to negotiate with mining companies behind the scenes:

The state is interested in keeping mining, promoting it, whilst keeping people dependent on mining, a lot of people are below the poverty line.... We know that the municipality needs us to keep milking the company. We are an important “opposition” to the municipality “controlling” the situation in the eyes of the company.

(Members of grassroots movement, Andalgala, Catamarca province, 2008)

A completely different picture emerged at Esquel in Chubut province. The province was gearing up to elections when the dispute over the mine broke out. The governor and the local authorities belonged to different political parties and hence could not join efforts to support mining. Neither the governor nor the lord major had any knowledge of the mining sector. Moreover, the governor’s political power had been greatly affected by the economic crisis.

Mining thus became an unpopular cause defended by an unpopular governor. As social resistance became widespread, supporters of mining had a political disadvantage. The local government shifted allegiances and supported the anti-mining camp. The provincial government stuck to defending mining and was defeated by a challenger who build his campaign on the slogan “No a La Mina”.

All the build-up to the referendum in Esquel, where the local authority was Peronist and the governor radical, therefore political adversaries, did not look good. If one of them supported mining, the other had to oppose it.

(Senior official from national government, Buenos Aires, 2008)

When an anti-mining sentiment becomes part of a coherent and strong sustainability orientation, the danger of political risk for mining companies increases exponentially. However, whether that risk actually materialises, i.e. whether subnational governments indeed act on such pressure seems to depend on a number of additional factors, not least the contribution of mining to the provincial economy. The provincial government of Catamarca depended on mining both in terms of the industry’s contribution to regional economic development and to the governmental budget. Given its healthier economic structure, no such pressure existed in Esquel. Furthermore, the government of Catamarca actually held a share in the mining consortium, whereas no such structural constraints on political action existed for Esquel. A further reason, why anti-mining concerns in Catamarca did not translate into political risk stems from the greater political stability in the province. It was not scheduled to have elections during the period in question and both provincial and local governmental leaders had extensive experience of negotiating with mining companies and hence were trusted by the community to represent its interests. In Esquel, however, the upcoming

provincial election provided an opportunity for the opposition to rally around the anti-mining movement to oust an already unpopular governor.

#### *4.3. Differences in company responses*

Another factor that can mitigate how and to what extent the sustainability orientation of a local community translates into political risk are the ways in which companies engage with community concerns. Here too significant difference emerged our two cases. In Andalgalá, Bajo de la Alumbrera engaged in a range of CSR initiatives. Initially it focussed on supporting small entrepreneurs in the agricultural and services sectors, promoting gender equality through their recruitment and supplier selection policies or mentoring local companies to become suppliers. When anti-mining sentiments began to be voiced in Catamarca, the company stepped up its CSR engagement and built infrastructure in response to requests by the local authority, increased the number of contracts with local suppliers and started engaging local teachers and students in community support projects.

We also work in education on environmental issues, because undoubtedly, one of the branches is a project to review the mine's environmental conduct. Within this we must educate and teach people that we are credible. It is not about going up to people and saying that we are good, but about people from the university or an international body explaining what the mining industry is all about, and trying to improve training so that people understand what they are being explained.

(Senior manager of mining company A, Buenos Aires, 2008)

From the moment the project was announced, the company responded to public hearings by communicating expected developmental gains, it openly discussed the technologies to be used during the exploitation phase. It also extensively communicated its good deeds through local bulletins, adverts in local media and corporate reports. The company also appointed a community relations officer in Andalgalá, who proved essential in developing links with community leaders. For example, when the anti-mining sentiments began to grow in Catamarca, the community officer reported this perceived shift in community sentiment to senior management so that the company could step up its CSR engagement. Last but not least, the company also developed a mine closure strategy jointly with the community early on. This was a critical point at the time since several mines in the North of Argentina had finished extraction and left behind hazardous waste and a population deprived of its main source of employment.

Again, things went very differently in Esquel. From the start, the company kept a low-profile in terms of media exposure, it did not appoint a spokesperson until this was specifically demanded by the provincial authorities, it rejected requests to talk about CSR or community development and was reluctant to discuss technologies or impacts. Even when a public hearing was announced, at which the environmental impact assessment for the mine would be presented, it was the provincial regulator, the Direction of Mines, and not the company itself, which organized a series of hearings to provide information about the mine. The company referred to mine closure and environmental impacts only by saying that these would be dealt with following applicable legislation and industry standards. Attendants of the hearings were disappointed; in the words of one of the participant, “they talked as if it was a shareholders’ meeting, they talked about profits, minimising costs”. Only after the referendum did Meridian

Gold hire a CSR consultant to understand why they had lost the referendum. By this stage, however, it was too late to attempt to change community views.

These findings once more show that a coherent and strong sustainability orientation does not automatically translate into political risk; rather the skills and transparency with which a company approaches its critics play a vital role too. Bajo de la Alumbrera consistently provided information to all parties concerning the impacts of and expected gains from its mining operations. A particularly important role here was played by its CEO, who was personally involved in CSR and community investment strategies and by its community relations officer, who was able to build a bridge between the commercial and technical logic prevailing inside the company and the sustainability orientation of the local community. Furthermore, the company showed flexibility in the size and goals of its CSR initiatives. Although Xstrata, as the lead firm in the consortium, initially stated that it did not want to get involved in the construction of schools or roads as it considered this type of infrastructure investment to be the responsibility of subnational governments, it later stepped up its engagement in these areas. By contrast, Meridian Gold in Esquel pursued a marked different strategy. It did not provide any information about CSR or community development; important community concerns, such as environmental impacts and mine closure strategy were given short shrift. By being reluctant to discuss key implications of its proposed project, it nurtured distrust in the local community, which later engulfed all proponents of mining in the province.

## 5. Discussion

This paper started with the observation that the literature on political risk has tended to focus on risk emanating from national government; whereas subnational levels of government have not yet received the same level of scholarly attention. Building on the literature on social movements, we showed how social movements can become a source of political risk if the discourse over externalities of economic activities they generate resonates with the sustainability orientation of a local community. Under conditions of such alignment, political risk, produced at subnational level, can grow to a degree where it impacts on corporate strategies and operations, irrespective of whether similar risk has developed at national level or not. However, as our cases have shown, a strong and coherent sustainability orientation of a local community does not automatically lead to political risk; rather, this process depends on a number of factors. In our cases, the most salient factors to explain whether a strong and coherent sustainability orientation develops in a community and then becomes a source of political risk were (see Figure 1):

- the pre-existing orientation in the community. In our cases, the community in Catamarca was much more aware of the trade-offs around mining than that of Esquel, which had not had any exposure to mining up to that point.
- the level of skills and resources of the social movement agitating against a company or industry. Given a more favourable socio-economic situation and a past of successful activism, the anti-mining movement in Esquel was much more skilled and better resourced than the one in Catamarca.
- the ability of the social movement to produce a discourse the local community can identify with. In Esquel, the anti-mining movement authored a discourse that bore

many of the hallmarks of strong sustainability, such as an emphasis on subsidiary action, distributive justice and non-commoditization of the environment based on the precautionary principle. In Catamarca, the anti-mining movement did not manage to generate such a powerful discourse.

- support from other powerful societal actors. In the case of Esquel, the governor and the local authorities belonged to different political parties and hence could not join efforts to support mining. Catamarca had a much higher degree of political stability during the period of interest, as the governor and local authorities had not changed since contract negotiations with the mining consortium began; neither had they any need to use anti-mining sentiments as an electoral tool to win political support.
- the political skills of the company at the centre of the controversy. In our cases, the consortium operating Bajo de la Alumbrera was very skilful in communicating with the local community and engaged in CSR activities, whereas the consortium operating El Desquite saw no such need.

[insert Figure 1 about here]

Many of these mechanisms have been shown to operate at national level. For example, Bonardi and Keim (2005) have shown how information on food safety and quality, skilfully disseminated by European NGOs, such as ATTAC, Greenpeace or Friends of the Earth, led to mounting pressure on European politicians to block genetically modified food marketed by US firms. Marquis and Qian (2013, p. 141) study CSR by Chinese firms and identify engagement in CSR initiatives as “an important and insufficiently studied mechanism of corporate ... adherence to government signals on politically legitimate behavior.” We add to

these studies the insight that these mechanisms can also operate at subnational level and can do so independently from what happens at national level.

The literature on social movements had stressed how their success depends on their ability to develop broader systems of meaning to contest existing arrangements and to offer new visions that provide coherence to otherwise unconnected protest events (Schneiberg & Lounsbury, 2008). The concept of sustainability orientation seems to have explanatory power here. As our cases have shown, where social movement discourse become woven into a strong and coherent sustainability orientation, it can indeed become source of substantial *governmental* political risk, in addition to *nongovernmental* political risk in the form demonstrations, protests, road blocks, etc. In other words, social movements can position themselves as gatekeepers, defining what investments are acceptable and under what conditions.

Our study also contributes to the ongoing discussion over the obsolescing bargain mechanism (Vernon, 1971). This concept suggests that the bargaining power of an MNE is at its peak just prior to the investment, when the host government needs access to its capabilities. Once committed, that investment becomes ‘sunk’ capital; the host government may then attempt to redistribute the gains from the investment in favour of its constituent groups (Boddewyn & Brewer, 1994; Doh & Ramamurti, 2003). According to this logic, the bargaining power of Xstrata and Meridian Gold should have been greatest during the pre-production stage. Yet our case in Esquel shows that during that stage the company was actually exposed to greater political risk, in particular at the subnational level. In Catamarca, once Bajo de la Alumbrera went into full operation, the company should have entered a phase of bargaining obsolescence. However, the provincial government does not seem to have attempted to

renegotiate conditions; it did not even do so when the anti-mining movement arrived in Catamarca. Our focus on the alignment between social movement discourse and community sustainability orientation can help to explain this constellation. In Esquel, the coherent community orientation increasingly congealed around principles of strong sustainability, in particular the belief that the disbenefits of the proposed project are so grave that contemplating potential trade-offs would be meaningless. In Catamarca, the fragmented community orientation centred on distributive justice, which could be addressed by the company through its CSR measures. Contrary to the emphasis in the political risk literature on a firms' bargaining obsolescence *after* it started full operations in a foreign country, our findings suggest that – at least for the mining industry – subnational level risk in communities with a strong and coherent sustainability orientation will peak *before* the company starts operating.

Our study has a number of limitations. For a start, it is based on a single country and on two cases within that country. While having allowed us to generate useful insights, the transferability of the findings to other nations, and perhaps even to other locations within Argentina, may be limited. Secondly, there is a great degree of heterogeneity in the mining industry, where MNEs compete with smaller domestic firms and a significant amount of mining is also undertaken by artisan miners. Having focussed on large MNEs, the transferability of results may again be impaired. Relatedly, mining projects go through several broad stages: (1) prospection, (2) exploration, (3) construction, (4) exploitation and (5) closure. El Desquite was in its exploration stage, whereas Bajo de la Alumbrera had reached the exploitation one; the two projects were in different stages of their development. Thirdly, due to the study's explorational focus, we were not able to measure the effectiveness of the identified approaches.

These limitations open up a number of avenues for future research into political risk at subnational levels of government. Given that we researched a country with a federal political structure, future research could thus investigate political risk across countries with different political systems, comparing for example federal with unitary countries. Argentina's neighbour Chile could be a starting point here, as Chile has a century-long tradition of mining and is a unitary country with a much stronger role played by the national government. Secondly, future research could investigate subnational political risk in different industries. Even within mining, there would be scope to hone in on differences between companies at the different stages of the mining project. Last but not least, the effectiveness of the described approaches and tools could be measured through quantitative studies into political action of mining firms.

## **6. Conclusions**

This paper took its starting points from two recent developments, empirically from the observation that political risk remains a serious challenge for international business (Henisz & Zelner, 2005; Jakobsen, 2010) and theoretically from the argument that the study of political risk needs to evolve towards “a broader, multilevel, and multiactor conceptualization” (Stevens et al., 2016, p. 960). We heeded this call by drawing attention to the subnational level of government as a potential source of political risk. Specifically, we honed in on the role of a local community's sustainability orientation, the generalized manner in which a community deals with trade-offs between economic, environmental and societal aspects of sustainability issues. We used data from two cases of FDI in the gold mining industry in Argentina to show that a strong and coherent community sustainability orientation

– fed, but not determined, by social movement discourse – can indeed lead to substantial *governmental* political risk, in addition to whatever *nongovernmental* political risk the social movement itself manages to generate. Social movements thus can position themselves as gatekeepers and define what investments are acceptable and under what conditions. These processes at subnational level seem to operate independently from whatever happens at national level, adding an additional layer of complexity to political risk in international business.

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**Figure 1: The relationship between social movements, local community sustainability orientation and political risk**

