THE DARK SIDE OF LEGITIMACY:

HOW (NOT) TO MANAGE COMPLEX LEGITIMATION PROCESSES

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ABSTRACT

By focusing on the legitimation of firms in terms of their market activities rather than appreciating the many roles firms increasingly play in society, research on strategic legitimation has not fully grasped the complexities of interrelated legitimation processes unfolding in a firm's market and nonmarket environments. In a world where firms are under growing societal pressures to perform nonmarket activities, like providing public goods and services, it is important to better understand how multiple legitimation processes interact. A comparative longitudinal analysis of three mining firms in Peru shows that when firms perform nonmarket activities to construct legitimacy in terms of controversial market activities—like mining—they simultaneously construct legitimacy in terms of nonmarket activities. As firms become more legitimate in terms of nonmarket activities, stakeholders expect firms to provide more public goods and services to maintain their legitimacy in terms of market *and* nonmarket activities. Firms thus appear to face a choice; conform to mounting stakeholder demands, or risk losing legitimacy and face societal opposition. This dissertation shows how firms can reconcile this conundrum by employing strategies of firm-state collaboration, whereby firms construct the legitimacy of the state to deflect societal expectations onto the state. In developing an integrated theoretical model of a legitimation trap and legitimation trap escape, this dissertation challenges research on strategic legitimation which has narrowly focused on a firm's legitimation in terms of market activities and overlooked how firms' separate but interrelated legitimation in terms of market and nonmarket activities influences performance. The present work also extends nonmarket strategy research, which has argued that providing public goods and services can help firms maximise performance, whereas this dissertation cautions against an unmitigated view of this approach. This research has strategic implications for the roles firms play in society relative to states and in tackling societal grand challenges.

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CHAPTER 1: INTRODUCTION

"Before [the firm came], we lived in the dirt, we had a well for water, no hygienic services, no electricity. Now we have them […]. Our houses were huts of wood, without windows, just four planks of wood. Now we have houses. All of this is thanks to [the firm]. […] [The firm] is like a father to us."

Community member, Agua community, Peru

"80 years of mining has completely corrupted the minds of people. [...] In the absence of the state, the benefits from the mine have hindered the development of an own economy. […] now, only the mine exists for people, the firm has been around for so long, […] it has become custom to simply go to the firm [to demand public goods and services]."

Firm manager, Mina Antigua, Peru

"[T]he firm promised to provide electricity and water for the populations, and this transformed into more and more public services, [...] and this triggered more and more expectations towards the firm, drastic expectations, [...] and this created more conflict over time. [...] It is a very old mine and the expectations have mounted. We simply cannot meet these expectations."

Firm manager, Mina Antigua, Peru

"The big problem is that these communities live in areas far away from the state and the presence of its institutions. […] And then comes the big mining firm, and for the people there, it is the first and probably last opportunity to get basic services and ultimately development. So, clearly, they […] want the mine to provide the services. And, it is clear that by doing so

the firm performs functions of the state, and it is also clear that it replaces the state, building hospitals, paying teachers, all of it. Sometimes when I go to these communities, I feel like […] I have been minister of everything."

Former vice minister at the Ministry of Energy and Mines, Peru

"[Our] operations work really well, […], but the social management costs so much."

Firm manager, Mina Grande, Peru

The above quotes are representative of an increasingly common challenge modern businesses face. How to maximise performance in environments populated by stakeholders who increasingly expect firms to deliver public goods and services and to solve societal grand challenges. One of the world's largest mining companies Mina Grande is no exception. When the international firm Mina Grande entered the remote locality of Costa in Central Peru to extract and export the region's vast copper resources, the firm's fate appeared to be decided. The local population, two communities called Agua and Tierra, protested violently against the firm's mining operations. The residents of Costa feared that Mina Grande's mine, its refinery, and a port to export the minerals would disrupt their lives and livelihoods. The local population therefore opposed the firm and its activities, and sought to evict Mina Grande and its operations from their communities. For almost two years, the Costa region resembled a "war zone". Thousands of protesters frequently and relentlessly took to the streets, burning cars, damaging firm property, and clashing violently with police. On more than one occasion, the Peruvian military intervened, deploying several thousand salvos of tear gas bombs, while riot police dispersed the crowds.

Mina Grande's head of corporate social responsibility (CSR) (171)[1] who managed the firm's entrance into the Costa region recalled that "[Mina Grande] was not at all prepared for the social environment they were entering. We were prepared for the operational side, the operations [would] work really smoothly, but [Mina Grande] was not ready for the social management." It appeared that Mina Grande had a clear view of maximising the performance of its mining activities without devising a strategy to navigate the complex social environment the firm was operating in. According to nonmarket strategy research (e.g., Baron, 1995; 2001; 2003; Dorobantu, Kaul & Zelner, 2017; Mellahi, Frynas, Sun & Siegel, 2016; Sun, Doh, Rajwani & Siegel, 2021), Mina Grande should have undertaken nonmarket strategies to create stakeholder support for the firm and its activities in the communities of the Costa region.

Despite the initial strategic failure that resulted in societal opposition to Mina Grande's contested mining operations, the firm was determined to engage with actors in its social and political environment, and commit to their operations in the Agua and Tierra communities. The firm could not escape this. The economic fortunes mining the copper under the surface of the Costa region promised were just too enticing. Mina Grande therefore did what any profit-maximising firm would do, but also what we would expect any "good" and "responsible" corporate citizen would do. The residents of Costa were poor and lived in the absence of many public goods and services, and so the firm employed a comprehensive nonmarket strategy to significantly improve the lives and livelihoods of local populations. The firm thus promised to create shared value (Porter & Kramer, 2011) among the firm and its stakeholders, contributing to local development and privately investing in the provision of public goods and services in the hope that the firm could begin operations. Henisz, Dorobantu

[1] I anonymised all interviewees, gave them a number, and quote them with reference to that number. I elaborate on this methodological choice in chapter two.

and Nartey (2014, p.1732) argue that "[a]ctivities perceived by stakeholders as socially responsible build up political and social capital that enhances stakeholder cooperation and reduces stakeholder conflict." In the years that followed, Mina Grande therefore spent tens of millions of US dollars on improving education by building schools and paying teachers, constructing roads, delivering essential healthcare services like vaccines and medical treatment, and expanding Costa's nascent electricity system. In time, thanks to the sweeping delivery of public goods and services, the firm's operations became widely accepted and Mina Grande an integral member of local society.

However, societal attacks on the firm did not stop. Did Mina Grande's nonmarket strategy amount to nothing? Did nothing change despite the firm's generous roll-out of public goods and services and improving the local population's standard of living? The answer is a resounding *no*. Though it requires in-depth evidence to understand what had changed. Before Mina Grande implemented its nonmarket strategy of privately delivering essential public goods and services, societal actors were primarily concerned with the firm's mining activities and the impact the mine had on their livelihoods. Societal actors mounted attacks on the firm because of these concerns. After the generous delivery of public goods and services, what had changed was that actors were much less concerned with the consequences of Mina Grande's mining operations. Instead, societal actors in Costa were principally concerned with the firm as a provider of public goods and services. The local population expected Mina Grande to provide more and more public goods and services. When the firm failed to conform to these expectations to the satisfaction of Agua's and Tierra's leaders, then conflict broke out. Mina Grande, which was unable to relocate due to its high capital investments and the location-specific nature of its operations, was forced to oblige. Over the years, the mining firm spent more and more money on public goods and services as wide-ranging as building roads and sewage systems, offering seed funding for entrepreneurs, developing local winemakers and

brewers, and paying for psychologists for people who needed treatment. If societal actors considered any of these provisions as insufficient, then they protested the firm. They did not do so in bad faith, however. They did do so in order to correct the firm's course and realign Mina Grande's social provisions with societal expectations. Mina Grande, as a result, forewent millions in revenue due to having to halt mining operations during conflicts and, depending on the damage suffered during the protests, due to the additional costs incurred by rebuilding the firm's mining camps, supply routes, and other facilities. Interestingly, no matter how violent or destructive conflicts turned, the local population did not seek to remove Mina Grande from Costa. To the contrary, local actors even considered the firm their "father", a member of their "family", and a "protector" in times of need (162, 165). Life in Costa with Mina Grande had become taken-for-granted, and societal actors could no longer imagine an alternative world without the firm.

The fate Mina Grande suffered in the Costa region was neither unique nor isolated. While the mining giant Mina Grande went through this costly period of turmoil—although, it seemed, the firm did everything right—another international mining corporation called Mina Plata began exploring for some of the most promising silver deposits in the world. Mina Plata faced issues in the community of Silver in the South of Peru that were similar to those Mina Grande experienced when it entered Costa. Mina Plata's managers were attacked, locals threw rocks and stones at them. The firm and its activities—exploring for and prospectively constructing a large open-pit silver mine—were not welcome in Silver. In light of the social opposition the firm confronted, Mina Plata turned to what theories of nonmarket strategy recommend: make provisions for the needs and interests of salient stakeholders in the nonmarket environment and so become legitimate in terms of even controversial market activities (Baron, 2001; Dorobantu et al., 2017; Mellahi et al., 2016; Sun et al., 2021). The needs the local population surrounding Mina Plata's prospective market activities had were

great because the impoverished community of Silver had been living in virtual absence of any public goods and services. Locals did not have access to healthcare, education, clean water and sanitation. Children in the Silver community were chronically malnourished and overall life expectancy was low. Mina Plata thus promised to spend millions of US dollars on essential public infrastructure projects and other sweeping benefits for the communities surrounding its prospective mine.

The firm's relationship with the community improved markedly. In fact, firm officials became members of the community and the firm, with its provisions, an integral part of life. Locals came and went at the mining camp and even stayed over, if needed. However, Mina Plata was constantly pressured by its local stakeholders to conform to societal expectations regarding the firm's public goods and services provisions. The firm knew it was on a dangerous path. Like societal actors in the area surrounding Mina Grande, local populations in Mina Plata's nonmarket environment expected the firm to fund more and more public goods and services in their communities.

Mina Plata suffered from the mounting societal pressure to conform to community expectations; expectations the firm argued should be targeted at the state. Mina Plata claimed that the state should deliver *public* goods and services, and not a private mining company. According to a firm manager (64) working in the Silver community, "clearly, they need roads, they need electricity […]. [But this] is the state's responsibility. Our firm is a business and our business is mining." However, Peru has weak state institutions. The Peruvian state has struggled to provide large swathes of the country's territory with essential public goods and services, leaving communities like Silver mired in poverty and needing alternative actors like Mina Plata to develop their regions.

Mina Plata, unable to keep meeting societal expectations instead of the state, therefore devised a strategy of drawing the state to the Silver community and helping the state finance

public infrastructure projects. The firm collaborated with the state on important public goods and service provisions. Mina Plata also connected members of the Silver community with state representatives so that locals could demand from the state—and not the firm—the provision of schooling, housing, vaccines, clean drinking water, sanitation, bridges, and other important public goods and services. Over time, societal pressures on the firm subsided, while they increased vis-à-vis the state. Referring to the firm's strategy at collaborating with the state and so drawing the state into the Silver community, a community member (138) explained that life in Silver improved thanks to the firm and the state, and that "[Mina Plata] opened the state's eyes, and we opened our hearts for the state, and that makes us grateful to the firm and makes us trust more in the state." After decades of feeling neglected and forgotten by the state, Silver's residents began to see the state as legitimate in terms of providing public goods and services. The state's presence in the Silver community grew and the relationship between the local residents and state representatives improved. Mina Plata suffered fewer confrontations with societal actors and incurred lower costs by no longer having to implement expensive public infrastructure projects.

These vignettes into the diverging trajectories of Mina Grande and Mina Plata illustrate the challenges many modern firms confront: to gain and maintain legitimacy in terms of their market activities vis-à-vis key stakeholders in the nonmarket environment. Market activities are those activities that directly contribute to a firm's economic performance like producing, manufacturing, distributing, buying, selling, employing, or attracting investments from primary stakeholders, including shareholders, employees, customers, and suppliers (Baron, 1995). Mina Grande's and Mina Plata's market activities were to produce, refine, and transport mineral resources in Peru. Activities in the nonmarket environment, by contrast, do not directly contribute to a firm's performance and include activities under the guise of CSR like providing public goods and services or corporate

political activity (CPA) like engaging with political actors (e.g., Baron, 2001; Henisz & Zelner, 2005; Hillman, Keim & Schuler, 2004; Sun, Mellahi & Wright, 2012). Following prescriptions derived from nonmarket strategy research, firms can strategically deploy nonmarket activities in order to become legitimate in terms of their market activities vis-à-vis key stakeholders and thus reduce the cost of pursuing market activities in socially and institutionally complex environments (Baron, 2001; Dorobantu et al., 2017; Mellahi et al., 2016; Sun et al., 2021). Both Mina Grande and Mina Plata attempted to become legitimate in terms of their controversial mining activities vis-à-vis local populations by providing public goods and services, and contributing to community development. In this dissertation, I will focus mainly on the provision of public goods and services as the main subset of a firm's nonmarket activities. I will use the terms interchangeably.

Gaining and maintaining legitimacy in terms of market activities vis-à-vis key stakeholders is a central challenge for all firms, whether or not their market activities can be perceived as controversial (Aldrich & Fiol, 1994; Deephouse, Bundy, Tost & Suchman, 2017; Elsbach & Sutton, 1992; Meyer & Rowan, 1977; Oliver, 1991; Ruef & Scott, 1998; Suchman, 1995). Legitimacy "is the perceived appropriateness of an organization to a social system in terms of rules, values, norms, and definitions" (Deephouse, et al., 2017, p.6; see also Suchman, 1995). Dominant theories of legitimacy argue that gaining and augmenting legitimacy vis-à-vis key stakeholders is imperative for firms' survival, growth, and economic performance (Lounsbury & Glynn, 2001; Pollock & Rindova, 2003; Zimmerman & Zeitz, 2002). At the same time, failing to obtain or losing legitimacy can harm firms or render ventures unviable because illegitimate firms are either ignored (Lounsbury & Glynn, 2001; Zhao, Ishihara & Lounsbury, 2001; Zuckerman, 1999), or attacked and their existence challenged (Baum & McGahan, 2013; Deephouse, et al., 2017; Elsbach & Sutton, 1992; Siraz. Claes, Castro & Vaara, 2023).

Since a firm's legitimacy is in many ways the *sine qua non* condition of the firm's continued existence and its commercially viable operations in a social and institutional environment, research has devoted a lot of attention to the ways in which firms can attain and maintain legitimacy in terms of their market activities (Deephouse et al., 2017; Suchman, 1995). Research on strategic legitimation shows how firms can deploy firm resources in order to access scarce resources and attract stakeholder engagement (Castelló, Etter & Nielsen, 2016; Lamin & Zaheer, 2012; Lounsbury & Glynn, 2001; Navis & Glynn, 2010; 2011; Oliver, 1991; Pfeffer & Salancik, 1978; Siraz et al., 2023; Suchman, 1995; Suddaby & Greenwood, 2005; Taeuscher, Bouncken & Pesch, 2021; Taeuscher, Zhao & Lounsbury, 2022; Vaara & Tienari, 2008).

These theories—focusing on the legitimation of firms in terms of their market activities and the influence these legitimation processes have on firm outcomes, or elucidating the role of nonmarket activities in legitimating firms in terms of their market activities in order to improve firm outcomes—have helped us better understand the relationship between growing legitimacy vis-à-vis key stakeholders and higher economic performance. We therefore know a lot about how a firm's legitimation in terms of its market activities can improve firm performance, and we also know how a firm can strategically deploy nonmarket activities to grow the legitimacy of the firm in terms of its market activities to increase performance. However, I argue that we lack a clear understanding of how a firm's legitimation processes in terms of market *and* nonmarket activities are interrelated; and how this interrelation influences firm outcomes.

Shifting attention from a purely market-driven lens to studying how complex legitimation processes influence firm outcomes becomes increasingly important as firms have, in many ways, become providers of public goods and services around the world. In developing and developed countries alike, stakeholders increasingly expect firms to assume

activities traditionally understood as state prerogatives (Durand, Hawn & Ioannou, 2019; Mahoney, McGahan & Pitelis, 2009) and expand their presence in the nonmarket environment by delivering public goods like public safety, a healthy climate (Ansari, Wijen & Gray, 2013; Bansal, Durand, Kreutzer, Kunisch & McGahan, 2024; Davis & DeWitt, 2024; Howard-Grenville, Buckle, Hoskins & George, 2014), wealthier and more equal societies (Amis, Munir, Lawrence, Hirsch & McGahan, 2018; Battilana & Dorado, 2010; Mair, Wolf & Seelos, 2016; Rodell, Booth, Lynch & Zipay, 2017), as well as public services like education, sanitation, healthcare, electricity, and telecommunication (Marquis, Glynn & Davis, 2007; Scherer & Palazzo, 2007; 2011; Schrempf-Stirling, 2018). In a 2005 article on the growing influence private companies have over states, Davis and Marquis (2005, p.332, parentheses in original, square brackets mine) write that

> "[j]ust as nation-states in centuries past came to be the dominant locus of power through their monopoly on the legitimate use of physical force, MNCs [multinational corporations] dominate the world economy (and thus society) through their concentrated control of capital. States are largely stuck with agreed-upon land borders, but MNCs and their mobile investments get to choose their jurisdictions in the marketplace of laws. It hardly seems a fair fight, as large organizations continue their drive to vacuum up whatever is left of social life."

The present work takes these variegated and certainly, in their extent, novel, responsibilities societal actors ascribe to firms in their nonmarket environment as the motivation to ask two related research questions: *How can a firm's legitimation processes in terms of market and nonmarket activities interact to influence firm performance? And, how can firms manage the expectations that underlie complex legitimation processes?*

Empirical context

In order to examine how interrelated legitimation processes in terms of a firm's market and nonmarket activities can influence firm performance and how firms can manage these legitimation processes, I draw on longitudinal studies of three mining firms operating in Peru. The Peruvian mining industry presents a revealing opportunity to analyse how firms

construct and manage their legitimacy in terms of nonmarket activities vis-à-vis key stakeholders, the enduring societal pressure to maintain the firm's legitimacy in terms of their market activities, and how these interrelated processes influence firm performance. As the opening vignettes into this chapter have illustrated, mining firms' market activities—exploring for and extracting minerals by large-scale mining operations—are inherently disruptive to local ecological and social environments (Maher, Valenzuela & Böhm, 2019). This makes the Peruvian extractive industries an unlikely context for legitimation processes to emerge. The empirical terrain of this dissertation therefore provides a revelatory research environment to generate a more general theory about the central legitimation pressures firms encounter in their market and nonmarket environments.

Summary of findings

In this dissertation, I generate an integrated theoretical process model of a legitimation trap and legitimation trap escape. Based on the inductive within and cross-case analysis of three mining firms, I derive a theoretical process firms go through that leaves firms whose legitimacy, in terms of nonmarket activities, grows, compared with firms that can constrain the legitimation process, in terms of nonmarket activities, economically worse off, all else being equal. An integrated process of a legitimation trap and legitimation trap escape unfolds in four sequential and related phases. In a first phase, firms face societal pressures to construct legitimacy in terms of their market activities. Firms face these legitimation pressures due to their market activities' novelty, unfamiliarity, and/or potential to disrupt ways of life or working. In a second phase, firms attempt to gain legitimacy vis-à-vis key stakeholders in terms of their contested market activities by performing a range of nonmarket activities like providing public goods and services. What has been overlooked and undertheorised by existing literature on strategic legitimation and nonmarket strategy is that this delivery of public goods and services—the performance of nonmarket activities—merits

a legitimacy judgment by stakeholders *in and of itself*. By obtaining legitimacy in terms of market activities through the activities in the nonmarket environment, firms construct legitimacy in terms of their nonmarket activities.

In the third phase, firms are confronted with sets of societal expectations that underlie the legitimation of their market and nonmarket activities. As a firm's legitimacy in terms of nonmarket activities grows in and of itself, related to but separate from the firm's market activities, the more expectant societal actors become of the firm regarding activities in its nonmarket environment. The result is that the firm's increased attention and financial resources invested in the firm's nonmarket environment lowers firm performance. As continuously meeting societal expectations reduces firm performance, intuition suggests that firms could or should stop meeting societal expectations that continue to legitimate the firm in terms of nonmarket activities. However, under conditions where the firm's legitimation in terms of market activities is linked to the firm's delivery of public goods and services and the delivery of public goods and services is inextricably linked to the firm's legitimation in terms of nonmarket activities, the firm is trapped. The firm must continue to maintain the legitimacy of its market activities through nonmarket activities, lest it risk losing support for its market activities. Additionally, the firm must continue meeting expectations underlying its legitimacy in terms of nonmarket activities by performing nonmarket activities in order to avoid facing societal opposition. The interrelation of legitimation processes in terms of market and nonmarket activities locks firms into a trap: the legitimation trap.

The fourth phase of the model shows how firms can escape the legitimation trap. The process of escaping the legitimation trap traces how firms can strategically reduce societal expectations underlying their legitimation in terms of nonmarket activities without causing opposition or attacks. Firms can achieve this by reducing societal expectations relative to alternative actors (like the state or nongovernmental organisations) in their institutional

environment. I identify two different strategies that can help firms escape the legitimation trap and so increase their performance compared to their diminished performance in the legitimation trap: the *partnership strategy* and the *linkage strategy*. Firms that employ either strategy recognise that the responsibility for the provision of public goods and services falls to the state. They also recognise that the citizens of most countries consider the state as responsible for providing, at least, essential public goods and services like law and order, some fundamental education, basic healthcare services, and assistance during emergencies like natural disasters.

Both the partnership strategy and the linkage strategy aim to construct the legitimacy of the state, and in so doing, deflect the expectations societal actors place on the firm to the state in terms of delivering public goods and services. The partnership strategy achieves this through openly collaborating with the state and ensuring that the state implements high-quality public goods and services in a timely manner that meet the needs of societal actors. The linkage strategy helps the firm escape the legitimation trap by linking societal actors and their demands to the relevant state entities, funding state entities, and helping the state respond to societal needs appropriately. Both collaborative nonmarket interventions can assist firms in improving firm performance by balancing the pressures arising from maintaining their legitimacy in terms of market activities without unsustainably growing societal expectations in the nonmarket environment.

Contributions

An integrated theoretical process of the legitimation trap and legitimation trap escape makes two key contributions to theory. First, by focusing attention on the hitherto undertheorised relationship between a firms' legitimation in terms of nonmarket activities and firm performance, and how different legitimation processes interact to influence performance, I contribute to debates on strategic legitimation and nonmarket strategy. First,

dominant theories in legitimacy research have argued that a firm's economic performance grows as it becomes more legitimate (Cohen & Dean, 2005; Deeds, Mang & Frandsen, 2004; Lamin & Zaheer, 2012; Lounsbury & Glynn, 2001; Pollock & Rindova, 2003; Zuckerman, 1999). However, extant work has established this relationship on the basis of a firm's legitimation in terms of market activities without examining the increasingly variegated roles firms play in society, and their growing responsibility towards stakeholders in their nonmarket environment.

By illuminating the interrelationship between firms' legitimation processes in terms of their market and nonmarket activities, and the growing influence a firm's legitimation in terms of nonmarket activities can have on performance, my model challenges the view that as a firm's legitimacy grows, its economic performance necessarily improves. Instead, I find that, under certain circumstances, such as those that are present when stakeholders demand from firms the provision of public goods and services or efforts to more abstract societal and environmental ends like climate goals, gaining legitimacy can lower firm performance. The augmented legitimacy of a firm in terms of nonmarket activities can therefore trap it in a situation in which meeting stakeholder expectations may reduce economic performance but failing to meet heightened expectations may damage economic performance even more by triggering societal unrest like protests, obstructions, law suits, or defamation campaigns (King & Soule, 2007; Vasi & King, 2012).

Importantly, mine is not the first study to recognise that positive social evaluations can under certain circumstances harm firm performance. A growing number of researchers have argued that too much of a good thing (Pierce & Aguinis, 2013)—even positive social evaluations like reputation, status and celebrity (e.g., Dewan & Jensen, 2020; Jensen & Kim, 2015) and formal evaluations that are usually associated with positive social evaluations like certifications (Lanahan & Armanios, 2018; Lanahan, Armanios & Joshi, 2022)—can

undermine firm performance. However, what these theories on positive social evaluations as a liability, have in common is that they predominantly focus attention on *negative occurrences* associated with a positively evaluated firm. Higher reputation and status renders firms more susceptible to social movements generally (Bartley & Child, 2014; King, 2008; King & Soule, 2007), celebrity makes firms more vulnerable to more severe punishment following organisational misconduct (McDonnell & King, 2018), status reduces managerial and employee effort and enthusiasm (Bothner et al., 2012; Wade et al., 2006), and too many certifications put firms at risk when they do not disclose new or redundant information (Lanahan & Armanios, 2018; Lanahan et al., 2022). My theory of a legitimation trap differs from these accounts by elucidating stakeholder engagement that follows *positive occurrences* with a positively evaluated firm. In contrast to existing theories, stakeholders expect from and engage with a firm that is caught in the legitimation trap because it has—in the eyes of the focal stakeholder—done everything right, without indication of punishment, scandal, organisational misconduct, envy, lack of novel information, or declining managerial enthusiasm. Instead, the negative impact on performance is an outcome of desirability, admiration, respect, gratitude, and familiarity.

Second, I extend research on nonmarket strategy. An important body of scholarship in this field has devoted attention to the activities firms can perform in their nonmarket environment to maximise the performance of their market activities (Baron, 1995; 2001; 2003; Dorobantu et al., 2017; Dorobantu & Odziemkowska, 2017; Henisz & Delios, 2003; Henisz & Zelner, 2005; Henisz et al., 2014; Mellahi et al., 2016; Sun et al., 2021). Another stream of this research has promoted strategies firms *should* deploy to construct legitimacy in terms of their market activities as a moral imperative (Matten & Crane, 2005; Matten & Moon, 2020; Scherer & Palazzo, 2007; 2011; Scherer, Palazzo & Seidl, 2013). However, as my model of a legitimation trap suggests, there are limits to how existing research has

theorised the positive impact nonmarket strategy has on firm performance. For, by focusing on the private of public goods and services as part of a firm's nonmarket strategy, I show how a firm's legitimation in terms of performing nonmarket activities can reduce performance by raising societal expectations to unsustainable levels.

My study is also not the first to recognise that nonmarket strategy can have unintended negative consequences for firms. Social movement scholars have shown that a firm's provision of public goods and services in response to stakeholder demands can award firms a reputation for being 'soft targets' compared with other firms who are likely to 'give in' to future stakeholder demands (Baron, 2001; King & McDonnell, 2013; McDonnell & King, 2015; McDonnell, King & Soule, 2015). Accordingly, being perceived as receptive to societal demands can harm firm performance, even though it may initially be the right thing to do, strategically and morally. However, in contrast to these theories, which focus on activists targeting a set of competing firms to achieve firm-level or industry-wide change (e.g., King & Soule, 2007), what a theory of a legitimation trap and legitimation trap escape contributes is that it focuses on societal actors evaluating a focal firm's legitimacy to perform activities states usually provide. This evaluation of firms relative to the state becomes increasingly important in light of the growing power and capital of many firms relative to states (Mahoney et al., 2009; Marquis et al., 2015). Firms are therefore often seen as more receptive targets compared with states, which shows a novel way in which firms' nonmarket strategies can ultimately lower performance.

When nonmarket strategies lead to lower performance, existing research on nonmarket strategy suggests becoming a less receptive target relative to competitors. However, what the legitimation trap shows is that firms cannot simply deny societal actors access to public goods and services, lest these firms risk losing their legitimacy and facing societal attacks. I therefore also contribute to nonmarket strategy research by proposing

nonmarket strategies that can meet pressing societal demands and maintain a firm's legitimacy without allowing societal expectations regarding the firm's nonmarket activities to become unsustainable. Through different types of firm-state collaboration—two of which I discuss in detail, namely the partnership strategy and the linkage strategy—firms can manage their legitimation processes in terms of market and nonmarket activities by constructing the legitimacy of the state in terms of providing public goods and services.

Outline

The dissertation is divided into six remaining chapters. After this introduction, in chapter two, I theoretically motivate my study and derive the overarching research questions: *how can a firm's legitimation processes in terms of market and nonmarket activities interact to influence firm performance*, and *how can a firm manage the expectations that underlie these complex legitimation processes?* I then turn to further expanding my description of the empirical context and how I chose revealing case studies that can help answer the research questions. The empirical material I use to construct the cases rests on three pillars. I conducted 185 in-depth semi-structured interviews with community leaders and members, firm managers, and state officials representing all levels of government, including ministers and local mayors. I also draw on observations I made by living at the chosen case sites for several weeks. I participated in community events, ate with community members, firm managers, and state officials, and observed first-hand how firms and key stakeholders engaged with one another. I triangulate these data with archival sources, such as local newspaper articles, signed agreements between firms and stakeholders, confidential firm documents, government data, and reports by nongovernment organisations.

In chapter three, I analyse the case of international mining giant Mina Grande, which I introduced at the beginning of this chapter. In light of the controversy this firm has sparked in the communities surrounding its mining activities, the firm faced the pressure to become

legitimate in terms of its market activities. Confronted with societal attacks on the basis of the firms' market activities, Mina Grande rolled out a sophisticated nonmarket strategy. While the firm's nonmarket activities helped Mina Grande to construct and maintain legitimacy in terms of market activities, the mounting expectations the legitimation process in terms of nonmarket activities generated, began to erode the firms' economic performance. The case also shows that societal attacks followed whenever Mina Grande failed to meet societal expectations regarding the firm's nonmarket activities. By longitudinally tracing developments in this revealing case study of Mina Grande, I generate a theoretical process model of a legitimation trap.

The chapter then turns to a counterfactual. What would have happened had Mina Grande implemented a strategy to draw in the state and avoid societal expectations vis-à-vis Mina Grande to escalate? In Tierra, Mina Grande did exactly that and partnered with the state, whereas in Agua the firm, by and large, eschewed involving the state. In Tierra, the firm developed a collaborative strategy that included providing public goods and services jointly with the state, whereas the firm continued providing public goods and services predominantly on its own in Agua. The result of this updated nonmarket strategy in Tierra—a years-long process of legitimating the state in terms of providing public goods and services in the community of Tierra—led to lower levels of societal expectations for the firm to deliver public goods and services, which made the firm less vulnerable to societal attacks. I call this strategy the *partnership strategy*. In Agua, absent the partnership strategy, demands mounted and conflict continued. The comparative design of the chapter provides a useful point of departure for tracing the processes that lead firms into the legitimation trap, and how firms can escape it again through the partnership strategy.

Chapter four turns to how the Peruvian mining firm Mina Gold that operated in the community of River in Northern Central Peru managed to escape the legitimation trap via the

partnership strategy. The chapter provides further evidence of how firms can enter the legitimation trap and how the partnership strategy can aid firms in escaping the legitimation trap again. Specifically, the chapter shows how the construction of a firm's legitimacy in terms of nonmarket activities and the unintended consequences of escalating societal expectations can be augmented by the urgency and extent of stakeholders' needs for public goods and services. The River community was so poor and local stakeholders' needs so expansive and critical that Mina Gold's legitimation in terms of nonmarket activities unfolded rapidly. Despite the societally perceived controversy of the firm's market activities and a general mistrust towards Mina Gold, the firm quickly obtained legitimacy in terms of delivering public goods and services, leading to quickly surging expectations. By strategically drawing in the state to the River community, and implementing a range of public goods and services in collaboration with the state, Mina Gold managed to construct the legitimacy of the state and escape the legitimation trap. In Mina Gold's case, as in the case of Mina Grande, the firms central to the cases were better off economically and less often the targets of societal attacks after they implemented the partnership strategy with the state.

Chapter five turns to the case of Mina Plata in the community of Silver, which I have also introduced at the beginning of this introductory chapter. The case analyses how the firm Mina Plata entered the legitimation trap and managed to escape it by implementing a nonmarket strategy that I refer to as the *linkage strategy*. The case exposes how firms can maintain their legitimacy in terms of market activities and avoid societal expectations underlying a firm's legitimation in terms of nonmarket activities from escalating by proactively linking salient societal actors to the state. In so doing, Mina Plata assumed the role of a broker and used its political connections to help relay information from local residents living in the Silver community to the state entities in charge of delivering public goods and services. The firm also used its political capital to pressure the state into

conforming to societal expectations, such that the needs of the local Silver community would be met. Mina Plata's linkage strategy helped legitimate the state in terms of delivering public goods and services in the community of Silver and the firm consequently became less often the target of societal demands, avoiding potential conflicts.

In chapter six, I draw on the case studies to inductively generate an integrated process model of a legitimation trap and legitimation trap escape. The model unfolds in four stages: I. legitimation in terms of market activities, II. legitimation in terms of nonmarket activities, III. legitimation trap, and IV. legitimation trap escape. The chapter then discusses the theoretical contributions the four-stage process model makes to theories of strategic legitimation and nonmarket strategy.

In the concluding chapter seven, I summarise my findings and expose their limitations to leverage present constraints to help direct future research. I conclude by placing my findings into a broader context to emphasise their significance for theory and practice.

CHAPTER 2: THEORETICAL MOTIVATION, CONTEXT AND METHODS

In this chapter, I build on the introductory chapter to lay out the theoretical motivation behind my study and derive the overarching research questions the remainder of the dissertation aims to answer. I then turn to describing the empirical context, the empirical material I use to answer the research questions, and how I analysed the data to generate findings that cannot readily be explained by alternative theories.

THEORETICAL MOTIVATION

Expectations, legitimacy judgments, and organisational legitimacy

Legitimacy is one of the most fundamental concepts in organisational research. There has been a long debate (for a review, see Suddaby, Bitektine & Haack, 2017) on whether legitimacy is properly understood as an organisational resource (Aldrich & Fiol, 1994; Hannan & Freeman, 1977; Pfeffer & Salancik, 1978), a generalised perception within an institutional environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Suchman, 1995), a social process (Johnson, Dowd & Ridgeway, 2006) or a social psychological judgment (Bitektine, 2011; Bitektine & Haack, 2015; Haack et al., 2021; Tost, 2011).

Research in the social psychological tradition is particularly useful to better understand how different legitimation processes between focal societal actors and a focal organisation unfold and influence an organisation. This line of research has argued that legitimacy is a multilevel construct, occurring on the micro level (individuals and groups of individuals), meso level (between individuals within and across groups), and on the macro level (larger collectives) (Bitektine & Haack, 2015; Haack, Schilke & Zucker, 2021; Tost, 2011). On the macro level, an organisation's legitimacy can derive from—and be maintained by—expert authorisation coming from scientists or academics, or institutional authorisation

by the media, the executive, legislative, and judiciary branches of government (Haack et al., 2021, p.755; see also, Bitektine & Haack, 2015; Vaara & Tienari, 2008). On the micro level that includes individual actors as well as groups of individual actors, which I call societal actors from here onwards, either actively assess how appropriate an organisation is for a given social context, or passively take an organisation for granted (Tost, 2011). Understanding legitimacy as a dyadic construction on the micro level of analysis (that influences and is influenced by the macro level) means that organisational legitimacy is the reflection of the focal societal actor's legitimacy judgment of the organisation. Organisational legitimacy is therefore contained within a dyad, but can influence legitimacy evaluations outside of the dyad (Bitektine & Haack, 2015; Bitektine, Hill, Song & Vandenberghe, 2020; Schoon, 2022). I therefore focus here on microlevel legitimation processes that unfold in dyads between focal societal actors (or stakeholders) and focal organisations (or firms) (see also, Schoon, 2022).

In light of the individualised nature of an organisation's legitimacy on the microlevel, a focal societal actor's legitimacy judgments and therefore an organisation's legitimacy occurs with respect to one or a set of focal activities relevant to the societal actor. This is because organisations perform many activities, some, but not all, of which are known to or perceived as relevant to a given societal actor. According to a focal societal actor, an organisation can be perfectly legitimate in terms of one activity but wholly illegitimate in terms of another activity. For example, a law firm may, according to a client, be legitimate in terms of defending the client in court, but may be illegitimate in terms of the law firm's activities to set up shell companies in tax havens for other clients. However, if the actor only considers the former activity as relevant, the latter activity need not necessarily influence the firm's legitimacy. If, on the other hand, a focal actor considers several activities as relevant, a firm's legitimacy or illegitimacy in terms of one activity may positively or negatively

influence the firm's legitimacy or illegitimacy in terms of another activity through a mechanism of legitimacy or illegitimacy spillover (Kostova & Zaheer, 1999). Suchman (1995, p.580), for example, argues that "[a] hospital is unlikely to lose legitimacy simply because some patients die; however, it is quite likely to lose legitimacy if it performs involuntary exorcisms—even if all patients get well."

Though rooted in studies of legitimacy as a "generalized perception" (Suchman, 1995, p.574), legitimacy on all levels of analysis is a multidimensional construct and comprises several overlapping dimensions (Scott, 1995). The central and commonly used dimensions are cognitive, pragmatic, and moral legitimacy (Suchman, 1995). Cognitive legitimacy refers to an organisation's taken-for-grantedness in a social system, denoting how an organisation and the activities of an organisation are familiar and comprehensible to societal actors in a given environment (Hannan & Freeman, 1977; Lounsbury & Glynn, 2001; Suchman, 1995; Zuckerman, 1999). Pragmatic legitimacy refers to the expected value, often expressed in rational terms, an organisation and its activities bring to the actors in a social system (Meyer & Rowan, 1977; Suchman, 1995). Moral legitimacy, on the other hand, is derived from an organisation's and its activities' congruence with a social system's norms and laws (Anesa, Spee, Gillespie & Petani, 2024; Deephouse, 1996; Suchman, 1995).

Legitimacy as a social psychological evaluation is a fundamentally dynamic concept, subject to changing legitimacy judgments over time. In line with previous empirical (e.g., Deephouse, 1996) and conceptual (e.g., Tost, 2011) research on legitimacy and legitimation processes, I understand legitimacy as a unidimensional continuous variable, where a positive legitimacy judgment leads to legitimacy and a negative legitimacy judgment to illegitimacy (for a discussion, see Deephouse et al., 2017). Moving between the poles denotes processes of legitimation (moving towards a positive legitimacy judgment), and delegitimation (moving towards a negative legitimacy judgment). Research drawing on the sociology of expectations

has further helped us better understand how societal expectations underlie and shape legitimacy judgments and derivative legitimation processes (Bitektine & Haack, 2015; Garud, Schildt & Lant, 2014; Schoon, 2022; Tost, 2011). Borup, Brown, Konrad and Van Lente (2006, pp.285-286) define expectations as "future-oriented abstractions" that are "fundamentally 'generative'" and "provide structure and legitimation." According to Schoon (2022), expectations are necessary for legitimation processes to take place. If evaluating actors do not expect a focal organisation to perform activities that conform to their expectations along cognitive, pragmatic, and/or moral lines, legitimation cannot occur (Schoon, 2022). For example, regarding cognitive legitimacy, Tost (2011, p.693) claims that "to the extent that a new entity conforms to the expectations carved by existing institutions, that new entity is not subjected to active evaluations but, instead, is passively accepted and unquestioned," and therefore legitimate.

In summary, organisations become legitimate in the eyes of a focal societal actor in terms of a set of activities relevant to the actor, when the actor anticipates the organisation to conform to these expectations by performing a set of activities that are familiar and known to a social system (cognitive legitimacy); perceived as beneficial (pragmatic legitimacy); and/or perceived to be aligned with a given social system's norms and laws (moral legitimacy). If an organisation cannot conform to these societal expectations the organisation loses legitimacy in terms of these activities vis-à-vis the focal societal actor.

Strategic legitimation: constructing legitimacy to improve firm performance

Legitimacy is fundamental in organisational research because becoming legitimate in terms of focal activities is essential for organisations to survive (Aldrich & Fiol, 1994; Ashforth & Gibbs, 1990; Navis & Glynn, 2011; Ruef & Scott, 1998), grow (Lounsbury & Glynn, 2001; Navis & Glynn, 2010; Zimmerman & Zeitz, 2002), and improve their economic performance (Cohen & Dean, 2005; Deeds, Mang & Frandsen, 2004; Lamin & Zaheer, 2012;

Pollock & Rindova, 2003). Dominant theories of legitimacy thus suggest that favourable legitimacy judgments of a firm, combining cognitive, pragmatic, and moral dimensions, with reference to a focal activity are drivers of economic performance. Accordingly, legitimate firms achieve higher values at initial public offerings (Cohen & Dean, 2005; Deeds et al., 2004; Pollock & Rindova, 2003), perform better on the stock market (Lamin & Zaheer, 2012), and attract scarce resources (Lounsbury & Glynn, 2001; Ruef & Scott, 1998; Taeuscher, Bouncken & Pesch, 2021).

On the other hand, "[o]rganizations that do not meet institutionalized expectations for how they should look and act are viewed as illegitimate" and fail to gain and maintain legitimacy in terms of the activities they perform (Zuckerman, 1999, p.1399). Suffering from a so-called "illegitimacy discount" (Zuckerman, 1999), illegitimate organisations incur costs for failing to meet societal expectations in terms of their activities, and struggle to survive, grow, and perform well economically. Accordingly, investors are "reluctant" to invest in shares from organisations deemed illegitimate in terms of the activities they perform in contravention of the expectations raised by the surrounding institutional system (Zuckerman, 1999, p.1412), and movies judged as illegitimate because they do not meet expected standards are punished with "inattention" (Zhao, Ishihara & Lounsbury, 2013, p.1749). Others have related illegitimacy to direct challenges to a firm's existence (Deephouse et al., 2017). Baum and McGahan (2013), for example, show that security firms are often perceived by focal societal actors as illegitimate in terms of performing military and policing services instead of states, and thus face societal opposition to their activities. If a firm is considered illegitimate in terms of activities it performs, and does not manage these illegitimacy judgments adequately, the firm can lose societal support, provoke attacks, and subject the firm to threats to its survival (Elsbach & Sutton, 1992). Siraz and colleagues (2023) cite the example of *foie gras* production which requires culinary organisations force-feeding geese to

expeditiously fatten their livers. In 2012, California's public authorities deemed the activity illegitimate and outlawed production by these organisations. Weber, Rao and Thomas (2009) show how many Germans in the 1980s considered biotechnological research by pharmaceutical companies illegitimate and thus formed groups that aimed to ban these firms from performing the contested practice.

Organisations are therefore encouraged to find strategies that gain, maintain, and defend their legitimacy (Castelló et al., 2016; Lamin & Zaheer, 2012; Oliver, 1991; Siraz et al., 2023; Vaara & Tienari, 2008), and overcome and avoid illegitimacy (Hampel & Tracey, 2017; Zhao et al., 2013; Zuckerman, 1999) in order to perform better. Organisational performance can benefit from growing legitimacy in terms of the organisation's set of key activities through a mechanism of increased societal engagement like buying from, selling to, working for, and investing in the organisation. Firms can generate increasing levels of societal engagement by setting expectations among key stakeholders and conforming to them (Garud et al., 2014). Conversely, when actors either anticipate that organisations do not meet expectations or violate them (Tost, 2011), organisations become less legitimate. Organisational performance can suffer from declining legitimacy through a mechanism of declining engagement or engagement that seeks to withdraw the organisation from a given social environment like societal attacks (Elsbach & Sutton, 1992; Siraz et al., 2023; Weber et al., 2009; Zuckerman, 1999). Dominant theories thus claim that there is a positive relationship between growing firm legitimacy (legitimation) and economic performance and a negative relationship between declining firm legitimacy (delegitimation) and economic performance.

Market and nonmarket activities: the shifting expectations of firms in society

In spite of dominant theories' clear predictions for economic performance, what this body of literature misses are the variegated roles firms play in society; in market *and*

nonmarket environments. It follows intuitively that customers are more likely to buy from, investors more likely to invest in, suppliers more likely to sell to, and employees more likely to work for firms these stakeholders consider legitimate, as compared with firms they consider illegitimate. It is equally intuitive that all of these types of engagement tend to improve economic performance. However, societal actors (as well as other institutional actors) have in recent years expected firms to assume a range of additional tasks to a firm's market activities (Durand et al., 2019; Mahoney et al., 2009). According to Baron (1995, p.74, see also Baron 2001; 2003), firms' market activities are "voluntary" activities firms perform with "participants in economic exchange" that "produce private benefits" and are "evaluated in terms of profits generated or value created." Different organisations pursue different market activities. For example, for law firms, market activities can include defending clients in court; for hospitals, market activities can include treating patients; for telecommunication companies, they can mean providing infrastructure to facilitate communication across distances. In other words, market activities are those activities that (intend to) directly contribute to a firm's economic performance by attracting engagement from primary stakeholders, including shareholders, employees, customers, and suppliers (Baron, 1995; Mitchell, Agle & Wood, 1997; Rowley, 1997; Wood, Mitchell, Agle & Bryan, 2021).

Nonmarket activities, by contrast, are activities that "typically provide public benefits that affect a broader group of parties" that "include not only market participants but also government officials, interest groups, activists, the media, and the public" and are evaluated along "broader dimensions that include ethical principles and concepts of responsibility" (Baron, 1995, p.74). Research on nonmarket activities conventionally disaggregates firms' activities in their nonmarket environment into two sets of activities: corporate political activity (CPA) and corporate social responsibility (CSR) (Mellahi et al., 2016; Sun et al.,

2021). CPA can include activities firms pursue vis-à-vis actors like governments or regulators through campaign financing, lobbying, and framing policies by engaging with political interest groups (e.g., Henisz & Zelner, 2005; Hillman et al., 2004; Sun et al., 2012). CSR, by comparison, can include nonmarket activities firms pursue vis-à-vis societal actors like customers, community groups, employees, or the general public through the provision of public goods and services like education or healthcare for the benefit of these stakeholders (Baron, 1995; McWilliams & Siegel, 2001; Mellahi et al., 2016; Schrempf-Stirling, 2018).

Accordingly, research on nonmarket strategy suggests that firms that perform nonmarket activities to facilitate legitimation processes in terms of market activities, are better able to navigate complex social and institutional environments (Dorobantu et al., 2017; Marquis & Battilana, 2009; Marquis & Raynard, 2015; Marquis et al., 2007). As Dorobantu and co-authors (2017, p.117) argue, firms that are

> "[f]aced with high institutional costs of undertaking a transaction through the market, […] are likely to look beyond the market not only to enable transactions that would otherwise be prohibitively costly to undertake, but also to increase the share of value they appropriate from a given transaction."

This view implies that firms deploy nonmarket activities strategically in order to facilitate market activities, i.e., minimise production and transaction costs, by appealing to actors in the social and institutional environment these firms operate in (e.g., Henisz & Zelner, 2005; Marquis & Quian, 2014; Meznar & Nigh, 1995).

One particularly important reason for firms to perform nonmarket activities like providing public goods and services is that they seek to construct legitimacy in terms of market activities that salient stakeholders perceive as controversial or as suffering from low levels of legitimacy (e.g., Henisz & Zelner, 2005). Firms adopting new and untested technologies, organisational forms, and products or perform socially, environmentally, politically, culturally, or economically disruptive market activities are often seen as

illegitimate, and in need of legitimating themselves in terms of their contested activities. Research has shown that the legitimacy of a firm in terms of one activity can be affected by the (il)legitimacy of the firm in terms of another activity (Kostova & Zaheer, 1999; Suchman, 1995). An oil company drilling for oil in a delicate ecosystem may therefore obtain legitimacy in terms of its controversial market activities vis-à-vis local communities by providing them with public goods and services, including healthcare, education, or sanitation (Marquis et al., 2011; Scherer et al., 2013; Zhang & Luo, 2013). The argument is thus that firms which strategically perform activities in their nonmarket environment are more likely to become legitimate in terms of their market activities, which in turn improves performance. In their review of nonmarket strategy research, Mellahi and colleagues (2016, p.145) summarise that "an effective nonmarket strategy is of vital importance to firm survival, organizational performance, and possibly sustainable competitive advantage."

A burgeoning literature has therefore emerged, looking at the role firms play in tackling societal grand challenges (Ferraro, Etzion & Gehman, 2015; George, Howard-Grenville, Joshi & Tihanyi, 2016; George, Fewer, Lazzarini, McGahan & Puranam, 2024), fighting climate change (Ansari et al., 2013; Bansal et al., 2024; Davis & DeWitt, 2024; Howard-Grenville et al., 2014), reducing economic inequality (Mair et al., 2016; Amis et al., 2018) and poverty (Battilana & Dorado, 2010; Rodell et al., 2017), increasing financial access to excluded communities (Cobb, Wry & Zhao, 2013), ameliorating humanitarian crises (Reinecke & Ansari, 2016), providing relief after natural disasters (Ballesteros, Useem & Wry, 2017; Luo, Zhang & Marquis, 2016; Williams & Shepherd, 2016), addressing violations along value chains (Kim & Davis, 2016; Schuessler, Lohmeyer & Ashwin, 2023), curbing the dangers of unregulated industries (Bartley, 2007; Scherer & Smid, 2000), and many more.

Private corporations have in many ways become providers of public goods and services (Matten & Crane, 2005; Scherer et al., 2013). A range of stakeholders—customers, investors, citizens, politicians, and regulators, among others—increasingly expect firms to engage in activities "that previously were considered part of the public domain" (Mahoney et al., 2009, p.1036) and are unrelated to a firm's market activities (Marquis et al., 2007; Scherer & Palazzo, 2007; Schrempf-Stirling, 2018). If firms do not engage in these activities, the argument continues, firms risk losing legitimacy and lose support among salient stakeholders for their market activities (Scherer et al., 2013).

In sum, what we know is that a firm's legitimation in terms of market activities tends to improve firm performance, because societal actors are more likely to engage in positive ways with more legitimate firms, like buying from or investing in them. We know too that legitimate firms are less often ignored, opposed, and attacked. We also know how firms can strategically employ nonmarket strategies like the provision of public goods and services to construct the firm's legitimacy in terms of (potentially controversial) market activities in the eyes of salient stakeholders. However, what we know relatively little about is how different legitimation processes in terms of market and nonmarket activities interrelate to influence firm performance. This is particularly interesting because we also know little about whether and, if so how, different legitimation processes can also bring about different kinds of interactions that could possibly harm firm performance.

The enquiry into these relationships matters for firms because, viewed in isolation, performing nonmarket activities like the provision of public goods and services reduces firm performance. Paying for education, healthcare, sanitation, building roads and bridges, and providing humanitarian aid, involves costs and does not directly contribute to core market

objectives.[2] However, these costly nonmarket activities are often necessary to construct and maintain the firm's legitimacy in terms of its market activities; a necessary condition for a firm's survival and performance. At the same time, for a firm to attain legitimacy in terms of their market activities through the deliberate deployment of nonmarket activities, it is necessary for such a firm to become legitimate in terms of performing these nonmarket activities. A firm that is perceived as lacking legitimacy in terms of building schools and hospitals is unlikely to obtain support from societal actors for pursuing such activities. For example, in the early 2000s, international beverage company Coca Cola attempted to generate support among local stakeholders for its operations in India by providing drinking water and other benefits. However, the firm struggled in some localities to successfully deliver public goods and services because local communities hesitated to accept the firm's provisions. The food and beverage company Nestlé faced similar struggles in the United States when it got involved in the hotly contested privatisation of water. Firms that lack legitimacy in terms of delivering public goods and services are therefore less able to construct legitimacy in terms of market activities by employing nonmarket strategies.

In light of the growing societal and normative pressures on firms to perform nonmarket activities in general and specifically to permit market activities, it is therefore imperative we better understand how legitimation processes in terms of market and nonmarket activities interact to influence firm performance, and how firms can manage them. Given the necessity to obtain legitimacy in terms of nonmarket activities but also the cost of performing nonmarket activities, firms must balance the expectations that underlie legitimation processes and manage how legitimation processes interact to improve performance. In this dissertation, I therefore ask: *How can a firm's legitimation processes in*

[2] It is conceivable that a better educated and healthier society with access to public infrastructure can indirectly improve firm economic performance. However, the impact of such broad macrolevel phenomena on any single firm is hard to isolate. While such a society would be morally desirable without reference to a focal firm's economic performance, I focus here on theoretically relevant dyadic firm-societal actor constructions.

terms of market and nonmarket activities interact to influence firm performance? And, how can firms manage the expectations that underlie complex legitimation processes?

In the following section, I elaborate on how I attempt to answer these questions. I outline the research context, methods of data collection, and my analytical approach.

CONTEXT AND METHODS

Empirical Context

To answer these questions, I conduct an inductive analysis of three mining firms in Peru. The selection of the empirical context followed a method of theoretical and purposeful sampling (Glaser & Strauss, 2009). I chose one industry within the same country to minimise variation arising from the environment external to the firms under investigation. Following Eisenhardt (1989, p.535), the "selection of an appropriate population controls extraneous variation and helps to define the limits for generalizing the findings."

The mining industry in Peru provides an instructive research context because extractive industry participants, including oil, gas, and mining firms, figure among those firms with the highest nonmarket expenditure. Their market activities—exploring for and extracting minerals by large-scale mining operations—are inherently disruptive to local ecological and social environments (e.g., Maher et al., 2019). In light of mining projects' long time horizons (some mines have so-called "mine lives" of one hundred years and above), highly capital-intensive nature, and location- and resource-specificity, mining firms have an interest in becoming legitimate in terms of their controversial market activities and creating goodwill among local populations through nonmarket activities like the provision of public goods and services. If mining firms fail to garner local stakeholder support, they can become vulnerable to protests. Protests can reduce firm performance by disrupting mining operations and by negatively influencing mining firms' stock market values (Henisz et al., 2014).

Another reason why I chose to study firms in the Peruvian mining industry is that a lot of controversy surrounds mining firms' market activities. Many mining firms around the world, in the Americas, Europe, Africa, Asia, and Australia have caused large-scale social conflict, devastated local communities by stirring up societal frictions within communities (Amengual, 2024), displaced poor communities, violently repressed anti-mining protests, destroyed communities' sacred sites, and caused irremediable environmental damage, often harming humans, their health, and their ways of life (e.g., Arce, 2014; Gustafsson, 2018; Haslam & Tanimoune, 2016; Humphreys, 2005; Jaskoski, 2022; Muñoz, Paredes & Thorp, 2007). These controversies and the societal contestation that often results in conflict makes the Peruvian extractive industries a revealing research environment to study legitimation processes. If mining firms can construct legitimacy in terms of nonmarket activities—providing public goods and services often to the very stakeholders who suffer from the firms' market activities—this gives reason to believe that the findings the present work generates also applies to other firms that perform less controversial market activities. The empirical context of the mining industry in Peru therefore provides a suitable research environment to generate a more general theory about the stakeholder pressures firms encounter due to legitimation processes unfolding in market and nonmarket environments, extending well beyond Peru, developing countries, or the extractive industries.

Within the Peruvian mining industry, I purposefully sampled three firms as case studies to answer the research questions. I therefore looked for and ultimately chose firms which engaged in high levels of nonmarket activity; firms, which invested heavily in social programmes and the provision of public goods and services. Among a preliminary selection of eight firms, I eliminated extreme cases or those with potentially confounding variables, and decided to study five firms that were similar on several salient metrics that are not at the centre of the research questions but dissimilar on metrics that allow me to draw more general

conclusions. I chose firms that differ on several key characteristics, such as size (large to small), ownership (foreign and domestic), revenue (high, medium, and low) and duration of operation (long to short), to rule out potential competing explanations, such as the liability of foreignness a foreign firm can have compared with a domestically owned company (e.g., Kostova & Zaheer, 1999; Zaheer, 1995), or that larger firms are more likely targeted by social movements (e.g., Bartley & Child, 2014; King, 2008). This step helped to further rule out and minimise the occurrence of confounding variables, and maximise the theoretical insights generated from cross-case comparison, and exclude alternative explanations.

After an initial round of fieldwork, I excluded two of the five selected cases (Mina Antigua in the Montana community and Mina Nueva in the Luna community) from the final cross-case comparison because of these firms' ongoing conflict with communities of interest and surrounding communities, as well as general concerns regarding data availability and the quality of information. Although I do not include these cases in the comparative analysis, the data I collected through interviews, observations by living in two additional communities, and archival data, provided incredibly rich background information for further triangulation and also helped place the three central cases into context.

Table 1 summarises the three main cases and enumerates some salient characteristics for case selection. I anonymise all firm and location identifying characteristics and give them pseudonyms to protect the firms' identities and to protect my interview sources from potential repercussions. The cases I study are Mina Grande in the communities of Agua and Tierra, Mina Gold in the community of River, and Mina Plata in the community of Silver. In chapters three, four, and five, I will discuss these cases and perform longitudinal within and cross-case comparisons.

TABLE 1
Case Selection

Case	**Mina Grande**	**Mina Gold**	**Mina Plata**
Focal communities (estimated population at time of initiation)	Agua community (fewer than 1,000 people), Tierra community (fewer than 15,000 people)	River community (around 200 people)	Silver community (around 250 people)
Period of initiation	Late 1990s	Late 2000s	Early 2010s
Annual revenue of mine (year)	around 3 billion US dollars (2020)	around 500 million US dollars (2020)	0 US dollars (all years)
Main minerals produced	Copper	Gold	Silver
Ownership	Foreign	Domestic	Foreign
United Nations Human Development Index on level of the department (2019)[3]	0.57	0.39	0.34
United Nations Human Development Index on level of the municipality (2012)[4]	n/a	n/a	0.15
Measure of state density (2017)[5]	0.7	0.71	0.58

Studying legitimation processes requires understanding how societal actors arrive at their legitimacy judgments and adjust it over time. Within each case, I therefore theoretically

[3] The United Nations Human Development Index measures a locality's life expectancy at birth, years of schooling, and average household income. The closer the measure is to 1, the more developed is a locality. For example, at 2019 values on the national level, Norway had a score of 0.96. Niger and South Sudan had a score of 0.39. Somalia, as the lowest ranked country in the index, had a score of 0.38, which is roughly as high as in the department where the community of River is located. However, national data include urban and more industrialised areas and therefore skew rural indexes upwards. For example, the Human Development Index for Peru in 2019 was 0.77.

[4] The Peruvian government comprises three levels of government: the national central level, the regional gubernatorial level (department), and the local municipal level. Many communities can live within one municipality.

[5] The Peruvian government's state density index measures a locality's population's public goods and services provision in terms of access to education, healthcare, sanitation, electricity, and national identity cards. While the state density index is a good measure to place the case studies into context, they are skewed by the presence of larger cities and conurbations within which the focal communities are located. Thus, in reality, state presence in the cases under investigation is markedly lower. The closer the number to 1, the higher is the state's presence.

sampled those communities that are (potentially) heavily affected by the focal mine's operations and the recipients of large-scale social programmes and private provisions of public goods and services. Further, to make sure that competing explanations like different levels of socioeconomic development or variation in the strength of a focal locality's institutions do not bias my findings, I sampled communities that vary in terms of their United Nations Human Development Index and level of state density. Overall, however, all the communities I chose lived in similar socioeconomic and institutional environments, suffering from low levels of the state's public goods and service provision and low levels of human development. While the United Nations Human Development Index and measures of state density in the chosen cases seem particularly low, they are no outliers among the localities international corporations do business in. With the exception of advanced industrialised economies and extremely underdeveloped conflict-stricken countries, the majority of the world's population live—to varying degrees—in similar conditions; the conditions that define most international business environments.

Despite many unifying features, the communities that live in these environments are not unitary entities. Within communities, individuals and groups, however small, can have vastly divergent interests. In each community, I therefore focus on salient societal actors, which can be individuals or collectives, as long as they share a sufficiently coherent set of expectations towards the focal firm. My theoretical sampling thus follows recent advances in the social psychological tradition of legitimacy research (e.g., Bitektine, 2011; Bitektine & Haack, 2015; Haack et al., 2021; Tost, 2011). As previously outlined, Haack and colleagues (2021) claim that individuals and collectives pass legitimacy judgments, and that more or fewer individuals within a collective can have diverging views about the legitimacy of a focal firm. Accordingly, a group of individuals can consensually construct a coherent collective legitimacy judgment that can be different from any individual actor's legitimacy judgment

(Haack et al., 2021). I therefore focus here on the sets of expectations between key collective societal actors in the focal communities that are able to construct consensus about a focal firm and mobilise sufficiently large numbers of individuals from across the community to meaningfully influence firm performance. To maximise my ability to capture a coherent set of expectations held by collective societal actors, I mapped the societal terrain of each community and interviewed a broad spectrum—competing factions, different occupations, genders, and membership in traditional organisations—from the local population. Given the longitudinal nature of my analysis, I also traced how community dynamics changed over time, including migration flows, and how these shifts in community composition influenced communities' evaluations of the firm.

Empirical Material

I base my empirical analysis on three types of evidence: interviews, observations, and archival documents, which I collected for 19 months between August 2021 and February 2023. Table 2 lists these data sources and provides details on each.

Interview data. The bulk of my data stems from 185 in-depth semi-structured interviews with 198 informants. I conducted all interviews myself, without the use of a translator, because I speak Spanish. I interviewed 93 community leaders and members, 65 firm representatives, 24 state officials, 14 industry and civil society organisation representatives, and 5 industry experts (see Table 2 for an overview and Table 3 in Appendix 1 for a detailed list).[6] As previously mentioned, owing to the sensitive nature of some interview topics, I anonymise the firm and relevant locations, giving them alternative names. I also anonymise all interviewees. I conducted most interviews with individuals. In exceptional circumstances, I interviewed community members (and on three occasions local

[6] The total number does not add to 198 (number of informants), because some interviewees served two functions, for example, community members who worked for the state.

firm managers) in pairs when that made interviewees feel more comfortable. This was a particularly useful approach to earn the trust of women in the communities, so as to avoid interviewing predominantly men, who are the traditional leaders of local communities in Peru, and to generate a more balanced sample of interviewees.

To protect my sources and provide an interview environment that made interviewees comfortable to share information that could potentially harm, shame, or stigmatise them, I chose not to record my interviews. In contexts where participants speak openly about sensitive topics, like conflict, violence, various forms of deprivation and suffering, but also occupational subject matters like sex work, researchers can gain more information by listening attentively, making interviewees as comfortable as possible, offering them opportunities to take breaks whenever they need to, and taking in-depth field notes in the process (see, for example, Rutakumwa et al., 2019). For example, when I asked about the reasons for getting involved in protests, damaging private property, holding people hostage, or committing arson, I expected to obtain a higher information gain without than with a recorder. This is aligned with Glaser (2002), who claims that for some interview topics, the accuracy of the discovered truth matters more than the precision of the documented words. Further, in order to achieve a level of trust that allowed me to ask questions about participants' emotions and acts, some of which they experienced as sensitive, I interviewed people in their homes, or places they suggested as safe to speak openly about their relationship with the firm and other actors.

When I cite interviewees throughout this study, I am therefore quoting my field notes and reference the source with a number, thus paraphrasing them. I took extensive notes during the interviews, requesting clarification or asking informants to slow down or rephrase their accounts, so that I could be sure to note the right order (and meaning) of words. I also summarised salient statements, read them back to interviewees in order to further ensure that

not only the precise wording but also my interpretation reflected informants' utterances and intentions. I translated, transcribed and digitalised my notes within 24 hours of each interview. Interviews lasted on average 56 minutes and between 15 minutes and 177 minutes, amounting to a total of 173 hours of interview notes. I also draw on informal conversations that I had during my field visits, on long car rides, in the mining camp at night, during breakfast, lunch, and dinner with community members and leaders, firm managers, and state officials. The notes I took during or shortly after these conversations provide rich contextual data, and accompany and embed the interview data. They accumulate to several hundred hours of additional material.

Most informants had in-depth knowledge of the historical engagement between the focal communities and the focal firms. On the communities' side, they either had knowledge of or were meaningfully involved in making claims on the firm central to a case. I also made sure to interview a broad spectrum of the communities, so as not to receive biased information and maximise the potential of triangulation among interviewees. On the firm's side, I interviewed managers who were working on the ground in the specific localities during important events and critical junctures, like the beginning of mining operations, rounds of negotiations, periods that saw large-scale provisions of public goods and services, and episodes of conflict. On the state's side, I gained access to representatives at all levels of the state, from various relevant ministries to the localities' mayoral offices, who were involved in activities defining the relationship between focal communities and firms at different points in time.

The close connections I formed with actors within the firm, the state, and communities offered opportunities and challenges. On the one hand, the deep integration into the communities of actors of interest and their internal structures helped me better craft and refine my questions. It also provided me with access to key informants and allowed me to

follow up at various stages during and after my fieldwork to request follow-up information or validation of data and events. On the other hand, firm, state, and community representatives were aware of my close links to all other actors. According to Amengual (2024), it is not entirely clear if a researcher's perceived proximity to an actor of interest can bias informants. Societal actors could leverage the researcher's links to advance political agendas and thus speak more negatively about a firm, or fear repercussion and thus speak more favourably about the focal firm (Amengual, 2024). In my interviews, I therefore took care to ask questions about the same events, perceptions, and intentions in different ways and several times, so as to match each informant's own statements with one another, in addition to triangulating them with other informants' accounts.

The long timeframe of the data I consider to construct the cases provides another set of opportunities and challenges. While the long period under investigation allows for comparing different events, processes, and activities over time within cases, interviewees' retrospective bias can distort accounts and undermine internal validity (Langley, Smallman, Tsoukas & Van de Ven, 2013). In order to minimise retrospective bias, I triangulated interviews from people representing different—and often opposing—interests, which were sometimes especially noticeable between firm and community representatives (Langley & Meziani, 2020). I also triangulated accounts from members within the same organisation to confirm how very specific events unfolded in detail. I asked respondents about the same episodes and invited them to explain key events step-by-step. I encouraged interviewees to interpret these events and walk me through how and what they felt while committing certain actions or experiencing particular events (Eisenhardt, 1989). Finally, I triangulated these accounts with archival data that range back to the construction of the mines and capture the first encounters between firm representatives and societal actors until the end of the study

period in 2024. These sources included documents from journalistic, nongovernment, and government entities, as well as from the firms.

Observations. I spent around one and a half months living in the focal communities and/or in the mining camps. Living in the communities gave me the opportunity to observe the relationships between key societal actors and the firms as well as the state first-hand. I slept in some communities, walked around freely, spoke with people informally, ate with community members, firm managers, and politicians. I participated in and took notes during community rituals and everyday events. I participated in and observed firms' community engagement and the provision of public goods and services. I attended political events to observe state-societal actor relations. I took lengthy car rides with managers and state officials. I was also involved and participated in firm exercises and drills. These ranged from team-building exercises, and the collective cleaning of mining camps, to safety routines. By living in the communities and mining camps and participating in their ways of life, I was thus able to gain the trust to observe firm-societal actor and state-societal actor engagements. In my field notes, I documented the way in which societal actors engaged with and demanded public goods and services from firm and state actors, how they behaved when they received (or did not receive) benefits, how they acted in their presence more generally, as well as how societal actors spoke about the focal firm or state institutions amongst themselves when firm managers or state officials were not present. These observations helped me interpret the context in which the relationship between societal actors and firms played out, embedding and validating my findings.

Archival data. Finally, I also draw on archival data, obtained from firm, community, media, nongovernment, and government sources. I obtained publicly available and confidential firm documents that describe interactions between societal actors and firms as well as the firm's private, the state's public, or the collaborative public-private provision of

public goods and services in detail. Drawing on these data was helpful in placing the firms' nonmarket activities into their institutional contexts. The Peruvian human rights ombudsperson *La Defensoría del Pueblo* also provides rich data to trace processes underlying the relationship between focal firms and communities. Since the year 2004, the *Defensoría* publishes detailed monthly reports on, *inter alia*, conflictive episodes between firms and their stakeholders. For media reports, I used the database *Factiva* to look for all documented events between a focal firm in the focal community in the local language. The search terms were the focal firm's name *and* the focal community's name. In total, I collected and systematically analysed over 25,000 pages of relevant documents and archival data to construct the cases.

TABLE 2
Empirical material

Data type	Description	Use in analysis
Archival sources	**Corporate reports** Mina Grande (around 1,500 pages) Mina Gold (around 2,800 pages) Mina Plata (around 500 pages) **Media reports** Mina Grande (around 100 pages) Mina Gold (around 10 pages) Mina Plata (around 10 pages) **Internal firm documents** Mina Grande (around 21 pages) Mina Gold (around 20 pages) Mina Plata (around 53 pages) **Human rights ombudsperson reports** Monthly human rights reports on firm-community conflict since 2004 (around 18,000 pages)	**Identification** of salient events, temporal mapping, and development of case-specific timelines. **Analysis** of temporal patterns and division into temporal brackets. **Triangulation** with primary data to locate statements in a timeline, and (in)validation of primary accounts. **Analysis** of patterns, quality, and quantity of *public, private ,* and *public-private* public goods and service provision. **Mapping** of firms' nonmarket strategies and underlying nonmarket activities. **Assessment** of relationships between different forms of public goods and service provision and conflict incidence. **Iteration** and triangulation with primary accounts to ensure

	Government reports Databanks on public goods and service provision and public-private service provision including reports (around 2,500 pages) **Academic literature (case-specific academic reports)** Mina Gold (around 300 pages) Mina Grande (around 59 pages)	validity of historical accounts and minimise the risk of interviewees' retrospective bias.
Interview data[7]	**185 interviews with 198 informants** **(between 15 and 177 minutes; 56 minutes on average per interview; around 173 hours interview material in total)** ***Mina Grande*** Mina Grande managers (17 interviews) Tierra community (10 interviews) Agua community (15 interviews) ***Mina Gold*** Mina Gold managers (17 interviews) River and surrounding communities (26 interviews) ***Mina Plata*** Mina Plata managers (12 interviews) Silver and surrounding communities (22 interviews) ***General*** State representatives (19 interviews)	**Identification** of salient events as perceived by key actors. **Mapping** of salient stakeholders and their interests within communities. **Analysis** of how firms were perceived to construct legitimacy in terms of market and nonmarket activities. **Identification** and analysis of key societal actors and their role in salient events. **Analysis** of how firms' legitimacy in terms of market and nonmarket activities changed over time. **Analysis** of how firms' legitimation in terms of market activities is related to firms' legitimation in terms of nonmarket activities, and vice versa. **Analysis** of how firms' legitimation in terms of nonmarket activities relates to the legitimacy of actors in its institutional environment, and vice versa. **Identification** of critical junctures in societal expectations underlying different legitimation processes. **Analysis** of how different forms of public goods and service

[7] For the detailed list of anonymised interviewees, including anonymised affiliation, dates, anonymised location, and length of interview, see Table 3 in Appendix 1.

	Civil society organisation representatives (14 interviews) Industry experts and other firm managers (12 interviews) Other communities (22 interviews)	provision change firm and state legitimation processes. **Triangulation** with other interview data and (in)validation of (competing) congruent primary accounts. **Weighting** of each interviewee's credibility (e.g., attaching more weight to the credibility of firm managers who admit strategic mistakes, or community members who offer self-incriminating evidence). **Iteration** with previous findings and update of preliminary theoretical models and constructs. **Validation** of hypothesised themes, aggregate dimensions, and their relationships through follow-up interviews.
Observational data	**Around nine months living in Peru, January 2022 – November 2022** **Around one and a half months living within communities and mining camps** ***Mina Gold*** Eleven days spent living in Mina Gold mining camp, visiting communities, April 2022; Seven days spent living in River community and Mina Gold mining camp, June 2022 ***Mina Plata*** Seven days spent travelling with and living in Mina Plata mining camp in Silver community, June 2022	**Gaining** trust of community leaders to unlock access to community members, and to maximise the likelihood of receiving truthful information. **Gaining** trust of community members to obtain information, even if they disclose self-incriminating, shameful, or otherwise sensitive evidence. **Understanding** of community cohesion and/or fragmentation. **Identification** of key societal actors and the relationships among societal actors. **Observation** of how (small-scale) conflict manifests, how it is being dealt with, and how societal, firm, and state actors respond. **Triangulation** with interview data and (in)validation of (competing) congruent primary accounts.

Mina Grande	**Adjustment** of weights attached to interviewee credibility through an understanding of an interviewee's perceived proximity to a focal firm or the state.
Five days spent living in Agua and Tierra communities, September 2022	
Other communities	**Analysis** of socioeconomic environments.
Eight days spent living around two additional communities, May 2022	**Analysis** of physical representations of actors in the firms' institutional environments.

Empirical Analysis

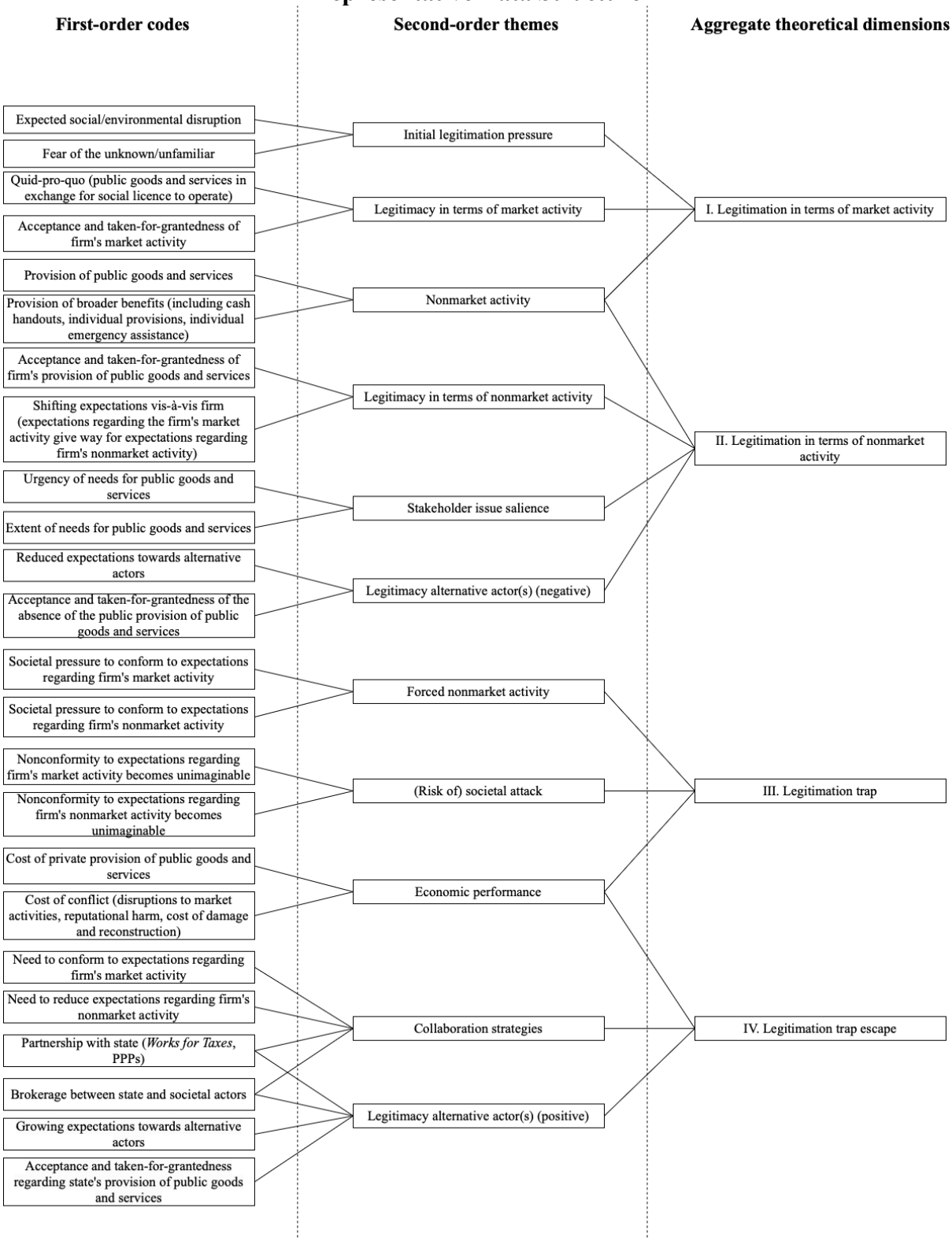
My analytical approach was inductive and iterative, where periods of data analysis followed periods of data collection to further inform subsequent rounds of data collection and so forth (Corbin & Strauss, 2008; Eisenhardt, 1989). I also iteratively compared salient information within and across cases. I lay out the key steps in turn.

Step 1. First, in each individual case, I chronicled the key events between the communities' salient societal actors and the focal firms since the firms' arrival and setting up of operations until 2024. Based on this chronological scaffolding, I wrote extensive case narratives to make sense of the episodes and what connects them (Langley, 1999). These case narratives showed recurring patterns of violent and nonviolent engagement between societal actors and the focal firms. In other words, the societal actor-firm dyads were punctuated by numerous conflicts. Around these conflicts, I tried to better understand how actors perceived the firms before, during, and after the conflicts. I thus combined data on societal perceptions of firms with evidence of manifest phases of societal actor-firm engagement. Given the recursive nature of the case narratives, I turned to a method of temporal bracketing as an analytical tool to understand the cases. Temporal bracketing is particularly useful for one or more cases that are defined by clear breakpoints and in order to disclose mechanisms underlying these recurring phases (Langley, 1999, p.696). This approach yielded a thick description of each distinct phase (Langley, 1999; Van de Ven & Poole, 2002), detailing how

societal actors' evaluations of firms' legitimacy in terms of their market *and* nonmarket activities evolved, and how they interrelated. This step involved several in-depth follow-up interviews with key informants to clarify and verify how some events unfolded. It was helpful to remain invested in the empirical context of my case sites and live in Peru during the whole duration of my fieldwork. I was therefore able to meet with firm and state officials as well as industry experts to discuss and validate my emergent findings.

Step 2. Subsequently, using a grounded method approach (Glaser & Strauss, 2009), I went back into each individual case to trace the minute details of how actors formed and changed their views of the focal firm and what behaviours transpired. Following Gioia, Corley and Hamilton (2013), I created an emergent data structure (see Figure 1), where I derived higher order themes based on first-order codes. Going back and forth between the data structure and sets of literatures that could explain the construction of firms' legitimacy in terms of market and nonmarket activities, I began to zoom in on societal expectations that underlie legitimacy judgments and so the legitimacy of a focal firm in terms of different sets of activities (Borup et al., 2006). As legitimacy judgments are constructed of societal actors' anticipated rate of conformity by a focal entity to societal expectations (Schoon, 2022; Tost, 2011), I therefore began to look more closely at the expectations societal actors had of firms, both in the market and in the nonmarket environment. Going back and forth between the data, the emergent themes, and relevant theory illuminated the key role a firm's nonmarket activities played in constructing a firm's legitimacy in terms of market activities; but crucially also creating and augmenting societal expectations that underlie a firm's legitimation in terms of nonmarket activities.

FIGURE 1
Representative Data Structure



Step 3. After several rounds of enfolding emergent findings into a broad set of theories, and after obtaining valuable feedback from experts on strategic legitimation and nonmarket strategy research as well as comments from experts in the extractive industries,

the next step involved understanding the mechanisms that draw the higher-order themes together, identifying in what ways the themes are related to one another, and developing a process model. In so doing, I recognised that I confronted a hitherto undertheorised interrelationship between legitimation processes in firms' market and nonmarket environments, the expectations underlying legitimation processes, and performance. I substantiated these preliminary findings by conducting another round of follow-up interviews. The theoretical model that resulted from connecting the themes demonstrated that in firms' attempts to construct and maintain legitimacy in terms of their market activities, separately constructing legitimacy in terms of nonmarket activities can catch firms in, what I call, a legitimation trap. A process model of a legitimation trap involves three-stages that are congruent with three aggregate dimensions from the data structure: I. legitimation in terms of market activities, II. legitimation in terms of nonmarket activities, and III. legitimation trap.

As I acquired a fuller understanding of the relationships that lead firms into the legitimation trap, I turned my focus to the question: *can, and if so, how can firms escape the legitimation trap again?* I thus turned to the data and the narratives' final temporal brackets to analyse the strategic interventions firms (can) employ to potentially escape the legitimation trap and alleviate the pressures that lower firm performance. This step that included going back and forth between a new set of literatures (Gioia et al., 2013), led to the addition of a fourth phase and aggregate dimension that showed how firms can escape the legitimation trap through collaboration strategies with the state: IV. legitimation trap escape. I present the full process models in the discussion in chapter six (see Figure 5 and Figure 6).

Step 4. At this stage, I tried to identify what factors potentially influence how firms get caught in the legitimation trap, and under what conditions the construction of legitimacy in terms of nonmarket activities more or less likely escalates societal expectations, hurting firm performance. For this step, the comparative design of my study, varying cases along

potentially confounding firm and community characteristics, was useful. Going back to the data yielded two consistent features that render the likelihood of a firm entering the legitimation trap more likely: stakeholders' issue salience (the urgency and extent of their needs), and the legitimacy of alternative actors, specifically the legitimacy of the state. This step helped embed the process model into its socioeconomic and institutional environment, disclosing the pressures that define and characterise the focal dyad between societal actors and a focal firm. It also placed important bounds on the model.

Step 5. In light of the unexpected theoretical processes that unfolded in the integrated model of entering and escaping a legitimation trap, I took special care to separate my findings from potential alternative explanations. For example, could societal attacks be explained by the firm's illegitimacy in terms of its market activities, as existing legitimacy research predicts (e.g., Baum & McGahan, 2013; Deephouse et al., 2017; Elsbach & Sutton, 1992; Siraz et al., 2023)? Could negative impacts on firm performance be explained by poorly implemented and managed nonmarket strategies? Or, following social movement theories on dynamic models of private politics (e.g., Baron, 2001; King & McDonnell, 2013; McDonnell et al., 2015; McDonnell & King, 2015), could the perceived likelihood of a firm 'giving in' to societal demands in the nonmarket environment explain patterns of engagement?

I therefore adjusted my approach to data collection and the analysis of previously collected data to better understand whether, and if so, how potential alternative explanations could explain the integrated model of getting caught in and escaping the legitimation trap. In so doing, I zoomed in on the ways in which actors spoke of the firm, and interpreted their behaviours, thoughts, and emotions towards focal firms (and the state) in terms of assuming functions that were central to their and their families' lives and livelihoods. In light of the moral and cognitive dimensions of legitimacy (in addition to a pragmatic dimension), my analysis was aided by having lived in the communities and the fact that I could observe how

societal actors perceived and behaved with respect to focal firms or the state. The more I asked about alternative explanations, the more confident I became about the processes that underlie a possible negative relationship between growing expectations underlying a firms' legitimation in terms of nonmarket activities and economic performance and how the strategic ways of constructing the legitimacy of alternative actors can increase firm performance. Again, the relationship I built with key informants throughout my fieldwork, allowed me to conduct several follow-up interviews, which helped me validate the higher-order themes, their aggregate dimensions, and their underlying relationships, and in so doing rule out potential alternative explanations.

Step 6. In a final step, I looked at the boundary conditions of my study's applicability and potential to be generalised across other phenomena and environments. To do so, I collate from the three firms the themes that could limit how the theories I generate 'travel' beyond the empirical context I chose. Setting these boundary conditions helped better define my theoretical contributions, and explain how future research can expand on my findings.

In the following chapter, I turn to the first empirical analysis of this study. I introduce the case of Mina Grande, and analyse how the firm got caught in the legitimation trap. The chapter will also show how, through a nonmarket strategy of firm-state collaboration, namely the partnership strategy, the firm managed to escape the legitimation trap.

CHAPTER 3: THE LEGITIMATION TRAP

In this chapter, I analyse the case of Mina Grande. Through inductive analysis of the case, I develop a process theory of a legitimation trap. In a legitimation trap, a firm constructs legitimacy in terms of an activity that can incur costs but that is necessary to construct and maintain the firm's legitimacy in terms of a set of other activities. A legitimation trap is therefore a legitimation process, where growing legitimacy can negatively influence a firm's performance. As the expectations driving the legitimation process increase, the harder it becomes for firms to meet these expectations, which can cost firms stakeholder support and lead to societal attacks.

Specifically, the case of Mina Grande shows how a firm that attempts to construct legitimacy in terms of controversial market activities by way of performing nonmarket activities, i.e., delivering public goods and services to salient local communities, can end up in a legitimation trap. In the legitimation trap, Mina Grande encountered ongoing societal demands for more and more public goods and services and faced societal attacks when the firm fell short of conforming to societal expectations. Although it seemed that the firm did everything right by helping local populations escape poverty and providing them with essential public goods and services like healthcare, Mina Grande's economic performance declined, relative to a counterfactual scenario in which the expectations underlying the firm's legitimation in terms of nonmarket activities could be contained.

The case of Mina Grande in the region of Costa is a useful starting point for understanding how firms can get caught in a legitimation trap, and what firms can do to escape the trap. The case is also instructive for the generation of a theoretical model because the case contains two similar communities: Agua and Tierra. Despite the communities' similarity and their proximity to one another, Mina Grande underwent different legitimation

processes across the communities that influenced firm performance in different ways. Although the firm initially got caught in the legitimation trap in both communities, the firm was able to escape the legitimation trap in the community of Tierra only. The firm failed to escape and remained trapped in the community of Agua. The two communities therefore provide an interesting comparison that lets us dissect how firms can enter and escape the legitimation trap, and how the legitimation and delegitimation processes underlying the trap can influence firm performance.

HOW MINA GRANDE ENTERED AND ESCAPED THE LEGITIMATION TRAP

Introduction

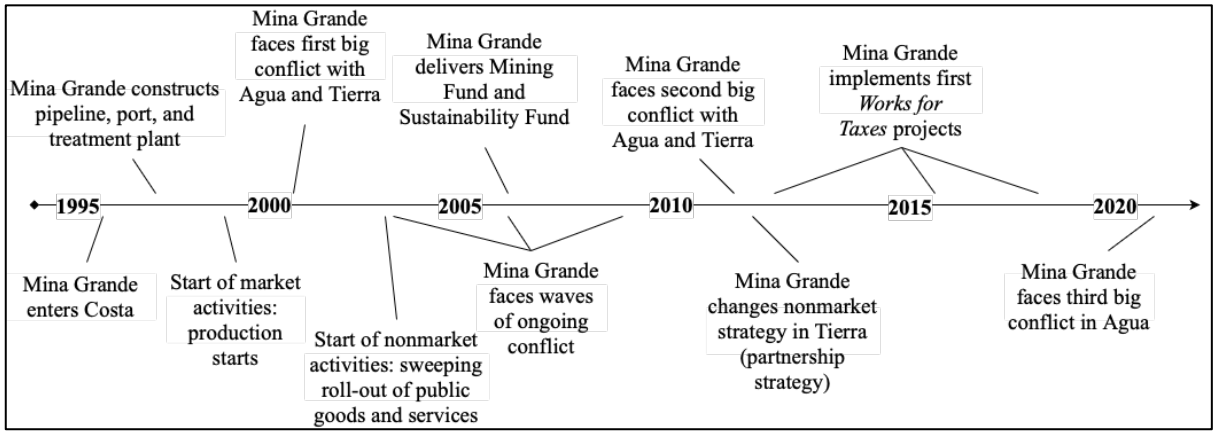
The international mining firm Mina Grande is one of the world's biggest mining firms. Throughout its operations, its Grande mine in Central Peru ranked among the largest mining operations globally. On average, the Grande mine alone turned over more than 3 billion US dollars per year, representing around one per cent of Peru's gross domestic product. In addition to the importance to the Peruvian economy, the Grande mine was considered by a range of stakeholders—the media, industry experts, industry bodies, international and domestic nongovernment organisations, and the Peruvian state—the poster child of a mining firm's social responsibility and a pioneer in managing community relations well.

Mina Grande entered the region of Costa in the late 1990s and started operations in the early 2000s (for a full timeline, see Figure 2). The Grande mine is located around 300km from the Pacific coast. To process and export the mined ore—mostly copper—the firm constructed a treatment plant and port on the Peruvian coast, in Costa, where fewer than 16,000 people lived. The region of Costa comprised two salient communities: Agua[8] and

[8] The Agua community is further divided into two communities. In the relationship with the firm, this differentiation is not significant.

Tierra. Tierra was the larger of the two communities, counting fewer than 15,000 members, compared with fewer than 1,000 members in the Agua community. Though geographically separate, the boundaries between the two communities were fluid, and many people from Agua lived and worked in Tierra and the other way around. The only salient difference between the groups was their proximity to the firm and its operations. Members of Agua lived less than 3km from the firm's operations, with some households living only hundreds of metres away, whereas most Tierra community members lived up to 8km from the mine's facilities.

FIGURE 2
A Timeline of Mina Grande



When Mina Grande entered the Costa region, people in Agua and Tierra lived in extreme poverty (183).[9] Indeed, in the late 1990s, neither Agua nor Tierra had access to most basic public goods and services. There was no piped water, hardly any electricity, and the roads were unpaved (147, 174). Many people in the communities suffered from anaemia, chronic malnutrition, and absent medical services in the case of emergencies. Children either migrated for primary and secondary education, or received no schooling at all. Locals disposed of their waste in the Costa river, and in the absence of potable water and sanitation systems, infectious diseases were rife. One community member (162) described that before

[9] To recapitulate from the introduction, I anonymised all interviewees, gave them a number, and quote them with reference to that number. See Appendix 1, Table 3 for a detailed review of all interviews.

Mina Grande arrived in Costa "we lived in the dirt, we had a well for water, no hygienic services, no electricity, […] our houses were huts of wood, without windows, just four planks of wood […]."

I. Legitimation in terms of market activities

Under these conditions, Mina Grande entered Costa and was swiftly met with societal unrest and conflict (150). The firm's market activities included constructing and operating a pipeline to transport the copper and other minerals from the mine, a treatment plant to process the ore, and a purpose built port to ship the minerals to its destination markets in the United States, Europe, and China. However, the local populations of Agua and Tierra depended on farming and fishing for their survival, and the pipeline ran through Costa's agricultural lands to its treatment plant, which, with the port, were located in the region's main fishing grounds. There, residents from Agua and Tierra came every day to fish and earn their and their families' livelihoods. The residents of Agua and Tierra feared that the mine would poison the fishing and agricultural grounds and disrupt social life (145). They felt that the mine had no right to "their" land and "their" waters (183). Furthermore, the local population was afraid of Mina Grande and what it represented (146). The firm's market activities inspired fear and resentment among the population. The way in which the firm's managers approached the communities and how they communicated their intentions, was also perceived by Agua's and Tierra's residents as inappropriate (local newspaper). Community members of both groups therefore did not consider Mina Grande as having the right to pursue its potentially devastating market activities in Costa. The local communities rejected the firm and demanded "*que la mina se vaya*", that the mine leave Costa (146).

The controversy caused by Mina Grande led to large-scale protests. Agua's and Tierra's residents sought to violently eject the firm from Costa. A community member (169) recalled that "[w]hen [Mina Grande] came, the whole world went mad." The local

population's opposition to the firm was organised by the predominantly Tierra-based *Defence Front*. The *Defence Front* was a powerful militant organisation acting on behalf and in the interest of the Tierra's community. Although its formation predated the advent of Mina Grande, the *Defence Front* began to systematically organise the local population explicitly to mobilise against the mining firm. Additionally, Agua's plentiful fishing syndicates joined the *Defence Front* in its rallying cry against the firm (182). Led by the *Defence Front* and the syndicates, the local populations blocked roads, damaged private property, set fire to cars, and regularly interrupted Mina Grande's nascent operations. For around two years in the early 2000s, Costa resembled a "war zone", complicating, and on many occasions fully halting, firm operations. A firm manager (179), responsible for community relations during that time, recalled that "[Mina Grande] was not at all prepared for the social environment they were entering. We were prepared for the operational side, the operations work[ed] really smoothly, but [Mina Grande] was not ready for the social management."

However, despite the unrest the firm's core market activities had triggered and notwithstanding the violent protests against the firm and its operations, Mina Grande stayed in Costa. The potential revenues from the region's vast copper deposits were too enticing. Instead of leaving Costa, Mina Grande attempted to construct legitimacy in terms of its contested market activities and win the support of local communities by performing nonmarket activities. In other words, the firm aimed to appease key local stakeholders—the communities of Agua and Tierra—through the generous provision of public goods and services. In order to do so, the firm reached out to and connected with all salient groups of Agua's and Tierra's communities and made agreements that rendered the firm legitimate in terms of its contested market activities (7). A movement leader (182) recalled that there was a "fishing roundtable, an agricultural roundtable, an education roundtable, a health roundtable," where "each association [made] its demands [to] be attended by the mine." The outcome of

this deliberative process was the large-scale roll-out of public goods and services privately and directly provided by Mina Grande to key societal actors. The programmes the firm offered covered education, healthcare, special assistance for children from poorer families, fighting malnutrition, as well as support programmes for fishers and farmers. Mina Grande promised to spend millions of US dollars on the private provision of public goods and services in Agua and Tierra.

The firm's nonmarket activities helped the firm obtain legitimacy in terms of its market activities. Community members in Agua and Tierra actively participated in Mina Grande's delivery of public goods and services. This stands in stark contrast to approaches pursued by many other firms in the mining industry, where firms often imposed nonmarket activities on local populations without prior consultation or at the express request of societal actors. But in Costa, local residents requested the benefits they required and gladly received the firm's provisions (182). In turn, the communities of Agua and Tierra accepted the firm's mining operations and granted the firm the right to "their" land and water (155, 156). In sum, a community member (150) reflected that

"[i]nitially, there was rejection of the firm by the people, undoubtedly, but over the years, through ongoing support [provided by Mina Grande], the people have been sensitised towards the firm. […] that brought along a positive reflection on the firm's presence […]."

A former vice minister at the Ministry of Energy and Mines with experience as a corporate social responsibility (CSR) manager in the mining industry (23) claimed that

"[t]he only way to legitimate your role [as a mine] is by fulfilling your promises [in the nonmarket environment]. Fulfil your promises and be present all the time. Stability, dependability, creates trust and thus legitimacy. Moreover, you create legitimacy by sending the managers to community meetings. This signals that the firm cares, *actually* cares. […] This legitimacy is fundamental in reducing conflict."

II. Legitimation in terms of nonmarket activities

What happened next surprised Mina Grande's managers. Conflicts did not subside. Although community actors supported the firm and welcomed its activities to Costa, the

number of firm-community conflicts grew. Between the early 2000s, and the early 2010s, the communities of Agua and Tierra joined forces dozens of times to protest the firm. A community leader (157) stated that "[i]n 2003, there was one […] [and] between 2005 and 2008, I was leading the strikes. […] We organised three strikes in these three years alone." Did Mina Grande's nonmarket strategy and its investment in desperately needed public goods and services amount to nothing? According to informants across both communities, living standards improved markedly since the firm's advent (e.g., 162, 165). Alternatively, contrary to the firm's best efforts, did the firm's provisions misalign with local values and the needs of the population and hence stir up resistance (see, for example, Gilberthorpe & Banks, 2012)? According to community members (156) and industry experts (3, 14), Mina Grande delivered public goods and services in an inclusive fashion that responded to the explicit demands voiced by the local population. Provisions followed deliberative processes between community groups and the firm (156). The local mining team also integrated well into the communities and was trusted by local populations (12). Or, did Mina Grande's mining activities still cause concern among the residents of Agua and Tierra? According to informants (144, 155), fears of the firm's market activities receded substantially after the firm's roll-out of social programmes and the setting-up of a community-led environmental monitoring committee.

So, did nothing change after the firm's generous provision of public goods and services? The answer to that question is *no*. What changed was the content of and the reasons for conflict. Before Mina Grande's large-scale roll-out of basic goods and services, locals protested against the firm's controversial mining activities. After the firm's strategic nonmarket intervention, the reasons for conflict were rooted in stakeholders' demands for more and more public goods and services. In addition to constructing the required legitimacy for the firm's market activities in order to continue operating in Costa, Mina Grande also

constructed legitimacy—and generated underlying expectations—as a provider of public goods and services.

The firm constructed moral legitimacy by listening to neglected community actors' needs and diligently responded to their demands (23). Firm staff embedded themselves into the communities, doing what was "right" according to community members, and participated in community life. Thanks to the firm's setting-up of roundtables for societal actors to make requests and discuss the provision of public goods and services, the firm created and grew societal expectations about its future conformity to societal demands regarding nonmarket activities in line with the norms and values of Agua and Tierra. A firm manager and former community leader (153) said that "[w]hen we first heard of [Mina Grande], we did not know much about what it was. [But then there was] so much movement, so many new people and so many [public infrastructure] works […] it was incredible." The activities of the firm as a provider of public goods and services became widely known, accepted as what the firm should be doing, and increasingly desirable. Instead of fearing the firm, actors perceived Mina Grande as a sought-after development partner (144).

Indeed, the encompassing nature of the community roundtables that included all salient groups in Costa's communities, led to the broad acceptance of Mina Grande's provisions by the local population (182). The private provision of public goods and services gradually became the socially agreed upon norm, reflected in a change of language by interviewees. While, initially, the firm was seen by Agua's and Tierra's members to contribute to local development in exchange for a social licence to perform market activities in Costa, community actors perceived Mina Grande's nonmarket activities as the social norm, how life in Costa *should* be, without reference to the firm's mining activities. In fact, Agua's and Tierra's communities began to impose on Mina Grande a normative expectation and

"social responsibility" to deliver public goods and services, that was separated from the firm's activities in the market environment (e.g., 157, 173).

Additionally, the firm mostly derived its pragmatic legitimacy in terms of nonmarket activities from its sheer perceived financial firepower and the anticipated ability to meet pressing community needs. This perceived resourcefulness contributed to the firm's expected conformity to community demands. A community leader (146) recalled how local actors saw Mina Grande's ability to spend. He claimed that, without malice, "[people said] 'because the firm is rich, they are all multi-millionaires, [we] will take everything out of it.'" Societal expectations for the firm to listen to and ultimately comply with demands therefore rose sharply. Further, as Mina Grande visibly realised more and more projects, the greater the trust in the firm's conformity became. Informants underscored the firm's speed of implementation, quality of service, and responsiveness to demands as key drivers of the firm's legitimation in terms of nonmarket activities (e.g., 146, 152, 157, 173).

In sum, whereas before the firm's strategic nonmarket intervention, local actors were mostly concerned and talked about Mina Grande in terms of its mining activities, after the intervention, local populations were much more concerned with the firm as a provider of public goods and services. One way community members explained the firm's legitimation in terms of nonmarket activities as a separate evaluation from its legitimation in terms of market activities was by equating Mina Grande's responsibilities towards the communities with the responsibilities of a state. A community member (152) claimed that "[w]e know that the firm is taking over the state's responsibilities but so it just becomes the responsibility of both [Mina Grande and the state]." Another community member (173) added that "there are so many basic [public] services to be met. It is [Mina Grande's] social responsibility [to meet them]."

III. Legitimation trap

Mina Grande no longer only faced societal pressures to maintain its hard-won legitimacy in terms of market activities via the performance of nonmarket activities. The firm also faced societal pressures to maintain the legitimacy it had created in terms of delivering public goods and services. The firm's legitimation in terms of these nonmarket activities put enormous pressure on the firm. Local actors engaged the firm more often and did so with increasingly costly and demanding requests. In fact, members of the two communities engaged with the firm whenever they had a demand. Community leaders and many community members were in direct contact with the firm's staff. They had their phone numbers, knew where they lived, attended roundtable discussions, and made private appointments with personnel (162). For example, one community member (163) said that when her diabetic father's leg had to be amputated, she requested support from Mina Grande. The firm conformed even to these demands and supplied her father with a prosthetic leg, as well as providing other assistance.

In light of these pressures and taking the firm's new-found role seriously, the firm set up the *Grande fund* (and another so-called sustainability fund) to the cumulative value of over 17.5 million US dollars. From the mid 2000s to the early 2010s, Mina Grande used these funds to diligently conform to most community expectations. It committed itself to improving many public services like education, healthcare, sanitation, roads, supporting farmers and fishers (184, internal firm document). Costa's population also witnessed how Mina Grande effectively fought chronic malnutrition, treated diseases, offered dental care, vaccinated people, and equipped local police with computers (151, 157, internal firm document). The firm had become a one-stop shop for the provision of public goods and services. Eventually, the firm had permeated every facet of community life in Costa.

This permeation awarded Mina Grande a level of cognitive legitimacy in terms of nonmarket activities. After recurring episodes of conflict, numerous public infrastructure projects, and increasingly close ties between the communities and Mina Grande, engagement with the firm by community actors to request the provision of public goods and services had become an undeniable feature of life. One firm manager (180) described that

> "[t]he [Grande] fund, the famous [Grande] fund, worth millions per year, […] we had a specialised team to implement this fund. And we implemented the streets, and the schools, and water and sewage systems, all these projects and the people just got used to this, they got so accustomed to getting these works from us, they got used to us providing everything. We are the closest neighbour, so clearly when something is wrong they then fight with us […]."

The "famous [Grande] fund" realised so many projects that people in Agua and Tierra got used to obtaining almost all public goods and services they needed from Mina Grande. Representative of several informants, a community member (163) said that "everything I have comes from the firm," although other accounts evidence that her household received several public services like electricity from the state (government data). Research has shown how historical reconstruction of events can significantly augment an entity's legitimacy (e.g., Schrempf-Stirling, Palazzo & Phillips, 2016). These statements therefore show how taken-for-granted Grande's role as a provider of public goods and services and hence how cognitively legitimate the firm had become in terms of performing nonmarket activities. Life without the mine, including its previously contested market activities, and especially its sought-after nonmarket activities, had become unimaginable. According to a Mina Grande manager (180), "people [can] no longer think further than the mine."

Moreover, informants referred to Mina Grande as their "father" who protected and supported them, and who was responsible for taking care of their every need (162, 163). Representative of this sentiment, one community member (162) claimed that "[Mina Grande] is like a father. […] This is how I see [Mina Grande]. What if your parents die? Then you have to fight for yourself. When [Mina Grande] leaves [one day], we have to defend

ourselves." Another community member (165) said that "[b]ack then [before Mina Grande's arrival], we would still do things ourselves but now we wait for the mine to do everything for us." This level of legitimation in terms of nonmarket activities is congruent with Suchman's (1995) highest level of cognitive legitimacy, where an actor's life with certain firm activities or characteristics becomes taken-for-granted and alternatives become virtually unthinkable. "We would all need to change our brains, to no longer go to the mine. Our brains need changing," said a community member (165). Accordingly, after any work that either Mina Grande or the state implemented in Costa, a firm manager (144) stated that the "community [said] thanks to [Mina Grande] because it has done a great job with the work. Even when we outsource the work to others [or the state does it], people think this was our work."

Delegitimation of the state. At this level of legitimation, societal actors saw Mina Grande as little other than a local state institution; an organisation mandated with the delivery of public goods and services and accountable to citizen demands if expectations required satisfaction. A firm manager (180) recalled that

> "[w]e [the managers] are an authority here, we form part of the establishment. When the communities have a celebration and they invite members of the state and the firm, there is a table for the authorities, I sit with members of the state, we sit on the state's table, we are an authority. We are famous here, we are authorities."

This perception complicated matters for the firm because the firm's growing legitimacy in terms of nonmarket activities continuously eroded the legitimacy of the state as a provider of public goods and services. A former state official with close ties to the firm (155) summarised these interrelated processes, stating that

> "[y]ou need to earn their trust, it really all depends on that strategy, that focus on connecting with the local population. So, this is key, but you need to see how active you want to become. Say, you are organising society, you are connecting with the people, and you also organise the [mayor], the whole community, you are in charge. What are you? You are the state, and they see you as the state and they will ask everything of you. […] This is what no firm must do. The firm must never become the state. Once you have become the state, because of becoming the state, they will ask for things infinitely. This is a mechanism, a

mechanism that you must avoid, this mechanic firm-state exchange. They will informally request works and projects, […], and when they don't achieve their objectives when they bargain with you, they block the road, they take the streets, they take your buildings, the take the [pipeline], whole sections of your operations, I tell you."

The residents of Agua and Tierra noticed that they themselves helped the firm "replace" the state, rendering the provisions that the state could also provide obsolete in the eyes of the communities (169, 170). A community leader (177) confirmed that "[t]he slowness of the state, the abandonment we have experienced, makes it hard to trust [in the state]. […] so the mine has to replace the state, they are substituting the state, all of this should be done by the state but the firm must step in." A community member (170) stated that "[Mina Grande] has definitely replaced the state." Mina Grande's head of CSR (171) who oversaw the firm's nonmarket strategy since the late 1990s, said that

"[i]f [the firm] was not here, then there would be no [public] works. We are assuming the role of the state. And this created this vision of [the firm] being the state; as having the competency of a local government, just with more resources. The people think we are a local government, and this comes with a social responsibility […] to do works, works of impact, not small works, big ones […]. For [the community], if it is not a work of impact, then this is a failure to comply with the obligatory social responsibility of the firm."

Another firm manager (147) claimed that the situation Mina Grande faced in relation to the state vis-à-vis the two communities in the region of Costa represented

"a new social contract, a new kind, [but] not with the state. They [the communities of Costa] are not used to the state, they go out on the streets and they proclaim 'that is our right, and I want my services,' and we [Mina Grande] are here to comply. See, this is because the state has lost all of its legitimacy in these territories. The state is not worth anything here, it has no legitimacy, do you understand, people don't accept the power of the police. People do not see the state as a viable entity. It is nothing. There is no acceptance of the rule of law, the state, […]. You need to write a new social contract […]."

Even state officials accepted that Mina Grande had replaced them (172). Reflective of several informant statements from community members (169, 170, 177), a former mayor of Costa (172) claimed that

"the [private provision of public goods and services] is really weird. All of this is state responsibility. It is weird that they go to [Mina Grande], a private firm, but they see that they can support them. There are so many problems here, and the state, it does not have the budget, it is so slow, and there are just too many gaps to fill. We [the state] cannot reach all territories and they [Mina Grande] are a good neighbour."

The delegitimation of the state tightened the screws of the legitimation trap because the state as an alternative provider of public goods and services fell away. However weak the state's presence had been over the last decades, community members maintained that it had always been there as the proper and "valid" provider of public goods and services (157, 177). This erosion of state legitimacy led local societal actors to expect more from Mina Grande and increased the pressure for Mina Grande to conform to these expectations. Agua's and Tierra's escalating expectations underlying the firm's legitimation in terms of nonmarket activities, backgrounded by the looming pressure to continue legitimating the firm's market activities, trapped Mina Grande. Declining state legitimacy left societal actors with no alternatives, except for Mina Grande, to turn to. As a consequence, whatever actors demanded from the firm, the firm had to deliver (144).

However, despite Mina Grande's best efforts, and the communities' thriving relationships amid the soaring investment into Costa's development, the firm could still not escape conflict. In the early 2010s, the debilitating pressure for Mina Grande to meet the expectations underlying the firm's legitimation in terms of nonmarket activities reached a violent and costly climax. When the local populations demanded that Mina Grande construct a comprehensive and region-wide water and sanitation project to supply all of Costa's households with water, the firm had to refuse. The project's cost, estimated at just under 50 million US dollars, would simply be too high. The firm's refusal shocked the communities. The firm's actions departed too strongly from the high expectations the firm had created regarding its nonmarket activities. As a result, one thousand protesters took the streets, disrupted mining operations, and caused widespread destruction for three days (152). Several

police and protesters were injured. Costa, once again, succumbed to chaos, turning into a "war zone".

Was this conflict really driven by the expectations underlying the legitimation of the firm as a provider of public goods and services? Or, alternatively, did local societal actors still perceive the firm's market activities as illegitimate, and hence protested the firm, as theories of legitimacy suggest (e.g., Baum & McGahan, 2013; Elsbach & Sutton, 1992; Siraz et al., 2023)? The latter hypothesis would be supported by how societal actors framed the conflict, namely as a response to Mina Grande's poor environmental conduct (e.g., 172, 179, 182). However, a closer look at the ways in which the communities justified their actions brings the shift in the perception of Mina Grande as a mining company and Mina Grande as a supplier of public goods and services, into sharp relief. They also showcase the connection between the legitimation of Mina Grande in terms of market and nonmarket activities.

Community leaders knew that they could not always make claims on the mining firm purely to demand public goods and services. They knew that any claim against the firm on the basis of the firm's market activities would more likely lead to the firm giving in and the communities' desired outcomes. They knew that accusations of environmental misconduct could lower the firm's value on the stock market. "[Mina Grande is] quoted on the stock exchange. Their value drops when we protest, and they know that and we know that," a community leader (157) said. So, residents came up with, what community members called a "war horse" of accusations about the firm's inappropriate management of its market activities, including purported environmental pollution, and deployed it whenever they pushed for more public goods and services. Thus, leaders admitted that the firm was not polluting but that they were expecting the firm to supply more public goods and services. The overarching claim the leaders chose for the protest against Mina Grande was that Mina Grande polluted Costa's groundwater in such a way that it "changed men's hormones" and so

"made men homosexual" (171, 172, local newspaper, national newspaper). The communities, spearheaded by their leaders, therefore argued that the firm had to atone by delivering more public goods and services, especially a water and sewage system to clean up the allegedly poisoned water (171, 172, 182). A community leader (157) said that "we use the firm to get things [public goods and services]. We react if [Mina Grande] doesn't give in, and then say that [Mina Grande] contaminates." More concretely, one of the lead negotiators for the two communities and a movement leader (182) admitted that

> "[the] water and sewage project went hand in hand with the fight, because the water we consumed in [Costa] had a high manganese and iron content, and many people said that this was the fault of the mine, right? But in reality it was a natural situation that occur[ed] in our subsoil and we didn't have a way to treat that water. […] So we saw the need to promote a sanitation project to treat the water and consume more water, cleaner water."

Naturally, the firm opposed such accusations by the communities' leaders, but what were its options? Mina Grande was trapped. After refusing to conform to the communities' expectations, the firm had to shut its operations for days, suffering costly delays and threats to its staff. And following the conflict, the firm still had to concede. A firm manager (144) recalled that there were very high "expectation[s] from [Mina Grande] [which] create[d] pressure and *the firm cannot refuse, it must provide*." A former vice minister at the Ministry of Energy and Mines (10) said of Mina Grande that "[Mina Grande] is a good case of diminishing conflict [because of mining activities]. But, they have assumed so many state functions. The mining operation almost runs automatically, [but] their real work [now] is to assume state functions to avoid conflict."

In sum, this time, the cause for unrest was the firm's failure to meet societal expectations underlying the firm's legitimation in terms of nonmarket activities. Whether or not the firm conformed to growing societal expectations, firm performance suffered. If the firm did not conform, it suffered the economic (and human) consequences of societal attacks. During each conflict, the firm had to halt operations, which amounted to millions of US

dollars in foregone revenue, depending on commodity prices, around 10 to 20 million US dollars per day (local newspaper). In addition to directly reducing economic performance through withholding material resources such as access to firm operations, protests can possibly lead to international reputational losses, loss of investor confidence, and increased risk premia (e.g., Henisz et al., 2014; Vasi & King, 2012). Alternatively, the firm conformed to growing societal expectations underlying its legitimation in terms of nonmarket activities, which helped ameliorate many of Agua's and Tierra's problems and were well received by locals in both communities. However, the firm's private provision of public goods and services came at a steep cost to the firm. Although it is reasonable to argue that the firm's economic performance would have been lower had the firm not provided these public goods and services—given the high cost of societal attacks—the forced delivery of large-scale infrastructure projects still reduced firm profits significantly. Mina Grande's chief community relations manager (171) said that "[our] operations work really well, […], but the social management costs so much." Reflecting on the escalating pressures the firm faced, a firm representative (183) explained metaphorically that

> "[i]f I am a neighbour of your restaurant, you cannot tell me that instead of having one cook and four waiters, you come and threaten me [because] tomorrow I have to hire 20 waiters when I [don't] need them. It's going […] against my job. [When] orders become demands […], the struggle comes in, the problem, in inverted commas, 'the social problem.'"

IV. Escaping the legitimation trap: the partnership strategy

Mina Grande realised that it had created expectations that it could no longer reasonably conform to. The firm's performance suffered under the ongoing attacks and the costly provisions of public goods and services. Firm managers knew they had to change their nonmarket strategic management and their approach towards dealing with escalating societal expectations (e.g., 7, 144). The challenge Mina Grande's managers faced was that they could not simply stop conforming to societal expectations. If they did, then societal actors attacked

the firm and (violently) requested that Mina Grande satisfy their demands. A firm manager (180) summarised that

"[Mina Grande has] created expectations, and they have confounded the people, [the population] have confused our support in the absence of the state with something else than what it actually is. They have confused providing state services with something more like becoming the state. And we understand where the confusion comes from, we are a big firm, when we tell the police to come, they come, when we ask other state institutions to do something, they do something. […] People here see the relationship [between Mina Grande and the state] as David and Goliath, and that is how it is, but you have to take them by the hand, Goliath needs to take David by the hand, and show how to support them, take them by the hand, and work together."

The Mina Grande manager (180) continued that,

"[…] our job is not to replace the state, even though it is their expectation, so we need to show that our job can be to support them and help them, but this is not our business. We respond to the expectations of our shareholders, and sure, we have a policy of helping our neighbours here, and the people, but we aren't a nongovernmental organisation, we are a business, and we spend social funds, but social affairs are not our business, and spending social funds creates expectations, and the wrong impression in the [community]. […] We have a social conscience, yes, I do not negate that, but we are not [trying to] replacing the state. There are hundreds of examples where [Mina Grande] had a project [and] then it ended and they started fighting again […]. We are not acting sustainably […]."

The firm's managers therefore tried to find a more sustainable solution that allowed Mina Grande to continue conforming to societal expectations without augmenting them further. According to social movement research, the firm's nonmarket strategy of delivering public goods and services has made the firm a 'soft target' for societal actors (Baron, 2001; King & McDonnell, 2013; McDonnell et al., 2015). Community members knew how to "get everything out of the firm" (146). Accordingly, the firm should have become a 'hard target' relative to other firms, so that the firm was approached, or worse, attacked less frequently. Indeed, in the 1990s, this strategy could have worked as large fishing companies occasionally distributed benefits to Costa's population. However, these fishing firms went bankrupt before the 2000s. Furthermore, Mina Grande did not face conflict because it was considered an easier target compared with alternative firms. Societal actors approached Mina Grande

because the firm had become legitimate in terms of activities that are usually the prerogatives of states, and "communities expect [public] services to be provided by the state" (8); a view shared across the communities of Agua and Tierra (157, 172). The question for Mina Grande was thus not, *how to become a harder target relative to other firms?* The challenge for the firm was, *how to become a harder target relative to the state, without undermining the legitimacy of the firm's market activities?* According to a government consultant (8), "[Mina Grande], by providing all these services, does not want to undermine the state. They just want to do their business sustainably. They are desperate because they don't have a counterpart in the public sector."

According to firm managers (7, 144, 171, 180), one viable solution was therefore to install and promote the Peruvian state as an alternative actor to fill the place Mina Grande had assumed in Costa's communities. A community leader (177) said that "all of this [providing public goods and services] should be done by the state but the firm must step in." Mina Grande therefore attempted to proactively engage the state in the provision of public goods and services. The basic assumption was that in a counterfactual institutional environment, where the state was the only (or predominantly) legitimate actor to provide public goods like public safety and law and order, and one of the main legitimate providers of public services, including education, healthcare, roads, electricity, sanitation and potable water, societal actors would less likely expect (and demand) from an international mining firm the delivery of public goods and services. Accordingly, Mina Grande's chief CSR officer (7) in the mid 2010s claimed that "conflict worsen[ed] because [we were becoming more like a state, […] we ha[d] to make sure that the role of the state [was] understood, […] we need[ed] to provide [the state with] resources." However, the firm could not simply abdicate the responsibilities societal actors ascribed to the firm regarding public goods and services. Otherwise, the firm would have lost legitimacy in terms of market activities. A firm consultant (25) involved in

the development and implementation of Mina Grande's nonmarket strategy therefore emphasised that at such a stage, when "there [was] a risk of firms replacing the state, […] the goal [was] […] to partner with the state." That the firm needed a partner at this moment was echoed by a former minister at the Ministry of Energy and Mines (12), who stated that, for the firm "to resolve all [societal] needs, the company needs a partner. They are not the state and they don't want to replace the state. They need to coordinate with the […] state."

With this in mind, the firm curbed its unilateral spending on public goods and services and ushered in an era of meeting societal expectations proactively in collaboration with the state. To do so, the firm turned to a 2008 law on *Works for Taxes* to finally construct the water and sanitation project that triggered the conflict of the early 2010s. The *Works for Taxes* law permitted firms to implement public infrastructure projects in partnership with the state in exchange for an aliquot lower tax bill (5, 7, 25). In other words, Mina Grande could leverage the state's funds, promote the role of the state in the provision of public goods and services, and continue to meet societal expectations; all in an attempt to increase the legitimacy of the state in terms of providing public goods and services. The firm consultant (25) claimed that by partnering with the state, "the key point was [to create] firm-state trust, and an understanding of how to provide support without replacing the state. [The result] is then more trust in the state and a higher degree of [state] legitimacy. Support, not replace." A firm manager (144) encapsulated how such a strategic move intended to aid the firm in maintaining its legitimacy in terms of its market activities while reducing expectations in the nonmarket environment. He stated that

> "[t]here are two sides to this, to working with the state. There are two winning elements: first, we can present ourselves as friends, as associates of local populations in their development […], second, we create the institutional capacity that the state lacks. […] *Works for Taxes* helps in doing that."

A former state official and movement leader (156) who entered state office in the early 2010s and accompanied these nascent firm-state collaborations upon the request of the firm, remembered that

"we worked on many important projects together like basic services and we also drew many *Works for Taxes* projects to the region, a mechanism that allows [Mina Grande] to spend state funds, like we initially used for the streets. […] The problem for [Mina Grande] was that they organised society too much. […] This was not sustainable, it became too much. In [the early 2010s], they realised that they need to cooperate with the municipality because the projects they implemented alone often did not work. They said that 'we are replacing the state, that we need to draw in the state […].'"

A former state official (155) claimed that

"[i]t is important to work with the state. The state is fundamental, because when the state brings services, the people will see this, and they know who is involved, and when the state is associated with these services, then the people will no longer go to the firm, they will go to the state, they will ask the state for water, they go to the state for these things that the firm is now expected to provide. There are so many gaps, and so many needs, and when the state is not here, they come to [the firm], and so they have to know that the state is present […]."

The firm also came up with another mechanism of partnering with the state. In addition to leveraging the *Works for Taxes* modality to achieve state legitimation, whenever community actors engaged with Mina Grande to request public goods and services, Mina Grande did not attempt to conform to societal expectations outright. Instead, the firm rallied state representatives and relevant societal groups to collect ideas and draw up implementation plans together (7). The idea was to send societal actors the signal that the firm was not solely responsible for the provision of public goods and services, but that it can lend support to the state in delivering the goods and services the local populations needed. In so doing, Mina Grande departed from the script many other mining firms followed under such conditions. Conventional nonmarket strategies in the mining industry do not include, or even explicitly exclude, the state in the provision of public goods and services. Working with the state, an entity that societal actors perceived as delegitimated and that clearly lacked the capacity to

provide high-quality public goods and services, could undermine local support for the firm (155, 171). Nonetheless, Mina Grande pushed ahead with what it called a "multi-actor approach", where any large infrastructure project *had* to be implemented in partnership with the state. A former state representative and movement leader (156) remembered that

> "[in the early 2010s], this was when [Mina Grande] changed to a multi-actor approach. For example, the municipality pays the technical staff, the community provides the unqualified labour, and the firm donates all of the machines, and other expenses. This is what we did for the street lights, all working together, when all the actors work together, when people participate in the development, that is important, that balances the whole relationship, it pushes development forward. […] *Works for Taxes* helped a lot in that, it pushed for more projects, especially the implementation of very large and important projects, with the housing ministry the water and sanitation project […], this is absolutely critical, and the hospital of course."

From a societal point of view, the partnership strategy aimed to equalise the outcomes of engagement between the firm and the state. If societal actors approached representatives of the state, they relayed information to Mina Grande, and if societal actors engaged with Mina Grande, firm managers turned to the state, to collaboratively set up an implementation plan. The principal aim of the partnership strategy was clear: legitimate the state in terms of public goods and services provision and deflect expectations previously projected on the firm to the state. According to a former state official who has worked on several projects with Mina Grande (155), "[…] with *Works for Taxes* [and the multi-actor approach], we don't reduce the legitimacy of the state, we improve it." With fewer expectations towards the firm, Mina Grande was less often targeted by stakeholders and was less vulnerable to their attacks.

The partnership strategy: two communities, two outcomes. In the mid 2010s, the first *Works for Taxes* project became a reality (179). Tierra's population finally received a piped water and a sewage system in addition to paved roads. Over the course of the decade, including the early 2020s, Mina Grande and the state employed public funds to build a hospital in Tierra (around 63 million US dollars), provide piped water and sanitation systems to almost all households in Costa (around 44 million US dollars), an effort that mostly

comprised connecting Tierra's residents to services the Agua community already enjoyed, and improve the region's harbour (around 6 million US dollars) (internal firm document, government data). The mayor (172) at the time said

"[a]fter I won [the election in the mid 2010s], within five days, they [Mina Grande] came to me and offered their support to develop [Costa], and we have had a tonne of projects together, social ones mostly. We also have a number of *Works for Taxes* projects […]. We have the hospital, the [harbour], and the water and sewage system. […] The people know that *Works for Taxes* is a shared project, […]. The firm and us, we are like partners, they [Mina Grande] come to us [the municipality] when people come to them, and we go to them when they [the population] come to us first."

However, despite the firm's best efforts, in the early 2020s, another violent conflict rocked the region of Costa. Compared with previous conflicts, this time, only the community of Agua attacked the firm. For three days, several hundred protesters from the Agua community stormed the mine's camp, where its staff lived, picketed the firm's offices, destroyed buildings, and committed arson. Protesters also sabotaged the camp's water tank, which eventually exploded (161, 178). Trapped in their mining camp, firm staff was unable to leave and continue their work. Mina Grande had to halt its operations, which cost the firm between 10 and 14 million US dollars in foregone revenue every day the protests went on (local newspaper). After the violent riots which led to a cumulative loss of up to 42 million US dollars,[10] security forces cleared the area and detained five protesters (172).

How could this have happened? How, after around 100 million US dollars of public funds invested in public infrastructure in collaboration with the state and proactive attempts at constructing state legitimacy, could the firm still not escape conflict? Did Mina Grande's managers miscalculate again? Was the partnership strategy ineffective? Was Mina Grande still locked into the legitimation trap? The fact that Mina Grande implemented the partnership

[10] At this time, Mina Grande faced a second conflict with another community along its pipeline. The conflicts overlapped. It is therefore not possible to clearly state that the whole duration of the mine's closure and the total sum of up to 42 million US dollars can be exclusively attributed to the societal attacks in the Agua community.

strategy in Tierra but did not fully commit to doing so in Agua helps us answer the questions; answers which help us better understand how the partnership strategy can help firms escape the legitimation trap, and how the omission of such a strategy can reduce firm performance.

Mina Grande only chose to fully implement the partnership strategy in the Tierra community, whereas the firm continued to deliver public goods and services directly to the Agua community. The decision to continue operating as before in Agua was a relic from Mina Grande's early attempts at legitimating the firm in terms of its controversial market activities in the early 2000s. Since Agua's population lived much closer to the firm's pipeline, port, and treatment plant, the firm took special care to become legitimate in terms of its market activities vis-à-vis Agua's residents. The threat of societally unacceptable and improper impact on the community and its livelihoods was much greater in Agua than it was in Tierra (171, 179). The firm therefore made commitments it could not—not even after 25 years—be seen by Agua's population to abandon. According to a firm manager (179) who had made these commitments in Agua,

> "[we] made promises and we still, to this day […] have these commitments. These commitments came out of the conflict in [the early 2000s], […] [Agua's population] lived in very poor conditions, they did not have water, or light, or proper houses, just wooden walls. […] And so, we made an agreement with them […] to build them houses […] with all basic services taken care of. […] It was like a cookie we gave them."

The firm was so deeply locked into the legitimation trap in Agua that the firm chose to continue delivering public goods and services predominantly on its own. The risk of changing the status quo was too high. Although the firm applied the multi-actor approach to various degrees and Agua's residents benefitted from public goods and services like the hospital which intended to serve all of Costa's communities, Mina Grande mostly eschewed the *Works for Taxes* modality in Agua. With the exception of the artisanal fishing port in Agua, which was only implemented in the early 2020s, Mina Grande continued to perform a range of nonmarket activities in Agua, and largely refused to incorporate the state in its

public goods and services provisions. Reflecting on the *Works for Taxes* modality and how community members in Agua saw the state's legitimacy, a community leader from Agua (146) said that he acknowledged that the state was involved in projects implemented under the *Works for Taxes* mechanism, but that these public goods and services "do not come from the state [and that] they come [only] from the firm," continuing to claim that "the state does nothing, it does not care [about Agua]," and when it does, "everything it touches ends badly." The firm therefore remained highly cognitively legitimate in terms of public goods and services, while the state remained left out, continuously delegitimated. For example, speaking about the whole Costa community, but acknowledging that Agua was closer to the firm than Tierra, a former state official and movement leader (182) reflected on the perception of the firm relative to the state, stating that

> "[Costa's] population always demanded a new hospital, from [Mina Grande], [...] to build it with its own resources. Finally, it is done through *Works for Taxes*, which is with money [from] the Peruvian state [...], but socially the impact is seen […] as the hospital that [comes from Mina Grande], when in reality we are only the ones who are [building] it. But in the end it is the state that is [...] paying for it."

In addition to the extra cognitive cost Agua's residents had to expend to imagine a scenario in which the state actually delivered public goods and services, Mina Grande's continuous conformity to societal expectations generated more and more expectations underlying the firm's legitimation in terms of nonmarket activities. These expectations by Agua's community leaders and members did not allow for any kind of deviation on the firm's part. It also did not allow for the state to become a legitimate provider of public goods and services. Representative of these consequent pressures was the devastating conflict in the early 2020s. Agua's community leaders submitted demands for internet, the renovation of their town square, and improved job opportunities by letter to the firm's local offices (178). Over the last decades, it had become customary that societal actors waited for around one, or, at most, two weeks to receive an almost invariably positive response by the firm after

submitting requests by letter (152, 162). However, as Agua's expectations towards Mina Grande's public goods and services provision soared, the community's leaders considered a waiting time of three days too long. After three days without a reply from the firm, Agua's leadership accused the firm of failing to conform to their community's expectations (161, 178). Agua's leaders, who received strong support from the Agua community, swiftly followed their words with actions. While the firm's alleged deviation from societal expectations seemed minor, the societal response including its ramifications was incommensurably large. As members of the Agua community (163) recalled, "[Agua] was in chaos, […] a war zone."

One of the community leaders (178) who led the protest told me that

"[t]he strike was peaceful in the beginning, a peaceful march. About, I don't know the exact number, but 1,000, or 800 people participated. Only people from [Agua participated], I recall. I did not see unfamiliar faces. The population, we as the representatives of the population, took the decision to voice our concerns, to tell the firm that we were not pleased with the current arrangements. […] We did not think it would go that far when we entered the camp, we wanted a peaceful protest, and it got out of hand in that situation. […] 5 or 6 people were detained by the police, they were taken to prison and stayed there, for, I cannot remember how long, but one month or so. […] But really it was meant to be a peaceful protest. We regret this situation. They are members of the community, our brothers [from Agua]."

After seemingly falling out, the firm and Agua's population returned to the *status quo ante* surprisingly quickly. The community leader and protest co-organiser (178) recalled that

"[a]fter this incident, […] we sat down together and we could talk about our concerns and our problems and what we want from [Mina Grande]. And, now we see that they never close their doors on us. We sit down and we talk, for whatever conversation we seek. […] We are listening now, and they are supporting us, in education, in health, and in other areas too."

Another Agua community leader (160) also emphasised that the attacks were not targeted against the firm and its activities, but recalled that the conflict intended to obtain more public goods and services from Mina Grande. He said that the conflict

"was the beginning of conversations with the firm. But until we got there, there were thefts, and the violation of private property. We demolished the camp's water tank. The

police came and they [detained some] of us. […] Still, we get a lot of support from the firm […]. I think it was poorly done though, the protest. You need to talk first, not just protest immediately. [But], there would be no conflict if the state dealt with and took care of its citizens. The state is missing here. The municipality does not care about us, only the mining firm does."

A former state official with close ties to Mina Grande (155) confirmed the community's views that the protest and the associated damage on firm performance was not the result of the poor relations with Agua, but rather the outcome of their positive relationship. He claimed that

"[t]he protests, [Agua's population] felt, were the best way to express their demands, a conversation that was a protest, and unfortunate conflict. […] They took over the offices, they burned machinery, and you have to suspend all operations, you get all your people out of danger, and you order the *fuerza de orden* [security forces] to go in, the police and private security, and have them restore order with the people, no, you don't get involved directly, you paralyse your operations, and have the *fuerza* enter, clear the situation and enter into dialogue with the people, […] and then you talk about their demands and see how you can comply with them. But this is a problem, [Mina Grande] is not the state […]. Even if you have a really good relationship with the population it is a complex relationship when they know they can extort you, they can get services out of you, there is always potential for conflict."

With reference to the partnership strategy the firm pursued in Tierra, the former state official who was working on several projects with Grande (155), concluded that, what the firm needed was "the support from the municipality," which the firm failed to cultivate in Agua. Without a legitimate alternative and the taken-for-grantedness of Mina Grande's swift conformity to societal expectations, the firm remained in the legitimation trap. Mina Grande eventually complied with the Agua community's demands, and invested heavily in renovating Agua's town square and expanding internet access (166, local newspaper), promising further provisions in the future as well. The firm also forewent pressing charges against the detained protesters.

A completely different story unfolded in Tierra. In Tierra, Mina Grande was not constrained by agreed upon commitments to the pure private provision of public goods and

services. In Tierra, Mina Grande also had better access to Costa's mayor, the state's local representative, whose political base was in Tierra. Following the firm managers' intentions to partner with the state, the firm involved the state in a range of public infrastructure projects. Thanks to the funds the *Works for Taxes* modality in combination with the multi-actor approach unlocked, the firm realised the projects at the heart of Tierra's interests in visible partnership with the state. These projects included a wide array of public goods and services. In addition to essential services like education, healthcare, and sanitation, the collaborative provision included stimulating tourism and hospitality, and providing seed funding for entrepreneurs (171). A Tierra community member (170) explained that

> "[w]e were really forgotten by the state but thanks to [Mina Grande], the state has recognised that we are important. So, the way this works is that the community goes to [Mina Grande] and they go to the ministries, […] and they come up with the *Works for Taxes* project."

The legitimation of the state occurred mostly on a pragmatic level, as the partnership strategy helped the state overcome legitimacy deficits arising from very material shortcomings. Tierra's (and Agua's) populations perceived the state as corrupt, slow, ineffective, inattentive, and ignorant (e.g., 145, 146, 147, 152). A former mayor (172) who was in office during the late 2010s and early 2020s, admitted that people had "no trust in the state because there is corruption, there is no projection of a future vision, there is very low capacity, and no sensitivity to what the people need and want." Peru suffers from extremely high levels of corruption *as well as* very high levels of prosecution for corruption. Peru's six presidents between 1990 and 2024 either served prison sentences, stood trial or were impeached for, among other alleged crimes, bribery and corruption. Similarly, Costa's four regional governors who served in office between 2014 and 2024, were later indicted for corruption and other crimes, serving extended prison sentences of several years (172, local newspaper). The high levels of corruption and rates of prosecution made public service a risk.

On a local level, corruption was rampant as well, as a former state official (152) who had previously worked for the municipality claimed that

"[…] when I was still working in the municipality, for the environmental and cultural affairs team, […] they robbed all the money, […]. [For a] sporting project, one ball, a football, or a volleyball, they cost around 60-70 Soles [Peruvian currency], and they told me to write 150 or even 180 Soles on the receipts. And they told me to write receipts for things that we never bought. That is more than half of the money going into their own pockets. They even delayed paying my salary, they usually delayed payments for four months, and they just put every Sol into their own pockets. […] They bought the worst products and just took the money, some of the things they bought for health or medical products turned out to be toxic and dangerous."

Referring to the high levels of corruption in the public service, the mayor serving in the late 2010s and early 2020s (172) referred to an anecdote, saying that

"[s]ix months ago, I went to Lima, I visited family, and my *auntie* said 'I don't want you to go to prison, because everybody who builds a hospital goes to prison, they all go to prison.'"

However, the firm's collaborative activities helped the state overcome these pragmatic legitimacy deficits, as a former minister at the Ministry of Energy and Mines (12) explained. He stated that

"*Works for taxes* guarantees that corruption cannot occur, and also that the project is implemented in a short time. Compare this with pure state-led projects [in which] there is no trust. They are slow, sometimes never implemented and full of corruption. However, *Works for Taxes* turns this around and can help the state reclaim this legitimacy."

The main areas, where Mina Grande's involvement increased the acceptance of and support for state involvement was in terms of reduced corruption, increased implementation speeds, and improved quality. The mayor (172) who helped Mina Grande implement numerous projects under the modality, reminded me of his aunt's fear of his involvement in public infrastructure projects, which in many cases has led to the indictment and imprisonment of elected officials. He (172) continued his earlier anecdote,

"I told her [my aunt], 'don't you worry *auntie*, I don't spend a single Sol, this is *Works for Taxes*, the firm spends all the money, I don't touch the money, the money does not

pass through my hands, nothing.' And [Mina Grande] works really responsibly, their reputation is at stake, they assume the risk, nothing passes through my hands. But people like my *auntie* need to learn, too many people still think that way. […] I think this should be a campaign slogan, '*Works for Taxes* means zero corruption'. This is great."

Referring to the firm-state partnership that led to the construction of the hospital in Costa, a Tierra community leader (145) added that

"[w]e have waited years for the state and we would be waiting for many, many more years. The firm always paid taxes, and the *canon* [mining tax]. And, *Works for taxes*, uses these taxes, so we finally get these things we always waited for. We would be waiting ages for the hospital, for ages, I say. Thanks to *Works for Taxes*, we finally are permitted to receiving such an important work. […] through *Works for Taxes* it is not delayed, not wasted, and in good quality. On the basis of *Works for Taxes*, we are helped so much."

A former state official (155) confirmed that

"[t]he people trust [Mina Grande], they see it as an ally, as a very important generator of development. The population knows that all these resources *Works for Taxes* would not come here without [Mina Grande]. […], all these *Works for Taxes* resources is money that, without [Mina Grande], the municipality or the ministries would not spend, the people value a lot that [Mina Grande] gets the state in. And [Mina Grande] makes the services much better and with higher quality and much quicker too."

A firm manager concluded (144) that "[…] there is a transfer, […] from the quality from [Mina Grande] to the state when we implement projects together."

As the state's legitimacy in terms of providing public goods and services grew in Tierra, the societal expectations underlying the firm's legitimation in terms of nonmarket activities changed: "we did not elect [Mina Grande]. They are not our authority, not our [mayor]. They are an international firm" (157). While Tierra's community members still anticipated that Mina Grande conformed to their expectations regarding public goods and services, and the firm maintained its legitimacy as a provider, the legitimation of the state as an alternative to Mina Grande diverted some societal expectations from the firm to the state. Rather than exclusively anticipating Mina Grande would conform to societal expectations, actors in Tierra referred to expectations vis-à-vis the firm *and* the state. Informants reduced

their expectations regarding Grande's sole compliance as a consequence of the firm's strategic partnerships with the state. Representative of this shift was a statement by a community leader (151) from Tierra, who said that

"[Mina Grande] is such a strategically important ally. *Works for Taxes* has created a different image of the firm. The regional government comes to us under that mechanism, there have been so many important projects and we did not have all of these basic services, not even proper streets. We had been waiting for a sewage system for years. This is essential for our lives. And a hospital too, we are close to having our own hospital, in our province, here, in [Costa]. This all changes the history and the development of [Tierra]. All of this is done by the [state] and firm together […]."

In the late 2010s, one important event occurred that lent strong support for the firm's escape from the legitimation trap. The event signified a shift from societal demands brought to the firm towards societal actors using formal channels to make demands on the state. Namely, Tierra's *Defence Front*, which organised most of Tierra's relations with the firm and which led most conflicts with the firm for over 20 years, wound down its active operations (182). The importance of this event cannot be overstated. The Tierra community thereby gave up its key organising and mobilising structure. This was a clear sign that societal actors in Tierra expected to no longer engage with the firm, but rather expected the state to deliver public goods and services and using formal channels to obtain them.

These changes in Tierra—the growing legitimacy of the state in providing public goods and services, the reduced likelihood of being targeted by community members to request Mina Grande to perform nonmarket activities—led to a period of over ten years without meaningful societal attacks in Tierra (171). Between the early 2010s and 2024, there were no notable incidents between the Tierra community and Mina Grande. This strongly suggests that Mina Grande's partnership strategy with the state helped it escape the legitimation trap. This meant halting the further escalation of expectations underlying the firm's legitimation in terms of nonmarket activities, and even reversing existing expectations by deflecting them onto an alternative actor, namely the state. Compared with the period

before implementing the partnership strategy, the firm faced less pressure to maintain its legitimacy in terms of nonmarket activities, while being able to save money (through cost sharing with the state and accessing public funds through the *Works for Taxes* modality) in maintaining the legitimacy in terms of market activities.

Could these divergent outcomes in Agua and Tierra be explained by anything other than the firm's implementation of the partnership strategy and thus the legitimation of the state in Tierra, and the continued legitimation of the firm and delegitimation of the state in terms of providing public goods and services in Agua? One potential alternative explanation could be that societal actors in Tierra had less urgent or simply fewer demands for public goods and services than Agua, thus putting less pressure on the firm. However, according to firm data, government data, and my observations, the opposite was true. By most standards, Tierra was even far less developed than Agua and continued to suffer from the absence of many more public goods and services. Focusing on the firm's nonmarket activities, Ganson, He and Henisz (2022) claim that firms can unintentionally exacerbate the risk of violent conflict by favouring certain societal actors over others, and so widening the perceived inequality between different groups, such as Agua and Tierra. However, accordingly, the less favoured Tierra community should have reason to protest the firm and not the more favoured Agua community. Informants across both communities (159, 165) and firm managers (171, 180) maintained that Agua had always been favoured by Mina Grande, rendering this alternative explanation implausible.

Alternatively, following social movement theory (Soule, 2009; McDonnell et al., 2015), the risk of societal attacks in Tierra should have receded because societal actors saw fewer opportunities in obtaining public goods and services from the firm. However, Tierra's residents still had uninterrupted access to firm staff. The community's ability to pressure Mina Grande into conforming to societal expectations also remained high, as the protest by

the Agua community showed. However, contrary to dynamic models of private politics (Baron, 2001; McDonnell et al., 2015), Mina Grande did not become a hard target. Instead, the firm's nonmarket strategy of partnering with the state led to the legitimation of the state as a provider of public goods and services, thereby deflecting societal demands onto an alternative actor and reducing the pressure on the firm. Dynamic models of private politics that point to the ease with which societal actors can pressure firms to give in to their demands, can therefore not fully explain the patterns we observe in Agua and Tierra.

Another explanation could be found in the communities' leadership. Could it be that Agua's leaders had a greater interest in earning political capital by violently opposing the firm? While it is true that Agua's leadership had changed not long before the latest uprising in the early 2020s (162), Tierra's leaders could, in light of their constituents' pervasive needs, just as easily have tried to benefit politically from pushing the firm for more public goods and services, as they had demonstrably done for decades. Instead, the most powerful group among Tierra's leading social organisations, the *Defence Front*, which organised most movements and attacks on Mina Grande, wound down its operations in the wake of firm-state collaboration (182).

Finally, it is conceivable that the national political climate in Peru spurred Agua's protest. Indeed, in the early 2020s, nationally prevailing negative sentiments towards mining firms reinforced claims by many local communities across the country for firms to redistribute more mining revenues to regions affected by mining (local newspaper). However, this sentiment equally applied to the communities of Agua and Tierra. Moreover, the statements by informants underscored that the engagement between societal actors and Mina Grande were driven by needs and fostered by positive relationships, rather than driven by grievances and augmented by negative sentiments, contrary to what research on the relationship between illegitimacy and firm outcomes predict (e.g., Baum & McGahan, 2013;

Elsbach & Sutton, 1992; Siraz et al., 2023). In other words, alternative arguments that could possibly explain continued engagement and ultimately conflict in Agua and the absence of ongoing demands and conflict in Tierra seem implausible.

Instead, we find answers to these unexpected discrepancies in outcomes despite similar conditions in distinct legitimation and delegitimation processes of the firm and the state in the two communities. Interviewees across both communities argued that residents in Tierra enjoyed a much closer relationship with the state, and received preferential treatment from the state (159, 165). Informants also claimed that residents in Agua received far more attention as well as public goods and services from Mina Grande (171, 180). Accordingly, societal actors in Tierra perceived the state after the firm's strategic collaborative intervention as a more legitimate provider of public goods and services, compared to the residents in Agua. Two representative quotes by two community leaders bring these different processes into sharp relief. An Agua community leader (146) stated that

"*Works for Taxes* is not the state, everything [public goods and service provision] is done by the firm. The state is not really involved, everything is done by the firm, the firm assumes the risk and the state does nothing. So, the relationship towards the state remains hostile. There is just no relationship between the state and the people. […] [The state] doesn't care, they say they don't have the funds, they delay everything. We have such a bad feeling about everything that the state touches. It is just so bad what they do. Why should we even bother? […] We don't need the state. […] We have a right to these services that [the state] owes us. But the state is not here, so we need the firm. The state does not work for us […]."

Whereas a Tierra community leader (145) claimed that

"[t]he relationship with the state has definitely improved. The strengthening of state institutions, like the municipality, and different state agencies by [Mina Grande] helps. Through the multi-actor approach by [Mina Grande], we feel that we are involved in these processes. Thanks to the company, we have fewer gaps, and the state is stronger. […] [Mina Grande] helps the state in its construction, its creation. The state needs to correct course in many areas, and [Mina Grande] helps it with that. […] We know that there is the opportunity of going to the state […]. [Going to the firm], [i]t should not be that way. The state should take care of all this, they should close infrastructure gaps, they should provide services."

Summary

In summary, the case of Mina Grande showed how a firm's need to construct legitimacy in terms of controversial market activities through the performance of nonmarket activities like the provision of public goods and services can legitimate a firm in terms of nonmarket activities. This legitimation process, as the case suggests, is related to but separate from, a firm's legitimation in terms of market activities. Over time, Mina Grande's ongoing conformity to societal expectations fuelled more and more expectations underlying its legitimation in terms of nonmarket activities that locked it into a legitimation trap. In the trap, the firm could not refuse stakeholder demands because it would lose legitimacy in terms of its market activities. Furthermore, after growing expectations that underlay the firm's legitimation in terms of nonmarket activities, the firm could not even be perceived to deviate from the expectations that arose purely in the nonmarket environment. Thus, having to meet costly stakeholder demands or suffering societal attacks lowered the firm's economic performance relative to a counterfactual firm whose legitimacy in terms of its nonmarket activities did not grow as much.

The case, however, also showed a pathway by which firms can escape the legitimation trap. In Tierra, Mina Grande fully committed to implementing the so-called partnership strategy, where the firm strategically intervened to legitimate the state and so deflect societal expectations onto the state, while maintaining the firm's legitimacy in terms of market activities. In Agua, by contrast, the firm also continued to privately provide public goods and services. The comparison between the two otherwise similar communities showed how Mina Grande's proactive involvement and promotion of the state and the collaborative provision of public goods and services in a reliable and predictable manner lent the state a notable degree of legitimacy in terms of providing public goods and services. In Tierra, the state thus absorbed some, if not all, societal expectations that, counterfactually would have

been aimed at Mina Grande. As a consequence, the firm managed to escape the legitimation trap in Tierra. All evidence suggests that after the partnership strategy was implemented, the firm was less likely to be pressured to conform to societal expectations while the state was more likely targeted by stakeholder demands. The firm was therefore also less vulnerable to falling short of meeting societal expectations and suffering from the economic consequences of societal attacks. By contrast, choosing not to partner with the state in Agua to the same degree as the firm did in Tierra, caused societal expectations to grow further, forcing the firm to comply with mounting demands for nonmarket activities, or face disruptive and costly attacks on its operations.

In the following chapter, I turn to the Peruvian mining firm Mina Gold which operated in the remote community of River in Northern Central Peru. The case will provide further evidence for the legitimation trap and how firms can escape it via a strategy of firm-state collaboration.

CHAPTER 4: THE PARTNERSHIP STRATEGY

In this chapter, I analyse the case of the Peruvian mining firm Mina Gold. Analysing this case aims to achieve four objectives. The first aim is to provide further evidence underscoring a theoretical model of interrelated legitimation processes that can end up harming firm performance if the focal firm cannot hold underlying societal expectations in check. The second objective is to shine further light on the partnership strategy by exploring the relationship between Mina Gold and the state. Regarding these two objectives, the case illustrates how firms facing the combined pressures of maintaining legitimacy to enable their market activities and the growing expectations underlying the firms' legitimation in terms of nonmarket activities, cannot simply "lose" legitimacy in the eyes of salient stakeholders in terms of market or nonmarket activities. Instead, the case of Mina Gold shows how firms can keep meeting the societal expectations that underlie its legitimation in terms of market and nonmarket activities while constructing the legitimacy of the state. Through the so-called partnership strategy that I introduced based on the revealing case of Mina Grande in Tierra in the previous chapter, Mina Gold strategically managed to reduce societal expectations underlying the legitimation process on the basis of nonmarket activities, increase the state's legitimacy, and keep conforming to societal expectations, thus avoiding the negative consequences of being locked into the legitimation trap.

The chapter's third aim is to leverage cross-case differences between the case of Mina Grande and Mina Gold regarding stakeholders' socioeconomic context. The case reveals that the urgency and extent—the issue salience[11]—of societal needs for public goods and services

[11] The term issue salience originates from earlier work on stakeholder theory, where research has suggested that firms pay attention to stakeholders when they themselves and the issues they have are salient, i.e., legitimate, powerful, and urgent (Mitchell, Agle & Wood, 1997). By contrast, I adopt and adapt this term to explore the question to what firms stakeholders pay attention to, especially with a view to activities in the nonmarket environment.

can condition a firm's legitimation processes in terms of market and nonmarket activities. Specifically, the chapter shows that stakeholder issue salience can leave firms little space to balance societal expectations and thus enhance a firm's risks of tapping into the legitimation trap.

Finally, the case of Mina Gold as a domestically owned firm also provides an interesting opportunity to see whether there are differences between foreign and local firms in the ways in which they enter and potentially escape the legitimation trap. The case will show that there is nothing unique about either international or national firms with respect to the processes constituting the legitimation trap. Nor does the case demonstrate differences in firm ownership between the mechanisms that are necessary for a firm to successfully implement the partnership strategy.

HOW MINA GOLD ENTERED AND ESCAPED THE LEGITIMATION TRAP

Introduction

The Peruvian family-owned mining firm Mina Gold is one of the largest gold producers globally. The firm has been operating two gold mines and treatment plants in Northern Central Peru since the 1980s. Preliminary exploration activities can even be dated back to the 1960s. By the 2020s, the firm generated revenues worth more than 500 million US dollars annually. In light of the region's vast gold (and silver) deposits, Mina Gold gradually expanded its landholdings, acquiring more and more mining concessions from the Peruvian state. As the firm grew its operations over the decades, it began to require more electricity. In the late 2000s, firm engineers identified a river flanking the community of River as a viable source to construct a hydroelectric dam and a plant to generate the electricity the firm needed to power Mina Gold's growing mining operations and the adjacent treatment plants (43).

The River community was one of several smaller communities that lived in the region surrounding Mina Gold's operations. The region's topography in the middle of the Andean mountain range is characterised by its extremely rough terrain. Snow-capped peaks rising above 5,000m over sea level rapidly descend into tropical rainforests where papayas, potatoes, avocados, and coca leaves grow. The rough terrain posed challenges for constructing roads and so transportation links between the region's communities were scarce and barely navigable. There was therefore little trade and exchange among the communities whose economies mostly depended on artisanal and small-scale mining and subsistence agriculture. Reflective of the difficult terrain was that Mina Gold had to construct its own airport in the region, so that it could safely transport staff to and from the mining facilities.

In the late 2000s (for a full timeline, see Figure 3), when Mina Gold began exploring for the opportunity to construct the hydroelectric dam in the community of River, fewer than 200 people lived in the community. People in the River community were extremely poor. They lived in virtual absence of any kind of public goods and services. There was no public infrastructure. Not even a road led to the community, which made it difficult for people to travel to and from the area where the River community was located. The community did not have a police station, houses did not have electricity, and there was no secondary school. When River's residents required medical attention, they had to walk for several hours to reach the nearest health post. Informants recounted stories of people who died on their way to find medical attention in far-away neighbouring communities. One community member (97) told me that her "sister, she was pregnant, and the baby died on the way […] because it [took her] 2.5 hours [to reach the nearest health post]." According to government data, well over 30% of children were malnourished and over 70% suffered from anaemia when Mina Gold entered the River community in the late 2000s.

FIGURE 3
A Timeline of Mina Gold

People in the River community confronted other societal challenges too. According to informants, alcoholism, domestic violence, and street crime were rife. The area surrounding Mina Gold's operations including the River community had one of the highest teen pregnancy rates in the country. According to a Mina Gold manager (39), about a third of girls and women below the age of 16 were pregnant or were already mothers, which was reflected in the large number of very young mothers and grandmothers I saw during my fieldwork in 2022. Having to take over child bearing and rearing activities, girls dropped out of school, leading to one of the lowest primary school enrolment rates in the country. Boys and young men, on the other hand, dropped out of school to help their fathers in the informal mines surrounding Mina Gold's mining concessions. Boys dug holes, drove cars on dangerous mountain paths, or transported minerals on mules. Informal mines frequently collapsed and left many young boys and men dead in the shafts.

Finally, the public good of public safety was not provided by the state. Instead, it was provided by an informal security and justice system, called the *Rondas Campesinas*. The *Rondas* are autonomous peasant patrols, which draw on a history that can be traced back to the 1970s, to protect communities from livestock thieves. Later, during the 1970s and 1980s, when the Peruvian high- and hinterland was ravaged by Marxist and Maoist guerrilla groups,

the *Rondas* took on another function as armed forces. These *Rondas* formed to protect local populations and wielded significant power in areas where the state had little influence (Starn, 1991). They also operated their own justice and penal system. *Ronderos* disciplined alleged culprits with heavy beatings and other humiliating punishments. In many parts of Peru, including the River community, the *Ronda* continued to play important roles, well into the 2020s. One River community leader (47) claimed that

> "[w]e are happy with this system, without the police. Because where there is police, there is crime. […] The *Ronda* is active and important. When something happens, the *Ronda* conducts its own investigations, they gather the whole community and then the culprit is punished before the whole community, usually beatings and whiplashes."

I. Legitimation in terms of market activities

In the late 2000s, Mina Gold entered the impoverished and remote community of River to explore for the possibility to construct the hydroelectric dam. After finding that the site close to the River community was viable and commercially advantageous, firm managers began negotiating access to the river with the community's leaders. However, the sudden influx of firm representatives, managers and engineers, stirred unrest in a community that was not used to the presence of people alien to their own community. Informants recalled how suddenly there was a flood of foreigners whose activities were incongruous with the community. Residents feared that the firm would disrupt the locality's livelihoods and bring foreign influences, among them "delinquencies and crime," and so upset the social cohesion in the community (91). A community leader (90) reflected that "[…] before [the late 2000s], they were not here and all of a sudden they were always here." More generally, he (90) continued that there were meaningful differences between the visions of the community and the firm's activities and what Mina Gold represented, stating that "[w]e are just too different. We don't understand them [Mina Gold] and they don't understand us. They are foreign to us here." A firm manager (41) remembered that "[i]nitially, [River's population] feared the firm,

there was certainly […] anti-mining sentiment in the community." Accordingly, a combination of fear and objections to Mina Gold triggered small-scale protests that opposed Mina Gold's expansion into the River community's territory, where community leaders threatened further actions, including strikes and protests, to keep the firm away (48).

In order to overcome and control the resistance the firm faced from the local population as a result of the firm's contested market activities, firm managers offered to deliver much-needed public goods and services to the community. Thus, after the initial unrest, Mina Gold's managers and River community leaders negotiated how the firm could best help the local people. River's predominantly agricultural society had hitherto mostly depended on rainfed agriculture which thwarted its agricultural potential and reduced planting seasons to only one half of the year. River's leaders therefore demanded an irrigation system to water their, mostly, avocado, potato, and coca leaf plantations in return for granting access to the river. The firm's chief corporate social responsibility (CSR) manager (43) who was part of the negotiation team said that "it was quid-pro-quo, the irrigation system for the permission to build the dam." The community's acceptance of Mina Gold's prospective dam construction was therefore transactional in nature, as supported by other firm managers and community members (49, 95).

Mina Gold's attempts at constructing legitimacy in terms of their market activities through the delivery of an important service to the community seemed to avoid the societal attacks we often observe when firms and their market activities were seen by key societal actors as unfamiliar, unknown, and potentially disruptive. We have seen, for example, that Mina Grande faced such a fate when the firm entered the Costa region in the late 1990s, and we will see similar patterns in the following chapter on the case of Mina Plata. By comparison, Mina Gold did not confront large-scale unrest because it could, from the

beginning, obtain legitimacy in terms of its controversial market activities through the strategic provision of nonmarket activities.

II. Legitimation in terms of nonmarket activities

Mina Gold had always been considered a viable provider of public goods and services by the population of the River community. The geographic distance to the firm's mining operations and the irregularity of contact between firm managers and community members in the earlier years of mining did not stop the firm from igniting the abstract imagination of River's population that the firm could deliver the public goods and services they were so desperately missing. Extending irrigation services to the excluded River community in the late 2000s finally generated concrete expectations regarding the firm's role as a provider of public goods and services among the River population. The firm thereby obtained a degree of legitimacy in terms of delivering public goods and services.

Stakeholder issue salience. A puzzle still remains. Mina Gold's initial performance of nonmarket activities was not as generous and all-encompassing as we have seen in the case of Mina Grande. In fact, the firm merely engaged in a small-scale barter-like transaction that helped it begin performing market activities. Yet, Mina Gold quickly became legitimate in terms of nonmarket activities. Why was this the case? Could it be possible that the firm's legitimation process unfolded more quickly in River than it did in Costa because Mina Gold was a domestically owed firm? Could firm ownership help explain Mina Gold's legitimation in terms of nonmarket activities? Research suggests that foreign-owned firms can suffer from a so-called liability of foreignness and struggle to generate support from local stakeholders (e.g., Kostova & Zaheer, 1999; Zaheer, 1995). It is conceivable that Mina Gold's local stakeholders in the River community perceived Mina Gold to more adequately respond to their needs due to the firm's local knowledge and firm managers' sensitivity towards local customs and norms.

However, the data suggests that this potential explanation does not hold up to scrutiny for three reasons. First, Mina Grande (and as we will see in the following chapter, Mina Plata) employed almost exclusively managers from Peru. In most instances, all firms in this study specifically hired people from the region or even the very communities they worked in. Firms, therefore, had significant local knowledge. Second, contrary to most other firms in the mining industry, Mina Grande and Mina Gold implemented public goods and services in a deliberative process, following consultations with local leaders and members of the community. Third, according to several informants, international firms frequently enjoyed a better reputation among local populations. Given their larger size and their mostly public ownership, international firms faced much more scrutiny from international shareholders, watchdogs, the government, and international media. By contrast, smaller, privately owned, Peruvian firms often escaped such scrutiny. Domestically owned firms were thus perceived by local populations to deliver less and lower quality public goods and services.

So, how can we explain the firm's rapid legitimation process, even in spite of the firm's domestic ownership? According to the data, the answers to this question can be found in the urgency and extent—the issue salience—of the River community's population's needs. When informants talked about the firm and why they engaged with Mina Gold to request the provision of public goods and services—despite their early reluctance to have anything to do with the firm—they always mentioned the "necessity" and "urgency" of doing so. The evaluation of the firm's pragmatic legitimacy in terms of its nonmarket activities could not be detached from the community's dire living situation. Thus, when interviewees talked about their relationship with the firm, they emphasised how "necessary" and "vital" the firm's provision of public goods and services was. Whether implicitly or explicitly, interviewees referred to their abject poverty and "backwardness" in relation to the firm's ability to help them, which made "this kind of support necessary" (104, 105, 109). A community member

(105) offered a representative quote, stating that "[…] our community is so backward. […] [The firm's support] is highly necessary, we live in extreme poverty. […] The irrigation system has transformed our lives. Water is life and now we have better access to it." The salience of the local population's needs and demands therefore augmented the effect the firm's promised development efforts created, and helped increase societal expectations regarding the firm in terms of its activities in the nonmarket environment.

A direct comparison between the communities of Costa (Agua and Tierra combined) from the previous chapter and the community of River further supports that Mina Gold's legitimation process in terms of nonmarket activities was influenced by the River community's issue salience. First, compared with Costa, actors in River were poorer and had much less access to public goods and services. Although no comparable data can be obtained for the municipal level, regional level data suggest that the urgency and extent of demands for public goods and services in River were significantly higher than in Costa. In the late 1990s and early 2000s when both Mina Gold and Mina Grande entered their localities, government data showed that there were around five doctors per 10,000 inhabitants in Costa, whereas there were less than four in the region of River. However, even this comparatively low number obscures River's remoteness. The unnavigability of the roads in the region made it almost impossible for actors to travel to a medical doctor under normal circumstances, much less in an emergency. According to a River community member (108), there were no doctors in River and "when people fall ill, they die." People were devastated about the lack of medical attention. Any infection, accident, and even pregnancy could be fatal (97, 108). Furthermore, while 78% of children went to secondary school in Costa, only 51% did so in the region of River. In Costa, around 60% of people had access to piped water. Less than 9% did so in the River region. In Costa, 76% had electricity, compared to 53% in the River region, with numbers closer to 5% in the River community. Thus, the firm fulfilled more

urgent needs in River, which raised societal expectations regarding public goods and services provision and helped Mina Gold construct legitimacy in terms of nonmarket activities.

Legitimacy of alternative actors. Another difference between Costa and River that helps us understand how quickly Mina Gold became legitimate in terms of its nonmarket activities, can be found in the legitimacy of alternative actors. While the state had always been weak in Costa and the firm's outsized provision of public goods and services delegitimated the state even further over time, the residents of River hardly ever had any contact with the state. Therefore, local societal actors never had a viable alternative organisation to choose from. If local populations did not accept the firm as a legitimate provider of public goods and services, they would have had nobody else to turn to. Not even the mayor of the local municipality regularly visited the community. An indication of the state's absence in River was that, according to government data, in the 2000s over 6% of people in the River region had no national identity card, whereas only 3% lacked one in Costa, which was one of the local capitals of its region. According to Mina Gold managers (e.g., 51), the rate of undocumented inhabitants in the River region was markedly higher than the numbers provided by the government, namely closer to a third of all people. Furthermore, Peru's state density index, the measure of public goods and services provision in a given locality, for the 2000s showed a number of 0.64 in Costa and a comparatively low 0.42 in the River region, ranking 175th out of 195 administrative regions in Peru. Worse still, the score for the River community was certainly lower because it was the poorest among all communities in the River region.

In this light, the River population felt neglected and forgotten by the state and projected the normative responsibilities they ascribed to the state onto the firm. In addition to gaining pragmatic legitimacy, the firm therefore also obtained moral legitimacy. A regional state official (52) said that

"[i]f the state does not increase its own presence in the areas where only the firm is present, and only the firm has been present for years, then the private provision of public services undermines the role of the state […]. If the firm is the only institution present and the only institution that provides services, then it is clear that they are a more legitimate actor than the state."

Societal actors did not only see the firm as meeting essential services for the local population to survive, members of the River community also considered it to be the firm's responsibility, willing to accept the firm as more than a strategic partner, and firm managers as integral members of the community. Indicative of this was that the community welcomed a firm manager to live permanently in the community from the late 2000s onwards. Like a mayor would be the state's representative in a community to take care of community demands, a firm manager became the firm's representative in the River community to perform the same task. This firm manager (41) reflected on the combination of the firm's pragmatic and moral legitimation in terms of its nonmarket activities, claiming that

"when [River's population] demanded the funds as an extension of the firm's [area], they began to trust. […] It changed the initial anti-mining sentiment. […] This support [of the firm] is important. […] They want the support [from the firm], they want better internet, they want connection, so they need the firm."

III. Legitimation trap

Mina Gold's legitimation in terms of nonmarket activities exerted pressure on the firm to deliver more and more public services. As the construction of the hydroelectric dam in the early 2010s was about to begin, one salient episode underscored the firm's challenge to manage growing expectations in the nonmarket environment to maintain its legitimacy in terms of market and nonmarket activities. Mina Gold needed to build a road past the River community in order to access the river and build the hydroelectric dam. Since the firm was building on land that it had rightfully purchased and legally owned, the road was supposed to be exclusively used by the firm and its suppliers; not the public (43, 47, 49).

The firm did not exclude the community out of bad faith but for purely economic and legal reasons. Building roads perched into almost vertically declining mountain walls on over 3,000m above sea level is expensive. The cost of maintaining these winding mountain roads at standards that allow heavy machinery and other mining equipment to navigate them safely during heavy rains and snowfall 24 hours every day of the week for 365 days a year can be even costlier. Sharing these roads with informal miners (some of whom owned and operated equipment as advanced as Mina Gold), mineral smugglers, drug traffickers, and common community members walking on foot or riding mules could cause accidents, delays, and expose the firm to risks such as protests, kidnappings, and shootings (13). In addition to purely commercial and related safety concerns, it was perfectly within the right of Mina Gold to construct and use a road on the land the firm had rightfully acquired purely for the pursuit of market activities.

However, the River community sorely needed a road that would have unlocked access to public goods and services in other localities. The public's exclusion from using the road therefore dismayed members of the River community. Community members perceived the firm to be failing to conform to their expectations that underpinned the firm's legitimation in terms of nonmarket activities (104, 105). Although Mina Gold did nothing wrong, the River community protested the firm's decision to exclude the public from using the road. A community member (108) reflected that "[Mina Gold] came and wanted to build a road for their project, without including us. We could not accept that. We need that road." In light of the discrepancy between societal expectations and the firm's unwillingness to conform to them, the whole River community mobilised and protested against the firm to voice their expectations for the provision of public goods and services vis-à-vis Mina Gold (105). According to a community member (102), the community "blocked the road for the firm.

Everybody participated because […] I would say that the community […] is very united in its demands towards the firm."

It is useful to consider a counterfactual here. Had the firm not constructed legitimacy in terms of nonmarket activities, societal actors would not have protested their exclusion from the road. Neither the firm's market activities, which had not begun, nor the construction of the road would have negatively affected the community, rendering explanations stemming from research on the relationship between illegitimacy and lower economic performance due to societal opposition implausible (e.g., Baum & McGahan, 2013; Elsbach & Sutton, 1992; Siraz et al., 2023). Instead, societal actors had high expectations of the firm regarding the delivery of public goods and services, including a road. The firm evidently violated societal expectations and was met with a strike.

As a community member (104) explained, "[t]he […] strike was the result of the firm bypassing the community, and we did not want that, so we blocked them and asked for a proper *convenio* [agreement]."A *convenio* was an agreement usually signed between mining firms and communities that listed all community needs and demands a firm agreed to supply. Another member of the River community (105) added that "[Mina Gold] wanted to bypass the community without having us benefit from the road, they wanted to bypass us on the other side, but we made clear that [the firm's dam construction and operations] affects us too and we want a *convenio*." As a result, the whole community participated (90, 96) in a strike that forced the firm to open the road for the local population and led to the promise of a range of other public goods and services, enshrined in a formal agreement between Mina Gold and the River community (43, 92, 95). A community member (99) concluded that "[t]he end result of that blockade was good. We agreed on the *convenio*, which means a lot for the development of [the River community]."

Although the firm was hit with societal attacks that did not cause human harm or significant economic damage, River's residents foreshadowed their power to interrupt future market activities through conflict. Barring access to the dam that was generating electricity for a large share of Mina Gold's operations could have proved financially devastating. The firm's market activities would evidently have suffered under any potential future conflicts. However, societal actors did not only closely monitor that the firm kept up its side of the bargain in return for the right to pursue market activities; leaders and members of the River community also saw the firm more formally as provider of public goods and services that must not fall short on what societal actors expected in terms of these provisions. The firm was thus expected to maintain its legitimacy in terms of its ongoing and future market activities while having to meet the growing expectations underlying its legitimation in terms of nonmarket activities. Mina Gold had to provide costly public goods and services, including roads, sanitation, healthcare, agricultural support, and education (internal firm document). When it failed to meet these societal expectations, the firm was faced with attacks and threats thereof. Mina Gold was caught in the legitimation trap.

Many firms, like Mina Gold, that perform several unrelated activities are often argued to suffer from lower economic performance. Scholars in the field of categories and hybridity (e.g., Battilana, Besharov & Mitzinneck, 2017; Smith & Besharov, 2019; Wry, Lounsbury & Jennings, 2014) argue that firms which perform activities in several cognitively distinct categories—like mining and building schools—can suffer from lower firm performance, compared with competitors which focus on one activity. According to these theories, stakeholders fail to categorise firms in terms of one or the other and are therefore less likely to engage with the firm (e.g., Zhao et al., 2013; Zuckerman, 1999). Could it be that Mina Gold's economic performance declined as a result of the firm's category-spanning activities in the market and nonmarket environment? However, this potential alternative explanation is

unlikely because societal actors in the River community were the ones who, themselves, categorised Mina Gold as a provider of public goods and services, thus constructing the legitimacy of the firm in terms of its nonmarket activities. Although it is true that the local population's attention to the firm's market activities diminished over time and focused increasingly on Mina Gold's nonmarket activities, the negative impact on firm performance was not a consequence of low levels of stakeholder engagement with the firm. Instead, it was the result of increased stakeholder engagement regarding an activity that does not directly contribute to firm performance.

What undoubtedly reduces firm performance is firm-community conflict. So, could the firm's lower performance as a result of the River community's protest be explained by social movement theory and dynamic models of private politics? Social movement theorists focusing on dynamic models of private politics claim that firms 'giving in' to stakeholders' demands in the nonmarket environment become more likely the targets of future demands in the nonmarket environment (e.g., Baron, 2001; King & McDonnell, 2013; McDonnell et al., 2015). The case of Mina Gold, however, shows how societal actors did not trigger opportunistic protests to extort the firm based on previous concessions. To the contrary, the local population sought to work together with the firm. The River community welcomed firm staff to live in the community. They celebrated community festivals together and shared other activities. Indicative of this relationship was that one River community leader's (93) daughter had a tragic accident and required medical attention in Lima, over two days of travel away from the River community. According to her (93),

> "[…] my child is only alive because of the mine. She had an accident when she was young, and half her face was missing. We got emergency support by the firm and they treated her in Lima, providing all of that help so that she can live."

Thus, community leaders and members entrusted their children to the firm and allowed them to regularly travel with firm managers to the country's capital, a place few

people in the River community had ever been to. This episode reflects Mina Gold's moral legitimation in terms of nonmarket activities that explains why and how societal actors in the River community engaged with Mina Gold that dynamic models of private politics cannot fully explain.

IV. Legitimation trap escape: the partnership strategy

In light of the societal expectations of Mina Gold in the firm's nonmarket environment, and the concomitant pressure to conform to them without risking societal attacks, Mina Gold's managers knew by the mid 2010s that they had to change course. In changing their activities vis-à-vis River's population, Mina Gold had to strike a particularly fine balance. On the one hand, the firm had to maintain the legitimacy of its market activities through engaging with River's residents by providing public goods and services. On the other hand, firm managers were also aware that the pure private provision of public goods and services had already led and would continue to lead to growing demands among the local population with respect to public goods and services. A community relations specialist (56) explained Mina Gold's difficult position in the following way. If the firm "gives in to demands, then this is unilateral philanthropism. This is not sustainable. It creates dependency." Consequently, the firm manager (56) continued that, "once you refuse, people will block the roads, and enter the mine […]." Accordingly, in the attempt to reduce the likelihood of societal attacks, there is a derivative need to

> "show to people that the state is involved and that the firm isn't a free distributor of services. [Mina Gold] needs to show that the state is involved and draw it in. [State officials] don't do anything by themselves, so we need to do that. The firm is not the state, and we don't want to create dependencies. What we want to do is contribute to the development of the region so that people do not depend on us, or the state. That they don't come knocking on our doors demanding stuff. So that we work side by side, one economy, where the mine is just another business" (56).

The firm's chief community relations manager (59) boiled the general paradox of maintaining the firm's legitimacy in terms of its market activities but reducing the

expectations underlying the firm's legitimation in terms of nonmarket activities by increasing the state's legitimacy down to the fact that

"[i]t is very important to communicate [the service provision] strategically so that people understand that the firm is involved. […] When they don't see that the firm is returning the right to extract, then people will only see extraction without benefits. […] they must see that the firm is giving back."

However, the manager (59) continued that in River the population always used to go to the firm to request public goods and services and that the private provision of public goods and services may further erode the already diminished legitimacy of the state. He (59) stated that

"[i]f the firm provides a service, the people ask 'what is the [municipality] doing with my money [the firm's tax and royalty money]? What is [the municipality] doing with the extractive money?' This fuels conflict. This creates distrust. [If the firm provides a service], the state tended to spend money on useless stuff like stadiums, public squares or statues, but the key services were just never tended to."

The firm manager (59) concluded that

"[t]his is the real cause for conflict: the failure of the state. [Thanks to] this, the firm began to understand what is the proper role of the firm. […] firms need to work with the state, and involve the people in a participatory manner so that they understand and control that the firm is not idling, and the state is indeed spending the *canon* [mining tax] and royalty money in an appropriate manner. […] The people have to understand that the firm helps the state in the provision because then the people know that the firm helps and not just extracts but they also see that the state is doing something helped by the firm, which gives the real trust because they know that the firm will do it better and at greater speed."

The firm thus thrashed out a plan that signalled to local actors that Mina Gold was continuing to exchange the right to operate for the provision of essential goods and services. At the same time, the strategy included building up state institutional capacity and inflating the role the state played in the provision of public goods and services as a signal to the population. A firm manager (51) said that "we see our role as building the foundation for the state to perform its functions. We want to supplement the role of the state, not replace it. We want to propel projects with or for the state." In so doing, Mina Gold aimed to leverage

Peru's *Works for Taxes* legislation and more conventional public-private partnership (PPP) arrangements, whereunder the firm and the state assumed an agreed-upon share of a project's cost. A firm manager (53) working closely with the River community said that

> "[t]he problem in [the River community] is that after years of being the only organisation present in the area is that the firm is much more legitimate than the state. […] the problem is that some conflicts arise because people protest against the firm [but in reality call] for attention from the state and then we also need the state to be legitimate and to be present."

"The idea behind *Works for Taxes* and [PPPs] in [River]," emphasised by the firm manager (53) was "to bring the state into the area to build its legitimacy."

The firm therefore tackled the components it had committed to under the *convenio* with the River community in collaboration with the state. Over the course of the 2010s, Mina Gold and the state built the irrigation system and a canal, and they offered farmers technical assistance workshops through the *Works for Taxes* modality. As we have seen before in the case of Mina Grande, Mina Gold was thus able to write off a significant amount of its investments against future tax payments. The firm manager (43) who organised the partnership with the state recalled that "it was suddenly a new collaboration, and [Mina Gold] did help [with] the management, and wrote the letters and pushed the […] state to sign them because it would have taken years for them to sign everything." He continued claiming that the state had such limited capacity and state representatives were so "apathetic to the development of remote places" that the firm had to teach and guide the state at every step of the process (43).

Additionally, under a so-called "*cincuenta-cincuenta*" (fifty-fifty) agreement—a PPP where each party assumed 50% of the project's cost—the state and the firm constructed a sorely needed secondary school in River, staffed it with teachers, and equipped it with materials and even internet (43, 94). In the early 2020s, Mina Gold and the state signed an agreement to collaboratively create export routes for local farmers with domestic and

international firms (94, 99). Mina Gold and the state also set up an internship scheme with a Peruvian food exporter, so that locals could gain work experience outside of the River region (100). These schemes were highly popular among community members. A community leader (47) said that

> "*Works for Taxes* brings the state to the region. […] This is what we want, we want the state to create economic opportunities, and economic space where we can be productive ourselves. We want to create our own opportunities. We want to produce what we do well and export it to Peru and the world. We have now, thanks to *Works for Taxes*, the capacity to plant avocados that are eaten around the world. We are very proud of that, and that was because the state and [Mina Gold] worked together."

The firm also proactively fostered relationships between societal actors and state representatives. Before and during election periods on all three levels of government (local municipal, regional gubernatorial, and central national), Mina Gold invited and transported state officials to the local communities, including the River community. The firm then asked the politicians to explain to local populations their vision and the state's role in the provision of public goods and services.

In so doing, the firm managed to draw the state into the River community and contribute to the state's legitimation. The proactive involvement of the state in the provision of such important public services as the irrigation system and the secondary school generated a necessary degree of cognitive legitimacy for the state to be known and accepted in the community. For the first time in their lives, River's population recognised the state's role in providing public goods and services. A community leader (94) stated that "[i]t is important for us that the state is involved. […] the firm finally brought the state to [River]. Until that project [the irrigation system], we were forgotten by the state." Another community leader (47) said that previously the problem with the state was its "ignorance" and that it did not "show a human face," a description repeated across several interviews (e.g., 96, 100). The community leader (47) continued that they were used to Mina Gold showing their human

face, but thanks to *Works for Taxes*, "the state shows its human face too." Across the community, interviewees agreed that, thanks to the collaboration between Mina Gold and the state, the relationship between the community and the state had markedly improved by the early 2020s (92, 94, 97). According to one community member (96), "[the state] has shown its face and we know that it can support us."

In addition to the state's cognitive legitimacy in the eyes of the River community, collaborating with Mina Gold awarded state institutions pragmatic legitimacy by raising expectations about future conformity with societal demands. The firm manager (41) who lived in the community of River argued that *Works for Taxes* projects improved the state's performance. Community leaders agreed. They stated that the community's trust in the state's delivery of public goods and services had increased (47, 96) because the involvement of the firm led to an improvement in speed and quality of projects' implementation (53, 59). Firm managers (56) contended that

> "[b]y partnering with the state, I believe that we help the state in gaining legitimacy. If the state provides services, if it ever does, it takes years and years. If we do things together, we provide it much more quickly. So, the people see a result that is also of better quality."

Community members also contended that the state has shown that it "can be responsive" to societal demands (47) and pay attention to its citizens. Further, as the case of Mina Grande has shown, societal perceptions of corruption dropped, because Mina Gold was not seen as being as corrupt as the state. A community leader (94) summarised that "when [the firm and the state] work together, that gives us hope that they keep their promises and implement these projects." Mina Gold's director for economic development in the River region (37), told me that

> "[t]he people see this [collaboration] and feel that it is important that the state is involved. The [PPP] is super important to prevent and control social problems because the people see this responsibility vested in the state, […]. They also understand that private agreements may not be legal and not sustainable in the long run, so they want to follow the law so that they can depend on something. […] But the state does not have enough money

and staff and capacity […], and so we help the state […]. The [PPP] creates more trust in the state because, through the firm, the state increases its presence and its performance. Because usually they do a bad job because of their limitations, and through us, they gain that legitimacy. They are involved in improving people's living conditions, and that increases legitimacy."

For the first time, River's population expected the state to conform to their demands regarding public goods and services. A firm manager (40) who specialised in providing education programmes to the communities surrounding Mina Gold's operations and who was involved in the *cincuenta-cincuenta* project that led to River's secondary school, emphasised how

"[t]he legitimacy of state intuitions has increased through our work. Without our [collaborative] provision, the education levels were low. Teachers didn't show up, they would come late, they would leave early, they wouldn't teach. […], with our financial support, with our capacity building, with our maintenance of education infrastructure, education levels have improved. And, since education is a state responsibility, the state gains some form of legitimacy in the eyes of the communities."

What this meant was that the River community's expectations of Mina Gold to conform to their demands, such as for education, declined relative to their expectations vis-à-vis the state's conformity. The firm was no longer the sole but one of two legitimate providers of public goods and services. Although Mina Gold was still seen by key stakeholders as highly legitimate in terms of its nonmarket activities, the strategic partnership intervention and the consequent legitimation of the state changed how local residents viewed the firm's role in society. One community leader (47) argued that

"we don't want to go to [Mina Gold] when we need services. We want to go to the state, even if it is slow. We don't want benefits from [Mina Gold]. […] The state is responsible, and the […] government should provide education and healthcare."

Such representative statements showed a sharp contrast to a scenario in which the state, as the only alternative organisation to the firm, was entirely delegitimated, and thus a notable departure from previous phases in the firm-community relationship.

The shift in expectations from the firm to the state meant that the firm had fewer expectations to conform to. Following the state's legitimation, societal actors increasingly engaged with the state to demand the provision of public goods and services. "We are knocking on the government's doors more and more," said a community leader (94). Corroborated by a range of other interviewees (e.g., 94, 99, 100), another community leader (104) said that "[m]ore and more requests go to the state now." A state representative (110) confirmed this change from the receiving end. From the state's point of view, the local state official (110) noticed an uptick in community requests reaching his desk since the latest collaborative projects were implemented. He claimed that sometimes, the community's presidents came to the office to request goods or services in person, despite the greater effort it afforded them; while the municipality's offices were located hours away and required tedious walks through rough terrain (90), the firm's local managers were just seconds away. This contrasts strongly with predictions from dynamic models of private politics (e.g., Baron, 2001; King & McDonnell, 2013; McDonnell et al., 2015) because the firm did not become a harder, or a less accessible and less potent, target than the state. In lieu, the state underwent a legitimation process that led to increasing societal expectations of and engagement with state officials.

I asked a community leader whether he expected the state to conform to the community's demands when they "knock on the government's doors". In response, he (90) waved a letter containing demands for a vacant health post in the River community to be staffed and said that

> "I wouldn't be sending letters if I didn't have trust in the recipient. […] There has been a change in the relationship with the state after the [collaborative] projects. We send more requests to the municipality or the regional government now. That wasn't the case before."

Material evidence confirmed the interview data that suggested a higher expected degree of state conformity to societal expectations. In the early 2020s, the state began three costly road construction and water supply installation projects in the community of River, to the value of over 2 million US dollars, according to documents provided by the state. A community member (105) who was overseeing the progress of the roadworks told me that they had begun to request services from the state, and that the state complied. Looking to the future, the expectation among the local population was that the state-community relationship would improve further "bit by bit", another community member (104) claimed.

What the partnership strategy achieved was to balance the firm's legitimation in terms of its market activities and its legitimation in terms of nonmarket activities without the underlying expectations causing serious economic harm and/or conflict. Mina Gold was thus able to maintain its legitimacy in terms of market activities through the provision of public goods and services without surging societal expectations in the nonmarket environment. As a result of the state's legitimation, on a foundation of proven performance, and the noticeable role the firm played in this development, societal actors in the River community saw that Mina Gold continued to conform to their expectations. A community leader (94) said that "[t]hey always comply with the *convenio*," a statement supported by several other community members (e.g., 100). This perception was particularly interesting because the firm assumed significantly fewer responsibilities under the partnership strategy and spent vastly fewer resources on the *convenio*'s implementation, compared with a scenario in which it did not pursue the partnership strategy. Community members also lauded the firm for finally "bringing the state to River" via the effective use of mechanisms like *Works for Taxes* and other PPPs (42, 48, 52).

The legitimation of the state thus helped the firm escape the legitimation trap. In light of the urgent needs the River community had before (and throughout) the firm's market and

nonmarket activities in the area, the state's continued absence would have continued to pile pressure on the firm to assume the functions of a state and deliver costly public goods and services. Had Mina Gold not implemented the partnership strategy in the River community, Mina Gold would have faced a comparable scenario to the one that confronted Mina Grande in the community of Agua, where the firm suffered enormous costs for remaining caught in the legitimation trap. Instead, the partnership strategy and by extension the legitimation of the state helped the firm avoid escalating demands for public goods and services and the economic consequences of conflict. The firm's economic performance therefore improved compared with a counterfactual scenario in which the firm did not implement the partnership strategy. Had societal actors in the River community not demanded from the state—and had the state not been able to conform to societal expectations regarding—the construction of roads as well as the piped water and sanitation system for a cost of 2 million US dollars in the early 2020s, the local population would have expected Mina Gold to deliver these public services. Further, had the firm not conformed to these expectations, Mina Gold would have run the risk of facing societal attacks. The risk to economic performance as a result of societal attacks multiplied manifold by the time Mina Gold's hydroelectric dam and the over 21 kilometre long transmission lines were under construction by the early 2020s (local newspaper). However, Mina Gold managed to escape these risks.

Summary

In summary, the case of Mina Gold shows how one firm entered a remote and incredibly poor community in Peru: River. The firm faced a tough challenge entering this environment because Mina Gold had to strategically construct legitimacy in terms of market activities the local population saw as controversial, namely the construction of a hydroelectric dam (and auxiliary facilities) to power the firm's mining operations. In the virtual absence of the state, the firm's promise to become a provider of public goods and services ignited a rapid

legitimation process of the firm in terms of its nonmarket activities. In light of the many urgent needs the River community's population had, societal actors quickly perceived Mina Gold as a legitimate provider of public goods and services, a legitimacy the firm gained and sustained without societal actors considering the firm in terms of its market activities. The firm had therefore constructed legitimacy in terms of its nonmarket activities, creating expectations in and of themselves; without regard to the firm in terms of its market activities. These expectations mounted over time, and the firm got caught in the legitimation trap. Either the firm complied with expensive demands for the provision of public goods and services or it had to endure—in this case only minimally—financially damaging protests and other attacks. Compared with a scenario in which the firm gained and maintained legitimacy in terms of market activities without causing the expectations underlying growing legitimacy in terms of nonmarket activities to grow, Mina Gold's performance declined. Mina Gold's legitimation in terms of nonmarket activities, as an evaluative entity in and of itself, reduced the firm's performance.

Cognisant of Mina Gold's precarious position, firm managers implemented a rigorous policy of state-firm partnership in almost every important project River saw implemented or proposed in the 2010s and early 2020s. Principally, the partnership strategy—the joint provision of public goods and services to ameliorate the River population's urgent needs—helped the state in becoming a legitimate provider of public goods and services. Additionally, the firm organised political rallies and campaign events, funded state-community events (e.g., prizes awarded by local mayors for the best proposals for public infrastructure projects, the best home-cooked food in the area, or the winners of alpaca wool knitting contests or baking competitions), to further bring societal actors and state actors together to entrench the state's legitimacy in local societal structures.

The strategic use of *Works for Taxes* and PPPs, in addition to targeted small-scale support, provided an avenue to construct the state's legitimacy and for the firm to reduce societal expectations that underlay the firm's legitimation in terms of nonmarket activities. The result was that the state received demands that, had Mina Gold abstained from the collaborative policies they implemented, would have been targeted at the firm. As a consequence, Mina Gold was less often pressured into costly conformity with societal expectations and no longer exposed to societal attacks, compared with a counterfactual scenario in which the firm implemented the demands contained in the *convenio* on its own, without proactively legitimating the state.

In the next chapter, I will discuss the case of the international mining firm Mina Plata in the community of Silver. This case will tighten our theoretical grasp of how firms can get caught in but also how they can escape the legitimation trap by introducing a distinct strategic intervention to the partnership strategy we have seen so far, namely the *linkage strategy*.

CHAPTER 5: THE LINKAGE STRATEGY

In this chapter, I develop a theory of escaping the legitimation trap through another firm strategy, which I call the linkage strategy. Like the partnership strategy, the linkage strategy can construct the legitimacy of the state in terms of providing public goods and services to reduce societal pressure on a focal firm. However, the linkage strategy differs from the partnership strategy in the way in which it achieves this outcome. Under the linkage strategy, firms link societal actors to the relevant state institutions that are charged with the delivery of public goods and services, *without* (partially) getting involved in the actual delivery of public goods and services. Instead of co-financing projects and partnering with the state to deliver public goods and services, firms pursuing the linkage strategy assume the role of brokers. They leverage their political capital and their knowledge of the local context to connect previously unconnected actors and to pressure relevant state entities to conform to community expectations, thus reducing societal pressures on the firm.

I base my findings on the case of the international mining firm Mina Plata. While investigating the case of Mina Plata again provides strong evidence for the legitimation trap, and how a firm's legitimation processes can ultimately harm a firm's performance, the main objective of analysing Mina Plata is to reveal the linkage strategy as an alternative pathway to the partnership strategy that allows firms to escape the legitimation trap. However, the case of Mina Plata is instructive for another reason too. For financial reasons, Mina Plata never constructed a mine and therefore never produced minerals. The absence of disruptive market activities permits us to more closely investigate the firm's legitimation process in terms of its nonmarket activities. The case thus allows to more confidently differentiate a theory of a legitimation trap from alternative explanations emerging from work on the relationship between illegitimacy and negative firm performance.

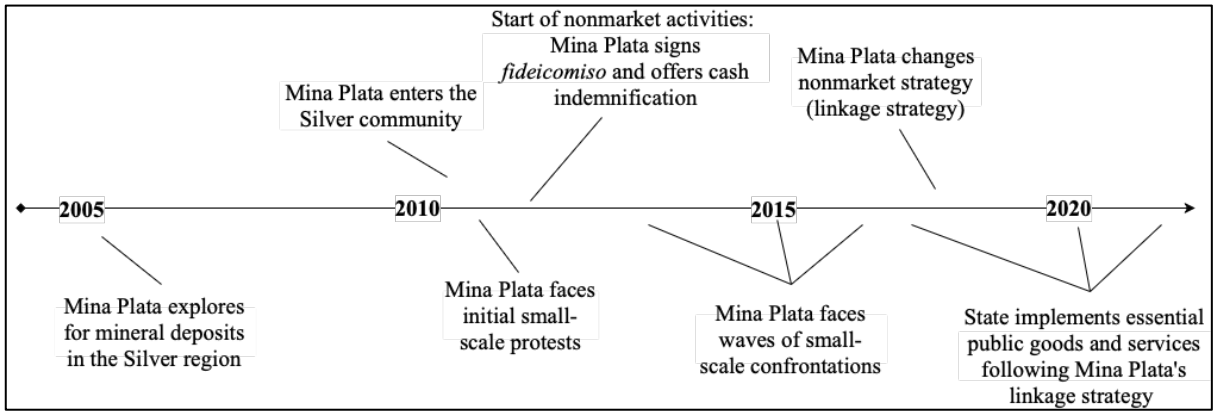
HOW MINA PLATA ENTERED AND ESCAPED THE LEGITIMATION TRAP

Introduction

The international mining firm Mina Plata, with operations across the Americas, began exploring for mineral deposits in the locality of Silver in the South of Peru in the mid 2000s. Exploration did not prove easy, as the expected deposit stretched over 50 square kilometres at around 5,000m above sea level. The area's terrain was characterised by vast desert plateaus and volcanic rock covered by glacial gravel. According to the local population, there were only two seasons: the much colder ice season and the more moderate snow season, broadly corresponding to the more common dry and rainy seasons in Peru's more temperate climes. During ice season, temperatures dropped as low as minus 20 degrees Celsius at night. During snow season, the whole area was covered in snow, with temperatures hovering around the 0 degree Celsius mark.

In this difficult topographical terrain, Mina Plata found, according to multiple sources, the world's largest and most promising silver (and other polymetallic) deposits (firm document, local newspaper). If the firm developed the mine and produced the minerals, forecasts promised that the firm's revenues from this mine alone could climb above 1 billion dollars per year (firm document). In light of these promising returns on the firm's investment, in the early 2010s, Mina Plata began establishing a long-term presence in the territory.

FIGURE 4
A Timeline of Mina Plata



The prospective mine was closely surrounded by five communities. I focus here on the Silver community, which was located closest to the firm's mining camp and the planned mine. The people of the Silver community would thus be most impacted by the firm's prospective market activities. At most 250 people lived in the Silver community when the firm entered the locality in the early 2010s. Members of the Silver community were predominantly engaged in breeding and herding llamas and alpacas. They earned their livelihoods by selling the animals' wool to local markets in the nearest towns several hours away.

Although alpaca breeding earned some families a respectable income, for the majority of people in Silver, life was defined by the community's extreme remoteness and abject poverty (111, 142). The government classified over 70% of the region's people as "extremely poor". Just like the community of River in the previous chapter, before the mining firm arrived, there had been no roads that led to and from the Silver community, thwarting most attempts at successfully trading with other communities and importing vital goods to sustain livelihoods. A former state official (142) remembered riding on donkeys or alpacas for hours to reach the remote community. Since the highland region's horticultural potential was so low and food imports unaffordable, the local population suffered from a range of associated health issues. According to government and firm data, rates of infant mortality were extremely high, and the majority of children who survived childhood later suffered from anaemia (some government statistics claimed over 80%) and malnourishment.

When Mina Plata arrived, there were no medical doctors in the Silver community. When people fell ill, "they just died," a firm manager (111) claimed. The quality of the locality's primary education was low and took place in a derelict building. There was no access to secondary education. Twelve to 16 year-olds either did not go to school or had to leave their families and move several hours away to do so. There was no running water, no

functioning sewage system, and hardly any electricity. Community members disposed of their waste in the nearest river, accumulating into a huge pile of refuse. A firm manager (115) told me that alcoholism was rife, and that people drank, and to a large extent still drink, disinfectants and pure alcohol "to forget their lives." They did this, according to the manager (115) because "the lives up here are hard to see as really worth living for many. But there is no real way out." During my fieldwork, I witnessed alcohol abuse among members of the Silver community first-hand.

What compounded, and to a large extent contributed to, the local population's social and economic challenges, was that the state had been notoriously absent when the firm planned to set up its operations. One indication was that the *Rondas Campesinas*, whose presence loomed large over the community of River in the previous chapter, were considered even stronger and more powerful in the Silver community. *Ronderos* were in charge of securing the public good of public safety as well as law and order. They had the monopoly over the use of violent force, investigating, interrogating, and punishing (suspected) culprits. According to community members, *Ronderos* were the legitimate enforcers of law and order. They were additionally a highly valued segment of community life and the community's "normal justice system, which reduced delinquency by a lot" (118). Thus, the firm entered a social environment, characterised by penury, where there were virtually no public services like healthcare, education, electricity, or roads. An environment, where alternative organisations to the state have assumed the provision of many public goods and services, some as fundamental to societies as public safety and a system of justice.

In light of the Silver community's extensive needs that would have taken many years to address adequately, it is surprising that until the early 2020s, Mina Plata spent comparatively little money on providing the Silver community with public goods and services. By the early 2020s, the firm had spent only around 1.2 million US dollars in total or

4,800 US dollars per capita, since the early 2010s. By comparison, in the same period, Mina Gold spent significantly more, in total around 4 million or 20,000 US dollars per capita, for inhabitants of the River community. Yet, after an initial wave of protests, Mina Plata managed to avoid becoming the target of societal attacks. Considering the absence of the state in the Silver community before the early 2010s, it is also surprising that, in the period between the early 2010s and the early 2020s, the Silver community witnessed the state implementing public infrastructure projects in total worth more than 3.2 million US dollars or 12,800 US dollars per capita. This represented an unprecedented increase in publicly provided public goods and services, compared with the years before the arrival of Mina Plata.

How did Mina Plata manage to avoid societal attacks without incurring substantial costs for the private provision of public goods and services? As we have seen in the previous chapters, just the prospect of potentially disruptive market activities can cause serious firm-community disputes. The firm's inability to eventually construct the mine can therefore not explain the absence of societal pressures on the firm to implement large-scale public infrastructure projects or the lack of conflict about the private provision of public goods and services. Furthermore, how can the state's sudden interest and ability to deliver essential public goods and services to the Silver community be explained? In this chapter, I will answer these questions. In so doing, I will reveal how the linkage strategy helped Mina Plata escape the legitimation trap by drawing in the state to the remote and impoverished community of Silver in the South of Peru.

I. Legitimation in terms of market activities

When Mina Plata entered the Silver community in the early 2010s, the firm immediately faced societal pressures to become legitimate in terms of its prospective mining activities. Given the Silver community's remoteness, the local population was not used to the presence of "outsiders" before the advent of Mina Plata. To the contrary, Silver's community

members considered the first functionaries who entered their community as malign intruders. The local population considered foreigners a threat to their customs and traditions. They feared the future mine's and the planned mine construction's impact on their ways of life and on the environment, especially with regard to their llamas and alpacas. The firm's vice president (16), who led Mina Plata's exploration and community engagement processes, laughed when he said that "[o]n my first visit to the community, they threw stones at me, they grabbed me, they spat at me. This is how I started the meeting." Mina Plata faced societal attacks that aimed to remove Mina Plata from Silver (115). A community leader (141) admitted that, at the time when the firm arrived, "[w]e were afraid of unknown people in the community," a statement supported by another community leader (135) who recounted that

> "[t]he first contact [with Mina Plata] was bad because the firm's people were strangers. […] The throwing of the stones is custom here. There is no trust, no faith, in strangers. Why would there be? We have been ignored by everyone […]."

After the initial conflicts resulting from the local population's fear of the firm's potentially disruptive market activities, firm managers "started going from door to door, making people understand that the firm will have […] positive effects on the communities," according to a firm manager (111). Moreover, the firm offered the community generous benefits in exchange for the potential disruption to social life and the environment, as well as access to community land. Mina Plata's generous promises contrast strongly with the approach taken by Mina Gold, which only offered a single project in return for the right to perform market activities in the River community. In Silver, however, community leaders (135, 136) claimed that Mina Plata promised individual community members new houses and lump sum cash indemnification, of up to around 10,000 US dollars per person, a significant amount of money in one of Peru's poorest communities. Moreover, the whole community was promised a so-called *fideicomiso* (community fund) that the community could tap into for the provision of public goods and services. Under the *fideicomiso* agreement, every year,

Silver received over 250,000 US dollars that the community could spend on healthcare, housing, education, and other goods or services (internal firm document). The main condition the firm attached to spending the funds was that the projects had to contribute to the community's social and economic development (internal firm document).

Community leaders and members welcomed the firm's nonmarket activities and began to accept Mina Plata with respect to the looming mine construction, the building of supply paths, and the introduction of foreign engineers and other staff. A community leader (136) recalled that "[…] dialogue and ongoing support ended this stage and has introduced a stage of good relationship." Another community leader (141) stated that "[t]he *fideicomiso* built the framework for this good relationship." A firm manager (65) contended that Mina Plata's efforts at becoming legitimate in terms of the firm's expected market activities via the strategic provision of public goods and services in addition to other benefits had borne fruit, suggesting that

> "[…] our social team went to every single household and took the time to explain how [Mina Plata] is going to work and what they are going to do. This gave them trust. They trusted in [Mina Plata] that it will develop a modern mine, abiding by laws and cultural customs, and integrate into the community."

Thus, the firm's nonmarket activities, manifested in the *fideicomiso*, as well as the respect firm managers afforded the local population, legitimated Plata in terms of its controversial and initially contested future potential market activities.

II. Legitimation in terms of nonmarket activities

Resulting from the firm's efforts at constructing legitimacy in terms of its planned market activities through the provision of public goods and services, societal actors also began to see the firm as legitimate in terms of its nonmarket activities. We have already seen in the chapter on the case of Mina Gold in the community of River, how a stakeholder's issue salience with respect to obtaining essential goods and services can contribute to the rapid

legitimation of a firm in terms of its nonmarket activities. Given that the community of Silver at the centre of this case, and the community of River central to the Mina Gold case, suffered from similar challenges, often dangerously close to individuals' life and death, Mina Plata quickly constructed legitimacy in terms of nonmarket activities as well. Comparable with the River region of the Mina Gold case, in the Silver region of the mid 2000s, there were fewer than 4 doctors per 10,000 inhabitants, just under 69% of all twelve to 16-year olds went to school, only around 22% of households had access to piped water, and about 44% had any electricity. Since the Silver community was among the poorest localities in the region, these government data overestimate the level of public goods and services locals had access to. The Silver population, suffering from poor health and low education levels, were therefore in dire need of obtaining more basic public goods and services. The firm diligently attempted to meet these needs within the bounds of the *fideicomiso*. Representatively, one community leader (116) reflected over the whole time Mina Plata was present in Silver that "the firm's signature is worth something. They comply with their promises. They say something and do it. The firm complies […]." Another (139) said that "[Mina Plata] always complies. We can rely on them, we can trust them."

Conforming to societal expectations regarding the firm's nonmarket activities, changed the perception of the firm. The *fideicomiso* did not only play a transformative role in community members' lives, the *fideicomiso* also transformed the perceived role Mina Plata played in the Silver community. Societal expectations towards the firm shifted from issues relating to the firm's potential mining activities towards issues relating to education, healthcare, including the procurement of an ambulance and the hiring of a community nurse, the building of a football pitch, and an office for the community's leadership (135, 136, 139). The combination of local stakeholders' issue salience and Mina Plata's comparatively

generous provisions under the *fideicomiso* and other offers sped up the firm's legitimation in terms of nonmarket activities.

This perception, that was shared by most members of the community, generated a slew of other expectations that greatly exceeded the terms of the *fideicomiso*. Societal actors began approaching the firm with all sorts of requests, including personal benefits for themselves and their families as well as more encompassing projects for the community. However, especially instances where Silver community members demanded personalised benefits for themselves and their families became increasingly common and taken-for-granted (65, 112). A firm manager (111) said that community members

> "send me text messages and letters asking for 20 cans of soda, and a few cakes for some festivity or other. And then they want to celebrate the village anniversary for four days […]. Then they want to celebrate the sheering of the alpacas. […]. Some fuel here, help with your party there, a ride to another village? Ok."

In order not to lose legitimacy for the firm's planned mining activities, the firm continued to conform to the community's expectations. A community member (117) claimed that, "[w]hen we need [transportation] and fuel, then we always get it," which was confirmed by a firm manager (111) who said that "[a]t these small levels, we are giving in to almost everything." However, community members did not only request small benefits. They also asked the firm to deliver large-scale infrastructure projects. According to the firm's vice president, community leaders approached the firm to construct a bull fighting arena on around 5,000m above sea level (16). These demands worried firm managers because they indicated that societal expectations had climbed to unsustainable levels.

III. Legitimation trap

Mina Plata got caught in the legitimation trap. As societal expectations—large and small—continued to grow, they put significant pressure on local firm managers as well as on the firm to conform to these requests. There was no room for Mina Plata to deviate, no space

for firm managers to say *no*. If societal actors perceived the firm to hesitate or even refuse a request, they regularly and persistently "reminded" the firm of its "social responsibility" as a provider of public goods and services to force the firm into compliance. A firm manager (111) quipped that,

> "[w]hen we don't [seem to meet expectations], then they ask us 'what is your social responsibility […]? You are not complying with your social responsibility.' And then we can only say […] 'you have a little shop, don't you? You sell products, you have income. What is your social responsibility? Are you handing out gifts? No? Why not?'"

Firm managers (65), state officials (142) and community members (137) claimed that as a result of these pressures there was always potential for conflict or, at least, "disagreements" (142). Mina Plata's vice president (16) was also aware and warned that at any point, "people [could] easily disrupt the [future] mining operation by blocking the road [to the mining operations], and people in the community will support [the protesters], because then they can get [public goods and services] out of the firm." Thus, societal attacks were less violent than in the case of Mina Grande and only occurred between individual community members and firm managers during meetings (65). However, the threat of attacks like protests, road blockades and other violent forms of engagement that we have seen in previous cases loomed large over the firm's positive relationship with the community and its underlying expectations (16, internal firm document).

Although it is common in the early stages of a mining project to incur losses before generating income, Mina Plata found itself in a particularly difficult position. Because the firm had not started extracting minerals, it also did not earn any money. At the same time, the firm's losses were amplified by the growing demands it had to meet in the Silver community. A firm manager (111) described that "we haven't even started producing anything here, we are not earning money, we have costs and costs and costs, and no income." Hence, between the mid 2010s and early 2020s, Mina Plata spent around 1.2 million US dollars for the

projects agreed under the *fideicomiso* alone (over 3 million US dollars including the other four communities in the area), mounting informal benefits, and paid for a specialised professional community relations workforce to manage the firm's stakeholders in the nonmarket environment.

Thus, after an initial positive impact on the societal acceptance of the firm's future mining operations—which did not yet translate into financial gain—the growing expectations underlying the firm's legitimation in terms of nonmarket activities actually decreased firm performance. Clearly, had the firm not managed to legitimate future market activities through nonmarket activities, the firm would not even have been able to plan operations in Silver. However, had the firm managed to contain the expectations that grew as a by-product of the firm's legitimation in terms of nonmarket activities, firm performance would have been higher. Research on strategic legitimation argues that a firm's growing legitimacy improves firm performance (e.g., Castelló, Etter & Årup Nielsen, 2016; Oliver, 1991; Siraz et al., 2023; Suchman, 1995; Vaara & Tienari, 2008), whereas the case of Mina Plata shows an instance in which, under certain circumstances, this relationship can be reversed.

Legitimacy of alternative actors. What aggravated the situation for the firm was the cognitive legitimacy it had acquired for providing public goods and services and for stepping in for the state. Societal actors took Mina Plata's private provision of public goods and services in the absence of the state for granted. Firm managers therefore feared that the more legitimate Mina Plata became in terms of privately providing public goods and services, the more they eroded an already absent and mistrusted, therefore, delegitimated, state (122, 142). They were afraid of the legacy the firm would leave behind in Silver once the future mine ceased production; namely the total delegitimation of the state. Accordingly, a firm representative (111) claimed that "[t]he mine will be gone in 15 years. […] If we leave something ridiculous like a little agricultural help or a stupid canal, then this won't last." A

former state official (142) underscored the negative impact the firm's departure could one day bring if it did not leave alternative institutions, like the state, in place. He claimed that

"[the residents] sell all their land for a short-term cash infusion which the family fathers then drink and gamble away, and then after a few years, they are left with nothing, not even their own land. Once the mine leaves, or there is a problem, these people are worse off than before. […] They don't have a plan B, these people's problems are existential. I mean, yes, there are alpacas, but that is no life, is it?"

Mina Plata's vice president (16) emphasised the pressures the firm faced and how the firm's legitimation in terms of privately providing public goods and services instead of the state may play out in the future. He claimed that delegitimating the state and failing to help the state provide essential goods and services would lead to calamity. He argued that all Mina Plata would leave behind would be "sick societies, societies without support, societies without believing in their own people." More formally, he (16) concluded that

"if the state does not give things to you but the company, [the population] will lose trust in the state. If you lose trust in the state, you lose stability in the area. If there is no trust in the authorities, you lose stability […]. So you have to strengthen [the state], even if [the firm] doesn't like the president, [or] doesn't like the regional president, you have to help [the state] to be stable because it's the only way to make it work. If you make [the population] lose that belief, then the revolution is coming. The mess is coming."

IV. Legitimation trap escape: the linkage strategy

It was in this light that Mina Plata's vice president (16) admitted that he and the firm had committed a grave mistake. The *fideicomiso* that generated so many societal expectations, was, in the company's vice president's (16) own words, "the worst he has ever done," as Mina Plata had set itself up for continued societal expectations the firm was not allowed to disappoint. To avoid expectations underlying the firm's legitimation in terms of nonmarket activities from further escalating, the vice president (16) explained how he proposed to respond. He planned to strategically

"place [public] infrastructure jointly with the state, because that role falls to the state, it does not fall to me. […] I would love to be the state and bring development to all of these

people. But I cannot, the company cannot. […] [The population] wants the state to give them things, not the company."

Another firm manager (64) echoed the vice president's assessment. He stated that, "clearly, they need roads, they need electricity [and this] is the state's responsibility. Our firm is a business and our business is mining." In order to achieve these ambitions and create a world in which the firm could become a business and only a business again, Mina Plata had to come up with a solution to the problems created by the legitimation trap. However, as we have seen in previous chapters and as the tensions Mina Plata faced in the Silver community show, firms cannot easily leave the legitimation trap; Mina Plata could not simply stop providing public goods and services. The firm had to keep maintaining a sufficient level of conformity to stakeholder expectations that shielded it from costly and otherwise damaging societal attacks. Hence, the strategic decisions Mina Plata made, mirrored those that Mina Grande and Mina Gold had to make when they found themselves locked into the legitimation trap. Mina Plata's managers knew they had to draw the Peruvian state into the provision of public goods and services in the Silver community.

However, compared with Mina Grande and Mina Gold, Mina Plata faced an additional challenge. The firm did not earn income. Mina Plata therefore paid no taxes. Whereas Mina Grande and Mina Gold could leverage Peru's *Works for Taxes* modality, that allowed firms to exchange a share of their income tax for the collaborative provision of public goods and services, Mina Plata's absence of tax payments excluded the firm from accessing the modality. Although the firm could have pursued other forms of public-private partnerships (PPPs), as Mina Gold has done, with its "*cincuenta-cincuenta*" deals with the state, *Works for Taxes* was the most convenient and cost-efficient way to draw in the state. Mina Plata therefore chose and pursued a different strategy in its goal to legitimate the state and reduce the expectations societal actors had of the firm in terms of its nonmarket

activities. Instead of providing public goods and services in partnership with the state, Mina Plata adopted, what I call, the linkage strategy.

Compared with firms pursuing the partnership strategy by using modalities like *Works for Taxes* and PPPs, Mina Plata's linkage strategy meant that the firm did not get actively involved in delivering public goods and services. Under the *Works for Taxes* modality, firms did not incur financial costs but bore the responsibility of implementing a given project. Under more conventional PPPs, firms assumed a share of the costs and the responsibility of project implementation. By contrast, under the linkage strategy, firms became brokers instead of (partial) providers of public goods and services, and assumed neither the cost nor the direct responsibility for a project. Instead, firms connected previously unconnected societal and state actors and leveraged their political capital to pressure the state into meeting societal expectations.

Firm managers, whom societal actors considered integral members of the community, were cognisant of the needs local populations had. These managers liaised with societal actors and helped them collect and articulate their public goods and services demands. Subsequently, the firm leveraged its social network and political capital to arrange meetings with the relevant state institutions that were responsible for the provision of public goods and services. Pursuing large-scale mining projects requires obtaining and maintaining a range of regulatory approvals from all levels of government. Therefore, mining firms usually have close (but not always good) connections with state actors, which often span over several decades. In the Peruvian case, this meant that firm managers were well connected within the local municipal, and regional gubernatorial, and the central national levels of government. In the political economy of a country whose economy depends on the successful exploitation of its mineral resources, mining firms also had significant political power vis-à-vis state actors in addition to their network.

Mina Plata was such a well-connected firm. Using the firm's network and influence, Mina Plata collected and relayed information to the relevant state institutions. Depending on which level of government was responsible for a given public good or service, the firm also organised the journey of societal actors to the region's or the nation's capital cities. For example, for education or healthcare, Mina Plata's managers took community leaders and members to the regional capital to speak with the regional government. For issues related to housing (including water supply), sanitation, and road infrastructure, the firm helped societal actors travel to and make their claims in front of central government officials in Lima (16, 112). A firm manager (111) gave an example:

"The way we work is that we are a link between the state and the community when it comes to the provision of public services. […] For services that the state should provide, we know where the state funds are, we know the people with the power to spend these funds, and there are plenty of funds, and then we use this power and the connections we have, but the community does not have, to implement these works. 'You need water for the community, you say? Great, let's go to the ministry of housing and make a deal. Let us find the funds for you and have you participate in that process.'"

The firm thus began to distance itself from the image it had created of itself. Mina Plata intended to move from a societal perception as a provider of public goods and services towards a perception as an "intermediary" between societal and state actors (62, 112). When firm managers were approached by societal actors, they helped them to formulate their demands and linked them to the state, strategically applying pressure on state officials to act on the requests. A firm manager (64) described that

"in the meetings, when the communities say that they need a health post […], we help them get the green light from the necessary authorities, and we accompany them to Lima, if necessary, and go to the ministries with them, provide the transport."

Another firm manager (65) explained that

"[w]hen they want a health post, we tell them that it is the state's responsibility. A street is the transport ministry's responsibility; a school the education ministry's; houses the housing ministry's; and so on. We help them to get to them [healthcare, education, and

houses]. […] 'You need help to get a public service? Sure, let me help you translate[12] documents for you and file them with the relevant ministry.'"

A community leader (116) explained how the linkage strategy worked for community actors. He said that when he aimed to obtain improved educational services for the children of the Silver community, the "firm helped me with a lawyer and transport to and from [the region's capital]. […] I, as secretary of the community, went to the regional government in [the region's capital] and negotiated […]."

Mina Plata pursued the linkage strategy for two reasons. The first and most obvious reason was to deflect societal expectations onto another actor, namely the state. If societal actors expected fewer and less frequent interventions from the firm to deliver public goods and services, the firm would as a consequence spend less money on such nonmarket activities. The second reason behind pursuing the linkage strategy was to construct the legitimacy of the state in terms of providing public goods and services. The more legitimate the state became in terms of delivering public goods and services, the more sustainable the firm's deflection of societal expectations onto the state would prove (16, 111). Thus, the linkage strategy promised the firm to avoid losing stakeholder acceptance of its activities as a result of failing to (unexpectedly) meet societal expectations regarding the firm's nonmarket activities. At the same time, the linkage strategy gave Mina Plata the opportunity to maintain its legitimacy in terms of its future market activities because the firm remained integrally involved in the provision of public goods and services. However, brokerage was a much less expensive nonmarket means than the delivery of social programmes and public infrastructure. By helping construct the legitimacy of an alternative organisation—the state—in its stead, mining managers hoped that Mina Plata would no longer become the target of costly stakeholder demands or threats of societal attacks.

[12] Some people in the Silver region mainly spoke one of Peru's indigenous languages, Quechua. They needed translations into Spanish to interact with state entities.

By the late 2010s, Mina Plata's linkage strategy produced results; the state gradually obtained cognitive legitimacy in terms of providing public goods and services. Representative of a community-wide change in sentiment, a community leader who had close ties to the firm (117) said, regarding projects the regional government was responsible for, that "[s]ince the firm has been linking us with state institutions, there has been a change in the mentality in the community towards the regional government. We see that the state can achieve something." The community leader explained to me how the state became more legitimate in the eyes of Silver's population by referring to the linkage strategy. Accordingly, the state became more legitimate because

> "[t]he firm does not give us money or many material things, they simply facilitate a contact with the state, a car to [the regional capital], then a plane to Lima, and the presentation to the relevant staff at the ministry. Usually, the 'maximum' authorities go, the president of the *fideicomiso*, the president of the *Junta Directiva* [community leadership], and the president of the *Ronda*. […] This is important, because without the firm, the state would never arrive here, it would just never reach. They never cared and they would never care about that, about our corner of the world" (117).

Other community members supported that statement. Referring to the period before Mina Plata implemented the linkage strategy, actors regularly lamented feeling forgotten and neglected by the state (e.g., 116, 122, 139, 141). Conversely, referring to the phase in which Mina Plata pursued the linkage strategy, societal actors emphasised that they no longer felt forgotten and neglected by the state (e.g., 118, 122, 141). Even surrounding communities felt the same way. A community leader (122) from a neighbouring community told me that, previously, "the state did not even know that we live in poverty here," but thanks to the linkage strategy, the state did (141). These feelings applied to all levels of state governance, the local municipal, the regional gubernatorial, and the central national level (118, 141). One community member (138) summarised that "[t]he state did not see, did not know about the poor families of [Silver]. […] Now, I know what the state can do." One large factor that contributed to the state's cognitive legitimation in the eyes of Silver's community members,

was that they engaged face to face with representatives of the state. This feature of the linkage strategy also differentiates it from the partnership strategy, which did not necessarily include setting up direct relationships between societal and state actors. All of the Silver community's leaders, as well as members who did not perform a leading function in the community, at least once made a trip to the regional capital city and even to the country's capital city, Lima. There, they got the opportunity to meet with state representatives and submit their requests in person. Referring to the firm's linkage strategy and what impact it had had on the Silver community, a community member (138) said that "[Mina Plata] opened the state's eyes, and we opened our hearts for the state, and that makes us grateful to the firm and makes us trust more in the state."

In addition to the firm's cognitive legitimation, the linkage strategy helped the state acquire pragmatic legitimacy. Whenever societal actors made demands on the state, the firm applied pressure on the state to actually implement the public goods and services projects Silver's community leaders expected. Societal actors thus anticipated the state to conform to their expectations. Emphasising the material impact the linkage strategy and the associated legitimation of the state had on members of the Silver community, a community leader (137) claimed that, thanks to the firm, "we get more support from the state and we get the feeling that we can enter into dialogue when we really need it and actually get something out of it." A community member (121) from the neighbouring community with links to the Silver community reflected on these beneficial changes, saying that "[l]ife here has changed […], especially through the linkage with ministries and […] the state. […] it showed us that the state is here, and that it can provide, that it works for us."

The increased expectations societal actors had of the state meant that Mina Plata had fewer demands to deal with. In placing the state in its stead as the principal provider of public goods and services, the firm assumed a different role in the eyes of Silver's residents.

Community actors no longer saw the firm as the sole provider of public goods and services. Thanks to the firm's efforts at linking members of the Silver community to the state, societal actors saw Mina Plata as a broker, who "linked" and "accompanied" societal actors with the state, and "canalised" state support. The linkage strategy further kept the expectations the firm had to conform to within the bounds of the *fideicomiso* and the commitments agreed thereunder.

The linkage strategy therefore achieved what the partnership strategy had done in the cases of Mina Grande (in Tierra) and Mina Gold in a different way. Across the Silver community, societal actors thanked the firm predominantly for establishing a link to the state and not for the direct delivery of public goods and services (118, 122, 139, 141). According to a firm manager (112), "[f]or this, our company is important. We are [seen as] the medium between the [state] authorities and the communities." Representative of these broad-based shifts in the societal expectations underlying the firm's legitimation in terms of nonmarket activities, a community leader (139) said that

> "[t]he absence of the state has cost us decades of development, but finally [Mina Plata] has brought the state here to us. Through the firm, we got the power to enter into direct conversations with the ministries and therefore they provide services. No firm? No state."

Another community leader (141) echoed that

> "[t]he firm as [a broker] is great. Since [Mina Plata's arrival], we can go to Lima and make our demands directly with the state's officials who are in charge. We can bid for services and participate in the development of our own projects. Thanks to the firm, ministries open their doors for us."

Despite the firm's reduction of costs for implementing public goods and services, the firm continued legitimating its future market activities. By mediating between societal and state actors, the firm remained involved in the provision of public goods and services. Reflective of this strategic stance, a firm manager (64) told me that "[linkage] is [our] most important feature beyond mining. We bridge the community and the state. We get the

recognition from the community in doing that." Mina Plata's vice president (16) warned, however, that the community's gratitude towards the firm must not supersede the perception that the state pays for and realises the projects Silver's residents needed. He (16) claimed that

> "[w]e have already built roads, sidewalks, water [systems], we have already built squares, everything, and I believe that 80 percent was built by the state. And the 20 percent built by us, we are not going to advertise as such. I say that this money is from the state. Because people are not interested in basic things. People want to progress […] [and] see that [the state] supports them to progress […]."

As a result, the population of the Silver community perceived the state as meeting the expectations the linkage strategy generated. Among other smaller public infrastructure investments, between the firm's advent in the early 2010s and 2024, the linkage strategy directly helped the state (sometimes with additional financial and logistical support from the firm) to improve the condition of Silver's primary school and install a communal drinking water and sewage system. The linkage strategy also led to the construction of telecommunication lines, improvement of healthcare facilities, and equipping some houses with warm water tanks (which, on around 5,000m above sea level and night temperatures as low as minus 20 degrees Celsius is a vital public service). Speaking about the linkage strategy, and specifically the warm water tank installations, and what impact they had on the perceived role the state played in the life of Silver's population, a community leader (126) told me that

> "[t]he warm housing project with the ministry of housing is one example [of a project that] reduces the distance between the state and us, which is important in the long run because we need that kind of support, from the state and not the firm."

As already previewed in the introduction to this chapter, compared with a scenario in which the firm continued meeting societal expectations through the purely private provision of public goods and services, Mina Plata's economic performance improved. To be sure, firm performance was still lower compared with an ideal-type scenario in which the firm was not responsible for acting as a broker and mediator between societal and state actors and a

provider of many types of smaller-scale public goods and services. However, compared with a counterfactual scenario In which the firm did not conform sufficiently to societal expectations, and was exposed to attacks, economic performance was higher.

The linkage strategy and, consequently, the state's provision of public goods and services, eased societal pressures on the firm. Between the early 2010s and the early 2020s, the state implemented public infrastructure projects worth more than 3.2 million US dollars. Had the state not implemented these projects, the urgency and extent of the needs societal actors had, would have forced the Silver community to demand them from Mina Plata. Consequently, the firm would have had to assume the costs of delivering these public goods and services or risk societal attacks for failing to conform to societal expectations. However, as the firm successfully implemented the linkage strategy, Mina Plata spent just over 1.2 million US dollars, which included distributing small benefits as well as implementing the community projects the firm had committed to under the *fideicomiso* well before introducing the linkage strategy.

The case of Mina Plata helps us differentiate further how the conclusions offered in previous chapters differ from alternative theories. For example, nonmarket strategy research suggests that spending on stakeholder management and well-implemented public goods and services projects reduces stakeholder confrontations (e.g., Henisz et al., 2014). However, the linkage strategy shows that the opposite can be true. Compared with the phase in which Mina Plata spent more on community projects, the firm encountered fewer conflicts during the phase in which it spent less on community projects and rather legitimated and supported the state as a provider of public goods and services.

Yet, is it plausible that alternative explanations to the strategic legitimation of the state through the linkage strategy better reflect what happened in the case of Mina Plata in Silver? For example, could it be that local and regional state institutions suddenly had more

financial capital to spend, due to a commodity windfall or other income? While this could in theory explain the increased public investment in Silver's infrastructure, this was not the case. If anything, most mineral commodity prices, including silver, stagnated between the early and the late 2010s, and Mina Plata was one of the locality's biggest firms that did not pay any taxes or royalties. Moreover, the reason for low public infrastructure investment by the state in Peru is regularly not the result of low financial resources but a consequence of the state's inability to spend often abundant state funds (Aragón & Winkler, 2023). Alternatively, could it be that the projects Mina Plata implemented under the *fideicomiso* and all additional informal benefits the firm provided met all of Silver's demands, such that societal actors engaged with the firm less frequently and made fewer costly requests? This explanation is highly implausible. First, as the evidence in this chapter has shown, societal actors engaged through the firm with the state to demand public goods and services. Second, the Silver community remained throughout the study period one of the poorest communities in all of Peru, with significant gaps in public infrastructure.

What about another potential alternative explanation? Is it possible that the absence of disruptive market activities gave societal actors in the Silver community less leverage over Mina Plata to demand public goods and services? We have seen that firms face legitimation pressures initially over their controversial market activities. We have also seen that communities in the Mina Grande case used environmental accusations—their "war horse"—to apply pressure on the firm. Although this alternative explanation seems plausible in theory, the cases of Mina Plata and Mina Gold have shown that even future market activities and threats to their disruption can lock firms into a legitimation trap. Losing stakeholder support in a phase in which the firm had not yet begun to generate revenue would have led to losing shareholder support and would have shied investors away. Therefore, even in the absence of

realised market activities, local populations had significant leverage to extort the firm based on market and nonmarket activities.

It is, consequently, also unlikely that dynamic models of private politics (e.g., Baron, 2001; King & McDonnell, 2013; McDonnell et al., 2015) can fully explain patterns of engagement between societal actors and Mina Plata in Silver. The local population's ability to threaten the firm and obtain much needed public goods and services from the firm did not change between the early 2010s and the early 2020s, whereas patterns of engagement did. Dynamic models of private politics would predict in the case of Mina Plata that societal actors engage with the firm because of its vulnerability to protests and a history of giving in to societal demands (Baron, 2001). However, as the case has shown, following the firm's implementation of the linkage strategy and the resulting legitimation of the state, societal actors chose to pursue the more arduous pathway via the firm as a broker to obtain public goods and services from the state. This suggests that legitimation processes of the firm in terms of market and nonmarket activities as well as related legitimation processes of the state more fully capture the events that unfolded in the Silver community since the firm's arrival.

Summary

In sum, Mina Plata managed to escape the legitimation trap in the Silver community by employing the so-called linkage strategy. However, when the firm entered the locality and began constructing the firm's legitimacy in terms of future market activities by engaging with the societal actors in its nonmarket environment, Mina Plata quickly became legitimate in terms of its nonmarket activities. Exacerbated by the state's long-term absence from the territory and the urgent needs the local population in the Silver community had, the firm feared that the expectations its legitimation in terms of nonmarket activities generated could not be sustained into the future. The firm also feared that by establishing itself as a legitimate

provider of public goods and services, Mina Plata would finally—and fully—displace the state as a provider of public goods and services.

Seeking to avoid the costly implications of the legitimation trap, Mina Plata devised an alternative strategy to the partnership strategy we have seen in previous chapters; namely the linkage strategy. Employing the linkage strategy meant that the firm acted as a broker to link societal actors to relevant state entities. The firm relayed important information between the two previously disconnected parties and maintained their connections. The firm also expended some of the firm's political capital and pressured the state into conforming to societal expectations to ensure that the state gained and maintained legitimacy in terms of providing public goods and services. Over time, Mina Plata deflected the high expectations it had created upon entering the remote community of Silver to the state. Compared with the period in the legitimation trap, the firm did not fuel further expectations regarding nonmarket activities. Mina Plata also faced comparatively fewer societal attacks that would have caused economic performance to decline. This chapter has thus shown that the linkage strategy can help firms escape the legitimation trap and achieve the same outcomes as the partnership strategy. What this chapter has not shown is what happens when the state is unable or unwilling to collaborate with the firm and refuses to be linked to societal actors. I will return to this limitation in the concluding chapter seven.

In the following chapter, I will derive an integrated theoretical process model of the legitimation trap and legitimation trap escape. I will then discuss the theoretical contributions the process model makes to literature.

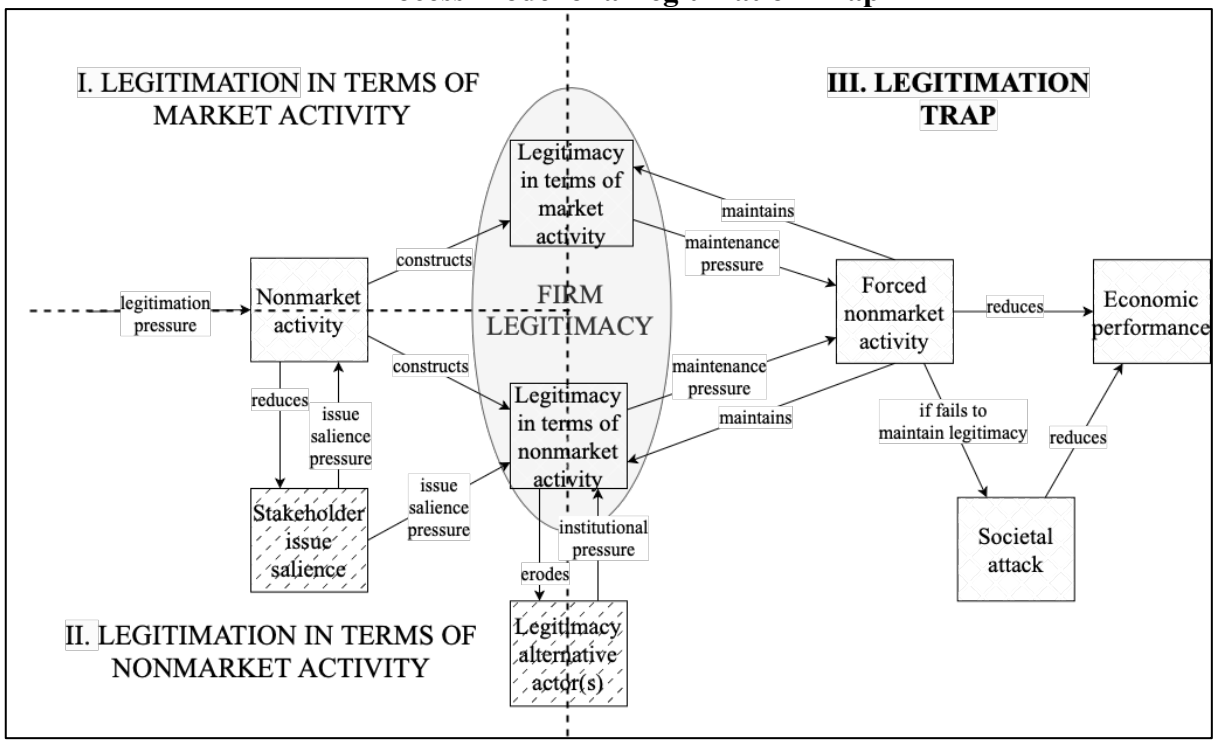
CHAPTER 6: PROCESS MODEL AND DISCUSSION

In this chapter, I discuss the theoretical contributions my dissertation makes. My analysis primarily contributes to research on strategic legitimation. While previous work on strategic legitimation has suggested that obtaining and maintaining legitimacy vis-à-vis key stakeholders is imperative for a firm to survive, grow, and perform well economically, my dissertation shows how legitimation processes can actually harm performance. The secondary contribution my dissertation makes is to research on nonmarket strategy. Existing work on nonmarket strategy has provided meaningful theoretical (and practical) insights for firms to construct legitimacy in terms of their market activities vis-à-vis societal and institutional actors through the strategic performance of nonmarket activities. By focusing on a context of the provision of public goods and services as an integral part of many firms' nonmarket strategy, my analysis shows how the private provision of public goods and services can erode the legitimacy of the state in terms of delivering public goods and services, and so increase societal pressures on firms. The dissertation also discusses how strategies to legitimate the state instead of the firm in terms of certain nonmarket activities, like providing public goods and services, can reduce the need for firms to involuntarily engage with actors in their nonmarket environment, and hence improve firm performance. This work therefore shines an important light on the increasingly variegated roles firms play in society, how the private—instead of the public—delivery of public goods and services shapes firm outcomes, and how the public and the private sectors can best work together; in the interest of states, firms, and citizens.

AN INTEGRATED PROCESS MODEL OF A LEGITIMATION TRAP AND LEGITIMATION TRAP ESCAPE

In this section, I first introduce a process model of a legitimation trap (see Figure 5), and subsequently integrate the strategies that help firms to escape the legitimation trap, leading to an integrated model of a legitimation trap and legitimation trap escape (see Figure 6). The two models build on one another and they emerge inductively from the within and cross-case comparisons between Mina Grande (chapter three), Mina Gold (chapter four), and Mina Plata (chapter five), and their respective relationships with focal communities. They are supported by additional data collection that complements these cases. The integrated model of a legitimation trap and legitimation trap escape unfolds in four distinct phases: I. legitimation of the firm in terms of market activities through the performance of nonmarket activities, II. legitimation of the firm in terms of nonmarket activities through the performance of nonmarket activities, III. legitimation trap, and IV. legitimation trap escape. I will explain these phases and the mechanisms that lead from one phase to the next, in turn.

FIGURE 5
A Process Model of a Legitimation Trap



I. Legitimation in terms of market activities

The model starts when firms face pressure from stakeholders to become legitimate in terms of their market activities. Obtaining legitimacy vis-à-vis key actors in a firm's social and institutional environment is in many ways the *sine qua non* condition of performing market activities. Firms therefore confront legitimation pressures when they enter a new environment or begin to perform new and, to key stakeholders, unfamiliar activities in existing environments. This is congruent with research on strategic legitimation processes (e.g., Lounsbury & Glynn, 2001; Suchman, 1995; Vaara & Tienari, 2008).

To obtain the necessary stakeholder support to perform market activities and become legitimate in terms of market activities, the model shows how firms perform a range of nonmarket activities. The model links firms' strategic performance of these nonmarket activities to the construction of the firms' legitimacy in terms of their market activities. This relationship aligns with research on the impact nonmarket activities have on the legitimacy of a firm in terms of its market activities (e.g., Baron, 1995; Dorobantu et al., 2017; Mellahi et al., 2016; Sun et al., 2021).

II. Legitimation in terms of nonmarket activities

Hitherto undertheorised in existing accounts on legitimation processes is how a firm's performance of nonmarket activities can construct the firm's legitimacy on the basis of nonmarket activities. This legitimation process occurs simultaneous to the firm's legitimation in terms of market activities. Delivering public goods and services to achieve one end (obtaining legitimacy in terms of market activities) can generate expectations among societal actors that exist separately from the firm's market activities. These expectations regarding the firm's delivery of public goods and services are tethered to the social construction of the firm as a provider of public goods and services. The societal perception of a firm as a provider of public goods and services thus becomes an entity of legitimacy judgments in and of itself.

Societal actors thus socially construct the firm's legitimacy in terms of the firm's market *and* the firm's nonmarket activities.

Stakeholder issue salience. The likelihood and speed with which firms construct their legitimacy in terms of nonmarket activities is conditioned by the salience of stakeholders' issues with respect to a focal firm. This makes intuitive sense. Actors who urgently require a given good or service may speed up the legitimacy formation process and thus the legitimation process of an entity that can meet the need. Regarding firms' nonmarket environment, the greater stakeholders' needs for public goods and services are and the more urgently stakeholders require these needs to be met, the more likely and quickly firms become legitimate in terms of their nonmarket activities. Stakeholder issue salience is also important to set bounds on the model. In the absence of needs (or if they are not salient), firms cannot (or, less easily) construct legitimacy for their market activities through nonmarket activities.

III. Legitimation trap

In a subsequent phase, the model shows how firms confront pressures to maintain their legitimacy in terms of market *and* nonmarket activities. Once firms have overcome the original challenge to become legitimate in terms of their market activities, they continue being pressured by key stakeholders to maintain this legitimacy. In the case of controversial market activities that in and of themselves are difficult to win support for among certain stakeholder groups, firms can maintain this legitimacy via the delivery of public goods and services. At the same time, firms face societal pressures to keep meeting the societal expectations that underlie the firms' legitimation in terms of their nonmarket activities. Firms respond to this maintenance pressure by continuing to deliver public goods and services as well. However, providing public goods and services is expensive and negatively affects firms' economic performance. It is true that the costs firms incur in the pursuit of their

nonmarket strategy can be necessary to obtain and maintain legitimacy in terms of firms' market activities, and hence a necessary condition for a firm to operate. However, how much firms expend to meet this necessary condition depends on the expectations that underlie firms' legitimation in terms of nonmarket activities. When societal actors expect public goods and services from a firm and this firm conforms to these expectations, firm performance declines compared to firms that did not have to conform to the same set of societal expectations. As long as firms remain in the legitimation trap, they have to spend more scarce resources on activities that solely enable the construction and maintenance of legitimacy. In other words, firms are increasing the requirements to achieve the same level of societal acceptance. These interrelated legitimation processes complicate firms' efforts at instrumentally using nonmarket strategy to obtain and maintain legitimacy (see, for example, McWilliams & Siegel, 2001).

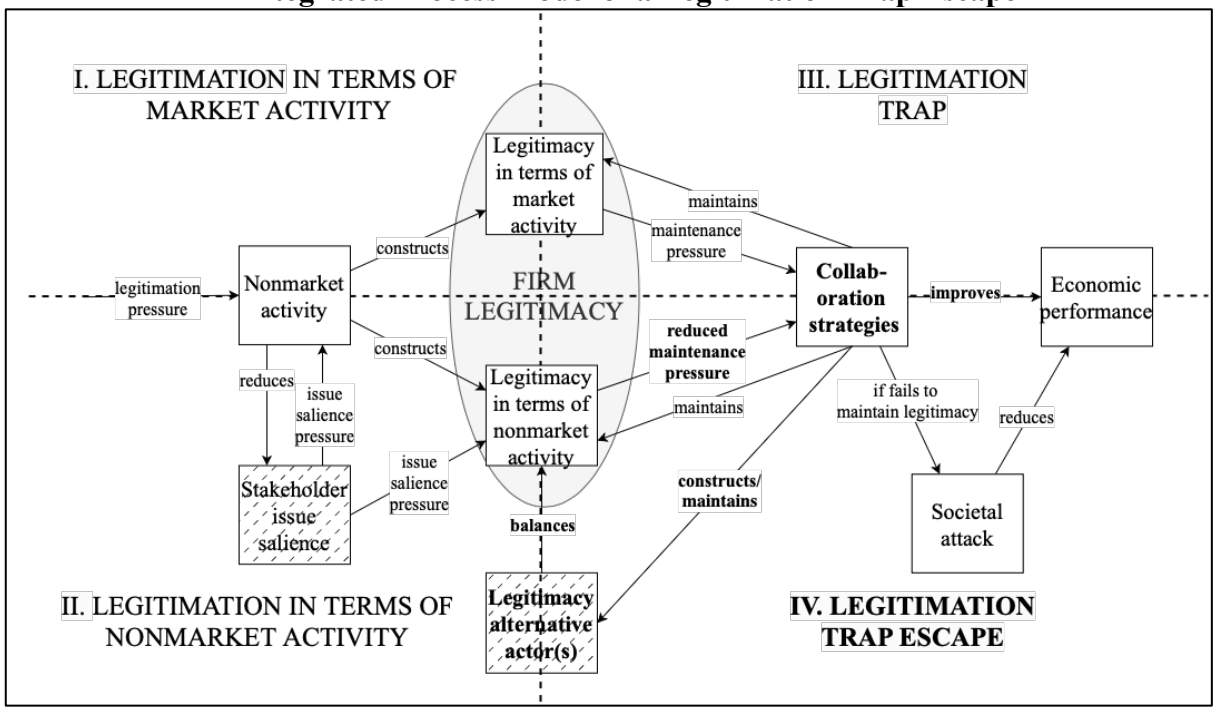
The model moreover shows an alternative pathway that occurs when firms are unable or unwilling to conform to the societal expectations that underlie firms' legitimation in terms of nonmarket activities. These firms risk prompting societal attacks. Such attacks can manifest in a range of ways, including peaceful protests, violent conflicts, letter writing campaigns, or verbal conversations. They are the result of the societally perceived incongruence between the expectations the firm's legitimation in terms of nonmarket activities generates and the perceived conformity to these expectations. Importantly, when societal actors have very high expectations regarding the firm's nonmarket activities, violating these expectations does not necessarily lead these actors to trigger delegitimation processes, fuelling attacks. Rather, deviations between societal expectations and firms' rates of conformity compel highly expectant societal actors to attack a firm in order to maintain the *status quo ante* (before the firm was seen to fail meeting societal expectations) and realign the firm's rate of conformity with the expectations that underlie the firm's legitimacy in terms

of nonmarket activities. This relationship between high levels of legitimacy and societal attacks is therefore different from research on so-called "legitimacy jolts", i.e., sudden ruptures in a firm's legitimacy due to a firm's failure to conform to societal expectations (e.g., Greenwood, Suddaby & Hinings, 2002; Meyer, Brooks & Goes, 1990; Tost, 2011). According to this literature, legitimacy jolts cause societal actors to re-evaluate a firm's legitimacy after a firm violates societal expectations. An ensuing delegitimation process should therefore explain societal attacks. The model therefore shows how societal attacks on a firm can be the outcome of high levels of legitimacy, and not necessarily the outcome of the societal re-evaluation of a firm's legitimacy that prompts societal actors to challenge the firm's existence or its market activities, as research on the consequences of illegitimacy suggests (e.g., Baum & McGahan, 2013; Elsbach & Sutton, 1992; Siraz et al., 2023). Alternatively, this research has also argued that high levels of legitimacy can protect firms from attacks following violations of expectations (Meyer & Rowan, 1977; Meyer & Scott, 1983; Tost, 2011). However, the model shows how firms can suffer from societal attacks because actors refuse to re-evaluate the firm's legitimacy but use a mechanism of attacks to realign the firm's conformity with societal expectations.

In the legitimation trap, firms therefore appear to face a choice: either they conform to societal expectations underlying firms' legitimation in terms of nonmarket activities and suffer from the costs of doing so, or firms refuse to conform to societal expectations and risk facing societal attacks which can also lower firm performance. The legitimation trap, initially brought about by the imperative to obtain and maintain legitimacy in terms of market activities, locks firms into a costly cycle of stakeholder engagement on the basis of the firm's legitimation in terms of nonmarket activities, growing underlying expectations, and the corresponding pressures to conform.

Delegitimation of the state. What the model also shows is how a process of a legitimation trap shapes and is, in turn, shaped by the institutional environment in which it unfolds. When it comes to the provision of public goods and services as part of a firm's nonmarket strategy, the main alternative actor in the firm's institutional environment is the state. This is because, around the world, states are usually responsible for the delivery of public goods and services to citizens (Mahoney et al., 2009; Scherer & Palazzo, 2011). Thus, when firms substitute for the state in providing public goods and services to citizens, and key stakeholders perceive firms to meet societal expectations more reliably, more effectively (which is not always the case, see, for example, Radić, Ravasi & Munir, 2021), and more generously than the state, and even becomes a widely accepted social norm or taken-for-granted, the legitimacy of the state in terms of providing public goods and services can erode. The model therefore shows how the legitimation of firms in terms of nonmarket activities is related to the legitimacy of the state as a provider of the goods and services that are covered by the firm's nonmarket strategy portfolio. Acemoglu, Cheema, Khwaja & Robinson (2020) observe a similar phenomenon with the concept of trust. The authors argue that the more societal actors engage with private providers of public services, the less they trust in the state providing the same services, even though the quality is equal. The legitimation of the firm in terms of nonmarket activities and the delegitimation process of the state in terms of providing public goods and services is recursive and mutually reinforcing. Repeated rounds of engagement with and conformity by the firm, and therefore nonengagement and nonconformity with the state, lead to lower expectations vis-à-vis the state, and in turn to higher expectations towards the firm. The relationality between the legitimation of the firm and the delegitimation of the state in terms of substitutable activities therefore increases the institutional pressure on the firm in the nonmarket environment.

FIGURE 6
An Integrated Process Model of a Legitimation Trap Escape



IV. Legitimation trap escape

An integrated model of a legitimation trap escape adds a fourth phase to the process of a legitimation trap. Once firms are locked into the legitimation trap, it is in their own economic interest to escape it. Intuition suggests that firms should simply stop conforming to societal expectations regarding the firm's nonmarket activities in order to halt the legitimation process and stop expectations from growing further. However, the intricate nature of the legitimation trap does not allow firms to deviate meaningfully from societal expectations, lest the firm risk being attacked. Firms therefore need to find a strategic response that manages to maintain the firms' legitimacy in terms of their market activities while at the same time reducing societal expectations that underlie the firms' legitimation in terms of their nonmarket activities.

The model shows how firms can escape the legitimation trap by strategically leveraging alternative actors in the firms' institutional environment that could replace the firms' nonmarket activities. When it comes to the provision of public goods and services as

part of a firm's nonmarket strategy, the model shows how firms can construct the legitimacy of the state in terms of providing public goods and services to escape the legitimation trap. In so doing, firms deflect societal expectations regarding the firm's nonmarket activities from the firms onto the state. Firms can contribute to the legitimation of the state by proactively collaborating with the state in the provision of public goods and services. While the inductive analyses yield two different nonmarket strategies of state legitimation—the partnership strategy and the linkage strategy—the outcomes of these two collaboration strategies are equifinal: they legitimate the state in terms of supplying public goods and services and thus allow firms to deflect societal expectations that previously underlay the firm's legitimation in terms of nonmarket activities onto the state.

The partnership strategy. The partnership strategy achieves this result through different forms of public-private partnerships (PPPs) and other modes of firm-state collaboration (like *Works for Taxes*), whereunder firms and the state assume an aliquot share of costs and responsibilities. Under the modalities that constitute the partnership strategy, firms act as *partners of* the state, rather than as legitimate agents in terms of implementing public goods and services *instead of* the state. The partnership strategy increases the legitimacy of the state through material and immaterial resource transfers. Material resource transfers range from supporting state actors administratively, lending professional expertise, or outright financing state agencies. In more extreme cases, material resource transfers take the form of firms providing public goods and services in the state's name. Immaterial resource transfers occur thanks to the state's association with the firm as a legitimate provider of public goods and services. In instances where firms are perceived to be less corrupt, more efficient, and more responsive compared to the state, the partnership strategy increases the legitimacy of the state by association with the firm.[13] Research on legitimacy spillovers has

[13] I will return to the limits to these partnerships and the boundary conditions in the concluding chapter seven.

shown how different entities can become more legitimate by associating with another legitimate entity (e.g., Kostova & Zaheer, 1999). Hence, under the partnership strategy, firms manage to maintain their legitimacy in terms of market activities by continuing to deliver public goods and services. At the same time, the partnership strategy helps firms construct the legitimacy of the state and so reduce societal expectations vis-à-vis the firm relative to the state.

The linkage strategy. By comparison, the linkage strategy achieves this outcome through a different mechanism. The process of the linkage strategy of state legitimation unfolds as follows. When societal actors make claims on a firm, the firm responds by pressuring the state into conforming to the expectations actors have of the firm. Leveraging the firm's political capital and knowledge of state bureaucracy as well as the firm's knowledge of societal expectations locally, the firm acts a broker between societal actors and the state. Brokers, or *tertius iungens* (the third who joins) are actors who link previously unconnected actors together and so foster a range of positive outcomes for involved parties (Obstfeld, 2005). Assuming the role of a *tertius iungens* means for firms to "introduce or facilitate interaction between parties while maintaining an essential coordinative role" (Obstfeld, 2005, p.104). Over time, the goal of the linkage strategy is to legitimate the state "such that the coordinative role of the *tertius iungens* subsequently recedes in importance" (p.104). Under the linkage strategy, the firm links societal and state actors and pressures state actors into conforming to societal expectations, thus holding perceived conformity with societal expectations constant and so managing to maintain the firm's legitimacy in terms of market activities. At the same time, the firm does not supply public goods and services but helps the state in doing so, thereby reducing societal expectations regarding the firm's delivery of nonmarket activities.

The result of the collaboration strategies is thus that firms face less pressure to maintain their legitimacy in terms of nonmarket activities as societal actors more likely expect the state to conform to their demands. Societal actors engage less often with the firm to request public goods and services while they engage more often with the state. Although administering, monitoring, and assuming other auxiliary costs associated with pursuing the collaboration strategies still weigh on the firm's bottom line, firms are forced to expend fewer resources on nonmarket activities that lower firm performance and are less at risk of falling victim to societal attacks. Hence, firms' performances are higher, compared to a scenario in which firms did not (successfully) pursue a collaboration strategy and remained locked into the legitimation trap.

ALTERNATIVE EXPLANATIONS AND CONTRIBUTIONS

Contribution to research on strategic legitimation

The integrated process model of a legitimation trap and legitimation trap escape differs from a range of alternative explanations. The first and most obvious alternative account for the legitimation trap are explanations from dominant theories of legitimacy and illegitimacy (Deephouse et al., 2017; Suchman, 1995; Suddaby et al., 2017). Existing research has argued that a firm's economic performance grows as it constructs and maintains its legitimacy (Cohen & Dean, 2005; Deeds et al., 2004; Lamin & Zaheer, 2012; Lounsbury & Glynn, 2001; Pollock & Rindova, 2003; Zuckerman, 1999). Thanks to this rich body of literature, we understand better how firms that fit into certain categories and exhibit specific characteristics (cognitive legitimacy) (e.g., Tost, 2011; Zuckerman, 1999); perform activities in ways that are perceived by focal actors to be beneficial (pragmatic legitimacy) (e.g., Cohen & Dean, 2005); and/or perform activities in ways that focal actors perceive as aligned with their social and legal norms (moral legitimacy) (e.g., Ruef & Scott, 1998; Taeuscher et al., 2022), increase the likelihood of stakeholder engagement that drives economic performance,

and reduces societal challenges and opposition (Meyer & Rowan, 1977; Meyer & Scott, 1983; Tost, 2011). At the other end of the spectrum, scholars have argued that illegitimacy harms firm performance (Baum & McGahan, 2013; Deephouse et al., 2017; Elsbach & Sutton, 1992; Zuckerman, 1999). Firm performance suffers as a result of illegitimacy judgments because societal actors refuse to engage with a focal firm (e.g., Zhao et al., 2013; Zuckerman, 1999) or outright oppose and attack the firm due to its illegitimacy (e.g., Siraz et al., 2023; Weber et al., 2009).

A theory of a legitimation trap predicts that firms caught in the legitimation trap suffer from lower firm performance than those who are not in a legitimation trap. According to dominant theories of legitimacy, a firm's illegitimacy should explain this relatively lower firm performance. However, the process model of a legitimation trap challenges this narrow view of the relationship between growing legitimacy and improved economic performance, and suggests that different legitimation processes will have different outcomes, not all of which are beneficial to the organisation. In increasingly common circumstances, firms construct legitimacy in terms of nonmarket activities vis-à-vis salient stakeholders that may ultimately undermine firm performance. The construction of a firm's legitimacy based on nonmarket activities is particularly pronounced in circumstances where firms attempt to construct legitimacy for their controversial market activities. Indeed, what has hitherto been overlooked by existing research is that an often unintended by-product of a firm's legitimation in terms of market activities through the performance of nonmarket activities are societal expectations that underlie the firm's legitimation in terms of nonmarket activities. When societal actors expect firms to conform to expectations regarding nonmarket activities, firm performance declines compared to firms that did not have to conform to the same set of societal expectations. Firms locked into the legitimation trap have to spend more resources on activities that solely enable the construction and maintenance of legitimacy and thereby

increasing the requirements—and thus the costs—to achieve the same level of societal acceptance. In a world where firms increasingly provide public goods and services instead of states (Mahoney et al., 2009; Marquis et al., 2015; Scherer & Palazzo, 2011; Scherer et al., 2013), it may therefore no longer suffice looking at a firm's legitimation in terms of market activities in isolation to evaluate firm economic performance.

Importantly, I do not question that undergoing legitimation processes in terms of either market or nonmarket activities can be essential for organisations to grow and perform, and in many ways the *conditio sine qua non* for a firm to survive. However, my dissertation suggests that the expectations underlying firms' legitimation in terms of performing certain activities other than their market activities can become too high for their own economic fortunes. By showing the limits to a purely market-driven view to how legitimation processes influence firm performance and by focusing on the many different roles firms play in society, a process model of a legitimation trap has implications for the way we study strategic legitimation. A large body of literature has looked at how firms can best obtain, maintain, and defend their legitimacy in the pursuit of economic performance (e.g., Castelló, Etter & Årup Nielsen, 2016; Oliver, 1991; Suchman, 1995; Vaara & Tienari, 2008). Siraz and colleagues (2023), for example, argue that firms should strive to attain the highest level of legitimacy in order to maximise their organisational potential. At lower levels of legitimacy, firms ought to strategically obtain and gain legitimacy. Accordingly, when firms enter new markets, begin performing hitherto unknown activities like employing new technologies, or perform potentially controversial activities like mergers and acquisitions or firm relocations, firms should seek to strategically construct their legitimacy in terms of performing these activities (Garud, Schildt & Lant, 2014; Golant & Sillince, 2007; Lefsrud & Meyer, 2012; Lounsbury & Glynn, 2001; Navis & Glynn, 2010; 2011; Suddaby & Greenwood, 2005; Vaara, 2014; Vaara & Tienari, 2008). Already legitimate firms, on the other hand, should employ

strategies to maintain and defend their legitimacy (Elsbach, 1994; Oliver, 1991; Siraz et al., 2023; Suchman 1995). The ultimate goal is to obtain moral and cognitive legitimacy, such that focal actors no longer question a firm's "aggravating factors" (Siraz et al., 2023, p.933), forgive occasional shortcomings and wrongdoings, and take the firm, in terms of its activities, for granted (Meyer & Rowan, 1977; Meyer & Scott, 1983; Siraz et al., 2023; Tost, 2011).

However, by expanding a narrow view on legitimation processes that has mostly focused attention on the strategic legitimation of firms in terms of their market activities, without regard to the varied roles firms play in society, a theoretical model of a legitimation trap suggests that it may be advantageous for the pursuit of firm performance to avoid gaining high levels of legitimacy in terms of certain activities. According to the model of a legitimation trap, but in sharp contrast to existing theories of strategic legitimation, it may be preferable for firms to avoid obtaining cognitive legitimacy in terms of nonmarket activities. The derivative strategies for firms that perform market as well as nonmarket activities in their relationships with societal actors are to obtain and maintain legitimacy in terms of market activities while at the same time managing and keeping in check the expectations that underlie a firm's legitimation in terms of nonmarket activities. In an ideal type legitimation process, a firm would therefore obtain and maintain high levels of cognitive (and pragmatic and moral) legitimacy in terms of market activities, and be minimally legitimate in terms of delivering public goods and services. Siraz and co-authors (2023) argue that before a firm becomes *legitimate* vis-à-vis focal stakeholders, they are *conditionally legitimate*. In the authors' words, conditional legitimacy is "[t]he state in which evaluators, in principle, deem an SL [a subject of legitimacy] legitimate, but do so in the explicit presence of one or more constraining factors (conditions)" (p.391, parentheses in original, square brackets mine). Conditional legitimacy judgments arise regularly when different dimensions of legitimacy conflict with one another (Siraz et al., 2023). A model of a legitimation trap suggests that

firms could therefore aspire to become pragmatically legitimate in terms of nonmarket activities in order to obtain and maintain legitimacy in terms of market activities but contain societal expectations regarding nonmarket activities to remain conditionally legitimate on moral and cognitive grounds for assuming roles that do not contribute to improving firm performance. The main contribution of the present work is therefore to generate a theory of interrelated legitimation processes that challenges how we understand that strategic legitimation influences firm performance. The challenge for firms then becomes how to navigate the complexities of legitimation processes in terms of different activities that may, to varying degrees, be interrelated.

Importantly, I am not the first one to suggest that positive social evaluations can, under certain circumstances, be detrimental for a firm's performance (Dewan & Jensen, 2020; Jensen & Kim, 2015; McDonnell & King, 2018), and that there can be 'too much of a good thing' (Pierce & Aguinis, 2013) in organisational research. According to this line of research, positive social evaluations can become a liability if stakeholders seek specifically to harm higher status entities because targeting more prestigious actors sends a stronger signal to others (Bartley & Child, 2014; King, 2008; King & Soule, 2007); punish more prestigious entities out of envy or *Schadenfreude* (Dewan & Jensen, 2020, p.1655); penalise more reputable firms for spending resources inefficiently (DesJardine et al., 2021) or complacency (Bothner et al., 2012; Wade et al., 2006); discipline higher status entities in the event of organisational wrongdoings more severely than lower status peers (McDonnell & King, 2018); and chastise firms for obtaining too many certifications that disclose redundant information (Lanahan & Armanios, 2018; Lanahan et al., 2022).

What these theories on status, reputation, celebrity, and certifications as a liability, have in common is that they predominantly focus attention on *negative occurrences* associated with a positively evaluated firm. My theory of a legitimation trap differs from

these accounts by elucidating one pathway where stakeholder engagement with a firm can reduce firm performance following *positive occurrences* with a positively evaluated firm. Firms that are highly legitimate in terms of their nonmarket activities raise the bar for the activities they need to perform to maintain their legitimacy, suffering the economic consequences thereof. In contrast to existing theories, stakeholders expect from and engage with a focal firm that is caught in the legitimation trap because it has—in the eyes of the focal stakeholder—done everything right, without indication of punishment, scandal, organisational misconduct, envy, *Schadenfreude*, lack of novel information, or declining managerial enthusiasm. Instead, the negative impact on performance is an outcome of desirability, admiration, respect, gratitude, and familiarity; legitimacy without negative occurrences. Where a theory of a legitimation trap aligns with existing accounts indicating that there can be 'too much of a good thing' (Pierce & Aguinis, 2013) is the second pathway of the legitimation trap: firms whose legitimacy grows in terms of nonmarket activities are more vulnerable to societal attacks than firms whose legitimacy does not grow (as much).

Focusing specifically on the interrelation of firms' legitimation in terms of market and nonmarket activities also helps differentiate my theoretical contribution from another alternative account that could explain a decline in firm performance following a firm's assumption (and legitimation in terms) of several, even unrelated, activities. This potential alternative account can be found in the literature on hybridity and category spanning (e.g., Battilana et al., 2017; Smith & Besharov, 2019; Wry et al., 2014). Firms, with the exception of certain nonprofit firms or social enterprises (e.g., George et al., 2024; Lazzarini, 2020), that either proactively or reactively perform nonmarket activities are perceived by societal actors as spanning their activities across categories: their market and their nonmarket activities. According to theories on hybridity and category spanning, a firm that is perceived to perform two (or more) salient but cognitively different activities can struggle to become

categorised as one or the other, and perform less well than their more "focused" competitors (Durand, Rao & Monin, 2007; Hsu & Hannan, 2005; Negro & Leung, 2013). Zuckerman (1999) calls this the "categorical imperative". Hybrid firms can also fail to allocate scarce resources in such ways that maximise economic performance in alignment with the firm's capabilities (Negro & Leung, 2013), often due to internal and external conflicts (Smith & Besharov, 2019).

Although an increasing number of scholars have pointed to instances where hybrid firms perform better than their less hybrid competitors (e.g., Battilana & Dorado, 2010; Paolella & Durand, 2016; Wry et al., 2014; Wry, Lounsbury & Glynn, 2011), I wholly agree that firms' category spanning between their core market activities and peripheral nonmarket activities can divert scarce firm resources and capabilities and thus reduce performance. However, the evidence I collected does not support this alternative thesis for two reasons. First, the reason why hybridity is argued to harm category spanning organisations is that key stakeholders fail to categorise the firm as one or the other, thus reducing the likelihood of engagement (Zuckerman, 1999). What the present research has shown is that the opposite is true for firms that straddle market and nonmarket categories. Societal actors very well categorise the firm in terms of its market and especially—and increasingly over time—in terms of its nonmarket activities. However, firms in the legitimation trap face increased stakeholder engagement, rather than less, as existing research suggests, in an environment (the nonmarket category) that does not benefit firms, but instead reduces their performance.

The second reason is owed to the dyadic construction of legitimacy and according to whom a focal entity is judged as legitimate or not, and based on what criteria. The interrelated legitimation processes that unfold in the process of a legitimation trap is bound to the firm-societal actor dyad. As Baba, Sasaki and Vaara (2021) have shown, dyadic legitimation processes can be inherently deliberative and dynamic processes that unfold

between two focal entities. Firms in the legitimation trap are in the legitimation trap because focal societal actors have awarded the focal firms the legitimacy in terms of nonmarket activities. So, while existing research has suggested that spanning categories may indeed be an issue for investors when firms dedicate resources to noncore activities (e.g., Zuckerman, 1999), wine critics when wine producers diversify into different sectors (e.g., Negro & Leung, 2013), or film critics when film producers do not meet expected standards (e.g., Zhao et al., 2013), the societal actors who make demands on firms for the provision of public goods and services, are the ones who construct firms' legitimacy in terms of these activities in the first place. Therefore, firms' continued performance of market activities does not erode the firms' legitimacy in terms of nonmarket activities. Furthermore, firms' performance of nonmarket activities helps maintain and even increases the firms' legitimacy in terms of market activities. Therefore, given the interrelated legitimation processes of the firm in terms of market *and* nonmarket activities, as perceived by focal societal actors, it is implausible that a firm's economic performance shrinks on account of the firm's engagement in the market as well as the nonmarket environment and derivative cognitive costs to categorisation.

Finally, focusing attention on the socioeconomic conditions in which legitimacy judgment formation and legitimation processes unfold has implications for the way we study strategic legitimation in environments where firms perform several functions. Institutional research on legitimacy has emphasised how cultural and social institutions shape legitimation processes (DiMaggio & Powell, 1983; Meyer & Höllerer, 2010; Vaara, Tienari & Koveshnikov, 2021). Strategic research has mostly looked at firm characteristics and activities that are more likely to construct and maintain legitimacy (and thus more likely increases firm performance) (Cohen & Dean, 2005; Deeds et al., 2014; Lounsbury & Glynn, 2001; Zuckerman, 1999). Work on legitimacy formation processes in the social psychological tradition has looked at how individual or collective societal actors perceive certain firm

characteristics (Bitektine, 2011; Bitektine & Haack, 2015; Haack et al., 2021; Tost, 2011). Accordingly, we know a lot about how perceived firm characteristics in a given *sociocultural* environment shape legitimation processes.

However, what we know much less about is how societal actors' legitimation formation processes are influenced by these actors' *socioeconomic* environment. This oversight can largely be attributed to the fact that the majority of work on legitimacy has been conducted with investors or customers as the focal audiences in mind; a group assumed to be isolated from socioeconomic hardship, let alone extreme poverty or starvation. This makes sense, as existing research has by and large focused on the legitimacy and legitimation of firms' market activities. Even research on corporate social action that has emphasised how the nature and extent of firms' social programmes are influenced by local community isomorphism has not focused on how a community's context influences societal actors to engage with firms (Marquis & Battilana, 2009; Marquis et al., 2007).

However, by expanding the view of firms in terms beyond their core market activities and conceptualising firms as bundles of market and nonmarket activities, the process model of a legitimation trap shows that societal actors are also meaningfully influenced by their socioeconomic context in the way they form legitimacy judgments of a firm; including on the basis of the firm's nonmarket activities. Indeed, the model shows how the issue salience of a stakeholder—the urgency and the extent of a stakeholder's needs—can influence a firm's legitimation process. The higher the stakeholder's issue salience, the more likely (and more quickly) do legitimation processes unfold in terms of the activities that match the stakeholder's needs. Note here that this is not an argument that social and development programmes should always work more efficiently in less developed contexts. However, by focusing on legitimation processes, I show how an entity's legitimation processes can be facilitated by societal actors' socioeconomic environment.

Stakeholder theory has tried to grapple with the question under what circumstances and why firms respond to stakeholder demands. Dominant theories have argued that firms respond to stakeholders when the stakeholders themselves and their claims are powerful, legitimate, and urgent (Mitchell, Agle & Wood, 1997; see also, Laplume, Sonpar & Litz, 2008; Wood, Mitchell, Agle & Bryan, 2021), and when stakeholders and their demands resonate with the identity of the firm (Bundy, Shropshire & Buchholtz, 2013). Adding to this literature, Durand and colleagues (2019) argue that a firm's response to increasing normative pressures is conditioned by a firm's ability and willingness to respond to stakeholder demands.

However, before a firm can respond to claims stakeholders make on the firm, stakeholders must first make claims on the firm. The antecedent of societal pressures on firms is the stakeholder (group) that chooses to apply or causes other institutions to apply pressure on firms. My dissertation therefore combines threads of research on legitimacy theory and stakeholder theory by showing how a stakeholder's issue salience conditions the legitimation of a focal entity, and hence augments (or reduces) the likelihood of engagement. In the light of growing societal pressures on firms to conform to societal expectations in the nonmarket environment, it is important to better understand how a stakeholder's issue salience influences social evaluations of firms and hence the likelihood of engagement, rather than the other way around. I will return to this point in the section on future research in the concluding chapter seven, and discuss what research avenues this contribution opens.

Contribution to research on nonmarket strategy and private politics

Another potential alternative explanation for the processes underlying a legitimation trap comes from research on nonmarket strategy and social movement theory (King & Soule, 2007; Soule, 2009). Research on nonmarket strategy has suggested that firms can maximise their economic performance by strategically obtaining legitimacy in terms of their market

activities by performing nonmarket activities (Baron, 1995; 2001; Dorobantu et al., 2017; Mellahi et al., 2016; Sun et al., 2021). However, social movement scholarship focusing on dynamic models of private politics (Baron, 2001; 2003; King & McDonnell, 2015; McDonnell et al., 2015) has provided an important caveat to the benefits of the theorised returns to a firm's legitimation through nonmarket activities. This literature has argued that as firms perform nonmarket activities, they acquire a reputation for being 'soft targets'. They become soft targets when they 'give in' to nonmarket stakeholders' demands to perform nonmarket activities like providing public goods and services (King & McDonnell, 2013; McDonnell et al., 2015). In other words, the more societal actors perceive a focal firm to conform to societal expectations in the firm's nonmarket environment, the more likely societal actors target the focal firm to make their demands in the future, increasing stakeholder pressure on the firm (Baron, 2001; Baron & Diermeier, 2007; King & McDonnell, 2013; 2015).

However, where the account of a legitimation trap differs from dynamic models of private politics is in the firm's relations to other entities. While earlier work on social movements has largely focused on the state as the target of stakeholders (e.g., McAdam & Su, 2002; McAdam, Tarrow & Tilly, 2001; Tilly & Tarrow, 2015; for a review, see Van Dyke, Soule & Taylor, 2005), recent research has begun to focus on firms as the targets of activists (e.g., Baron, 2001; Eesley, Decelles & Lenox, 2016; Eesley & Lenox, 2006; King, 2008; King & Soule, 2007). This latter stream is the one that has compared the likelihood of one firm becoming targeted by activists against other firms. Accordingly, softer firms are more likely targeted than firms activists consider comparatively harder targets (e.g., Baron & Diermeier, 2007; Briscoe, Chin & Hambrick, 2014; McDonnell et al., 2015). However, what a theory of a legitimation trap contributes is that stakeholders compare a focal firm with the state as a provider of public goods and services. In light of the growing power and capital of

many firms relative to states (Kobrin, 2009; Mahoney et al., 2009; Marquis et al., 2015), societal actors principally perceive firms as softer targets relative to the state. The institutional weakness many states expose often render them harder targets than many firms. This is the opening for a firm's legitimation in terms of nonmarket activities: when societal actors expect firms to deliver public goods and services. As the firm's legitimation process in terms of nonmarket activities unfolds over time—continuously eroding the legitimacy of the state in terms of delivering public goods and services—and firms become cognitively legitimate in terms of their nonmarket activities, firms turn into softer targets relative to states, which turn into relatively harder targets.

In light of this undertheorised relationality between a firm's and the state's (de)legitimation processes, the derivative strategies for how firms can respond to these societal pressures and avoid being targeted by societal actors differ as well. If the reason why firms are continuously being targeted by societal actors is that they are seen as too soft, the intuitive nonmarket strategy for firms is to become hard(er) targets and to acquire a reputation of not giving in too easily or generously to stakeholder demands, so that societal actors perceive potential engagement with these firms as overly costly or fruitless. However, a process model of a legitimation trap shows how firms often cannot simply stop conforming to high societal expectations as a by-product of the firms' legitimation processes in terms of market and nonmarket activities. Thus, suddenly becoming a hard target and being perceived by focal stakeholders as refusing to uphold expected standards of nonmarket engagement, renders firms more vulnerable, rather than less vulnerable, to becoming the targets of stakeholders.

A process model of escaping the legitimation trap moreover shows how firms can meet this challenge. In contrast to existing theories, the model shows how a firm's strategy to construct and augment the legitimacy of the state, as an alternative actor to the firm, can

reduce expectations regarding the firm's *private* provision of public goods and services and increase societal expectations regarding the state's *public* provision of public goods and services. The partnership strategy and the linkage strategy are two representative examples of strategic firm-state collaboration that help firms legitimate the state in terms of providing public goods and services, and allow firms to deflect societal expectations from firms onto the state. Firms, instead of becoming hard targets themselves, only become harder relative to the state (because the state becomes softer), without deviating from the societal expectations that underlie firms' legitimation in terms of nonmarket activities.

Identifying the collaboration strategies between firms and the state in order to construct the legitimacy of the state as a provider of public goods and services has particularly important implications for the ways in which we study nonmarket strategy in institutionally complex environments, i.e., when formal institutions are unpredictable, weakly enforced, or outright hostile to firms and their activities (Acemoglu & Johnson, 2005; Delios & Henisz, 2003; Henisz & Delios, 2001; Marquis & Raynard, 2015). Because operating in institutionally complex environments can be costly (North, 1990; Williamson, 1975), the literature on nonmarket strategy has generated a plethora of strategies for firms that operate in such environments to improve their performance (Delios & Henisz, 2003; Dorobantu et al., 2017; Frynas, Mellahi & Pigman, 2006; Henisz & Zelner, 2005; Hillman & Hitt, 1999; Hillman & Keim, 1995; Hillman, Keim & Schuler, 2004). In an integrative review of nonmarket strategy through the lens of institutional economics, Dorobantu and colleagues (2017) gather that firms can *adapt* to, *add* to, or *transform* existing institutional environments in order to maximise performance (p.115). Accordingly, firms can adapt to institutional complexity by internalising transactions and/or forming alliances with actors in the firm's market environment (e.g., other firms or suppliers) or actors in the firm's nonmarket environment (e.g., political parties, interest groups, local communities, or state agencies).

Crucially, these partnerships with actors in the firm's nonmarket environment intend to access information, reduce the risk of expropriation, and increase the firm's legitimacy in terms of their market activities (pp.118-121). Additive nonmarket strategies envision creating alternative structures to existing formal institutions like industry associations, common industry standards, or market platforms (pp.121-123). Transformative approaches to nonmarket strategy intend to change existing institutions in ways that reduce the cost of a firm's transactions and operations. They include lobbying for favourable regulatory standards or campaign contributions to political parties inclined to support the firm (pp.123-124).

The collaboration strategies I identify in the process of a legitimation trap escape differ from existing approaches because they (aim to) *construct* the legitimacy of the state in order to maximise firm performance. It is important to note that attempts at legitimating the state are inherently bounded by the dyadic construction of legitimacy between a focal evaluator and a given legitimacy subject and a focal activity. A firm's collaboration strategy therefore constructs the legitimacy of the state in the eyes of a focal societal actor vis-à-vis the state in terms of a given activity. Only because the state becomes more legitimate in a given dyad, this does not automatically mean that the state becomes legitimate vis-à-vis a broader audience, like all citizens of a given region or country. However, it is conceivable that the more societal actors collectively consent to favourable legitimacy judgments of the state, the more can a firm also acquire legitimacy on a collective level beyond the focal societal actor (Haack et al., 2021).

The collaboration strategies are essentially manifestations of moving a weak institutional environment closer to its counterfactual; a strong institutional environment in which states usually provide a regulatory environment with predictable rules for firms' market activities, deliver to their citizens essential public goods and services, or, alternatively, outsource public goods and service provision to specialised private providers

like private schools or hospitals at affordable rates to citizens. Importantly, even in strong institutional environments, firms that perform inherently controversial market activities may have to construct legitimacy in terms of their market activities vis-à-vis salient stakeholders through nonmarket activities. The continued involvement of the firm in the modalities constituting a firm's collaboration strategy with the state can help in achieving that. The key difference with existing research is that under the collaboration strategies I identify, firms' strategic legitimation of the state renders firms less susceptible to the overburdening societal expectations that the pure private provision of public goods and services generates.

In the following, final, chapter seven, I present the limitations of my theoretical contributions, their boundary conditions, and how these limits generate interesting avenues for future research. I also shine light on some normative implications that arise from models of a legitimation trap and legitimation trap escape.

CHAPTER 7: CONCLUSION

This study departed from the observation that firms assume more variegated functions in society and that firms are under increasing societal pressures to deliver public goods and services (Durand et al., 2019; Mahoney et al., 2009). Connecting various literatures, existing research has helped us to better understand how a firm's growing legitimacy in terms of its 'core' market activities vis-à-vis salient stakeholders can improve firm performance (Cohen & Dean, 2005; Deeds et al., 2004; Lamin & Zaheer, 2012; Lounsbury & Glynn, 2001; Pollock & Rindova, 2003; Zuckerman, 1999). Prior research has also shown how firms can construct their legitimacy in terms of market activities to improve performance by performing nonmarket activities (Dorobantu et al., 2017; Dorobantu & Odziemkowska, 2017; Henisz & Delios, 2003; Henisz & Zelner, 2005; Henisz et al., 2014; Matten & Moon, 2020; Mellahi et al., 2016; Sun et al., 2021). However, what existing scholarship remained relatively silent on is on the role a firm's legitimation in terms of nonmarket activities can play in legitimating a firm's market activities, and how this interrelationship influences firm performance. Since firms become more active in their nonmarket environments to provide more and more public goods and services instead of states, I asked how different legitimation processes interact to influence firm performance and how firms can manage these complex legitimation processes.

To answer the questions, I drew on insights from three longitudinal comparative case studies in the Peruvian mining industry. I find that a by-product of a firm's attempts at constructing legitimacy in terms of market activities through nonmarket activities can be a firm's legitimation in terms of nonmarket activities. As a firm's legitimacy in terms of nonmarket activities, like providing public goods and services, grows, a firm confronts increased stakeholder pressure to conform to societal expectations regarding the firm's nonmarket activities. If firms fail to conform to these expectations, they risk becoming the

targets of societal attacks. Firms therefore appear to face a choice. Either, they conform to growing societal expectations and suffer from the economic consequences of supplying costly public goods and services, or they refuse to meet societal expectations and risk suffering the economic consequences of societal attacks. Firms are caught in a legitimation trap.

I also find how firms can escape the legitimation trap by deflecting societal expectations onto alternative actors. In the case of providing public goods and services as part of a firm's nonmarket strategy, firms can avoid mounting societal expectations and the risk of societal attacks by legitimating the state in terms of providing public goods and services. Different forms of collaboration with the state therefore help firms manage complex and interrelated legitimation processes in order to improve performance. In this chapter, I deliberate on the limitations of these findings and propose future areas for research. I close by placing a theory of a legitimation trap and legitimation trap escape into a broader context, taking some normative considerations into account.

LIMITATIONS AND FUTURE RESEARCH

The present work has strengths and weaknesses. One limitation is that the research draws on in-depth longitudinal case studies from a specific context: the Peruvian extractive industries. While this revealing context offered a range of benefits for the inductive generation of theory, the processes that unfold within are influenced by their institutional context. Especially in the research on organisational social evaluations to which the study of legitimacy judgments and legitimation processes belongs, it is important to acknowledge that specific institutional contexts set important boundary conditions for the generalisation of findings; which are that legitimation processes of firms in terms of market and nonmarket are interrelated and can undermine firm performance; and that firm strategies to legitimate the state can reduce societal pressures on firms and so improve firm performance.

Yet, a theory of a legitimation trap and legitimation trap escape nonetheless generates expectations for firms operating in a range of contexts. A theory of a legitimation trap and legitimation trap escape is unlikely to apply to firms operating in institutional environments that are entirely closed to the private provision of public goods and services, and where societal actors cannot reasonably engage with firms—through more formalised actions like activist resolutions or through less formal actions like protests—such as in state-led authoritarian economic systems. The theory I generate is also less likely to apply to firms operating in some advanced industrialised economies, where strongly developed state institutions render societal expectations about the private provision of public goods and services by extractive, apparel, or technology companies obsolete. This still leaves the majority of the world's countries, where state institutions are not closed and repressive or exceptionally well developed, in which the legitimation trap and the strategies to escape the legitimation trap apply in theory. Concerning future research, it would nonetheless be interesting to know how firms' interrelated legitimation processes unfold in different institutional contexts, taking not only formal institutional strength into account, but considering less formal and cultural institutions as well.

Further investigating the relationality between a firm's legitimation processes in terms of nonmarket activities and the state's legitimacy as a provider of public goods and services also holds potential for future research. We know from extant literature that legitimacy (as well as illegitimacy) can spill over from one entity to another (Dobrev, Ozdemir & Teo, 2006; Kostova & Zaheer, 1999; Kuilman & Li, 2009; Ruef, 2000). Kostova and Zaheer (1999), for example, show how the legitimacy or illegitimacy of one firm's subunit can influence the legitimacy of another subunit. These authors also show how the legitimacy or illegitimacy of a firm's headquarters can influence the perception of a firm's subunit, and vice versa. This is true even if the subunits and headquarters as distinct entities perform

different activities (Kostova & Zaheer, 1999). While the present work has focused on the different and increasingly diverse activities firms perform, it has not focused on the different and diverse functions states perform vis-à-vis societal actors. A process of a legitimation trap shows how a firm's legitimation processes in terms of providing public goods and services can erode the legitimacy of the state in performing the same activities. The question therefore arises how a firm's growing legitimacy in terms of providing public goods and services influences the legitimacy of the state in terms of other state activities. Does a firm's growing legitimacy as a provider of public goods and services diminish the state's legitimacy in terms of providing law and order, adjudicating crimes and injustices, protecting citizens from external threats, or taxation? Can a firm's growing legitimacy in terms of providing public goods and services undermine democratic principles of state governance in a given locality? These questions of legitimation-delegitimation spillover between firms and the state in terms of a range of activities could be answered, for example, by pairing the private provision of public goods and services with local election data, among other locality-specific information on political mobilisation.

A further limitation that poses an important boundary condition of the legitimation trap escape through firm-state collaboration is the ability and willingness of the state to be involved in the delivery of public goods and services. As discussed previously, a theory of a legitimation trap and legitimation trap escape is likely to apply to contexts where the state institutions in charge of public goods and service delivery are neither exceptionally well developed nor completely absent or captured (Acemoglu & Johnson, 2005). But even in the broad range of country contexts in which the theory should apply, there are specific—and often localised—contexts in which the collaboration strategies are unlikely to result in the predicted outcomes of a model of legitimation trap escape. For example, in extremely divided societies in countries or regions where state actors willingly exclude certain populations from

accessing public goods and services, for a range of ethnic, religious, or political reasons, it will be difficult for firms to collaborate with the state. There are also circumstances in which firms may be unwilling to collaborate with the state. For example, working with stigmatised actors can tarnish involved firms and harm their reputation vis-à-vis important stakeholders such as international customers and shareholders (Goffman, 1963; Kulik, Bainbridge & Cregan, 2008; Pontikes, Negro & Rao, 2010; Tracey & Phillips, 2016). In some authoritarian contexts, like military dictatorships, and in countries where state institutions are captured by violent or terrorist groups, it is less likely that firm-state collaborations are viable strategic responses to the legitimation trap. Collaborating with stigmatised states may also violate firms' own codes of conduct. Future research should consider these boundary conditions and explore whether and how collaboration strategies apply in such extreme circumstances. This would be particularly timely and relevant because the number of conflict-affected and authoritarian countries has been steadily growing in recent years (Gorokhovskaia & Grothe, 2024); from Russia's war of aggression in Ukraine, disappointed hopes after the Arab Spring in several countries including Libya and Egypt, wars in the Middle East including Yemen and the Palestinian Territories, the return of the Taliban in Afghanistan, the relapse to military dictatorship and conflict in Myanmar, a chain of *coups d'état* in the greater Sahel Region, including Burkina Faso, Mali, Gabon, Guinea, and Niger, ongoing strife in Sudan and more generally the Horn of Africa, democratic backsliding in advanced industrialised economies like the United States, Poland, and Hungary, state failure in Haiti, and the return of full-blown authoritarianism in the Americas, including El Salvador and Venezuela, among many other crises.

In this darkening light, future research could therefore look beyond the state as an alternative actor in a firm's collaboration strategies; in extreme and less extreme contexts (see, for example, Cammett & MacLean, 2014). The collaboration strategies I identify

specifically attempt to legitimate the state in terms of providing public goods and services as an alternative actor in the firm's institutional environment. This is a consequence of the overlap between the majority of a firm's nonmarket activities and a set of responsibilities usually attributed by societal actors to states, even in weak institutional environments. However, there can be many different actors that (potentially) provide societal actors with public goods and services. Even in the strongest institutional environments, there are profit-oriented and nonprofit-oriented organisations that step in for states, such as food banks that cater to the hungry, homeless shelters that house people without homes, and disaster relief agencies that help people through natural and humanitarian crises. There are also more encompassing national and international nongovernment organisations, international organisations such as the United Nations, as well as religious groups or political parties that provide people with a range of public goods and services (Cammett, 2014; Cammett & MacLean, 2014).

There is nothing in the process model of a legitimation trap escape that excludes these organisations from the collaboration strategies firms can employ to deflect societal expectations to improve firm performance. Future research should therefore look into the possibility of such polycentric governance arrangements, where the provision of public goods and services is shared among a range of state and nonstate actors, including firms and nongovernmental organisations, and even collaborations among different firms (Gatignon & Capron, 2023; Ostrom, 1999; 2010). A challenge for such polycentric governance arrangements that do not actively involve the state is the potential erosion of state legitimacy by the legitimation of private actors, which is a key finding of the legitimation trap unfolding in its institutional environment. Future research should thus take seriously the relationality of (de)legitimation processes between firms (and other actors) and the state, when firms (and other actors) assume functions of the state.

Another avenue for future research emerges from the finding that the socioeconomic environment conditions legitimacy judgment and associated organisational legitimation processes. This relationship between legitimacy and stakeholder theory opens a range of questions about—and possibilities for—the way we study legitimation processes. How deeply are legitimation processes conditional on a focal societal actor's socioeconomic environment, its needs and wants? Existing research has already helped us better understand how legitimation processes unfold in a range of stigmatised industries (Durand & Vergne, 2015), including the pay-day loan (Budd, Kelsey, Mueller & Whittle, 2019) or gambling industries (Humphreys & Latour, 2013), illegal and informal markets (Webb, Tihanyi, Ireland & Sirmon, 2009), and vis-à-vis certain controversial organisations, like the Sicilian mafia (Cappelaro, Compagni & Vaara, 2021). Nevertheless, better understanding how legitimation processes are specifically conditioned by stakeholders' issue salience would improve our understanding of the socioeconomic conditions that compel societal actors to legitimate and hence engage with such entities. In so doing, we could better understand broader societal grand challenges like human trafficking, people smuggling, modern slavery, or doing business in authoritarian contexts (Adler et al., 2023) or with authoritarian regimes, asking how socioeconomic variables condition legitimation processes of contested entities.

Another limitation arises from societal inequalities. Although no community is a unitary actor, the communities this study drew from were relatively homogenous in their general interests and thus demands vis-à-vis firms and the state. While this relative homogeneity helped analyse how different firm legitimation processes unfolded differently, it would be theoretically interesting and practically relevant to see how the private provision of public goods and services unfolds in more heterogeneous social environments. For example, Amengual (2024) finds that the private provision of public goods and services can exacerbate societal frictions within communities and enhance the likelihood of firm-community disputes.

Ganson and colleagues (2022) find that private investments more generally can spur violent conflict between social groups (see also, Jamison, Ganson, Henisz & Bettles, 2024). Future research should therefore more closely look at how different types of public goods and services provision align with complex community compositions, and how firms and states can leverage different collaborative strategies in different social environments.

Finally, this research was an exercise in inductive theory building. By drawing on in-depth qualitative case study research, I generated a process theory of a legitimation trap and legitimation trap escape. It is beyond the scope of the present work to test the theorised process. It is up to future researchers to test the theory of a legitimation trap and legitimation trap escape by employing diverse research designs. Responding to calls to advance legitimacy research with experimental and quantitative research methods (Haack et al., 2021; see, for example Alexiuo & Wiggins, 2019; Humphreys & Latour, 2013), future research could draw on surveys to test how a firm's growing legitimacy in terms of nonmarket activities and its interrelationship with a firm's legitimation in terms of market activities influences firm performance, among other organisational outcomes. Such research designs could match longitudinal data such as patterns of private, public-private, and public infrastructure investment over time with survey responses about societal perceptions of and expectations from a focal firm at various points during periods of interest. Following traditional research in nonmarket strategy and research on social movements, future research could draw on protest count events to see how a firm's legitimation in terms of a range of activities influences the likelihood of societal attacks (King & Nelson, 2023; see, for example, Henisz et al., 2014).

BROADENING THE CONTEXT

Keeping these limitations and future research directions in mind, my study has implications that contribute to broader debates that extend well beyond strategic legitimation and nonmarket strategy research.

Firms and states, states and citizens, citizens and firms. A process model of a legitimation trap contributes to the growing literature on firm involvement in solving societal grand challenges (Amis et al., 2018; Ballesteros et al., 2017; Ferraro et al., 2015; George et al., 2016; 2024; Howard-Grenville et al., 2014; Mair et al., 2016; Reinecke & Ansari, 2016; Rodell et al., 2017), and the normative expectations that firms substitute for states (Crane & Matten, 2005; Durand et al., 2019; Matten & Moon, 2020; Palazzo & Scherer, 2006; Scherer & Palazzo, 2011; Scherer et al., 2013). This study departed from the observation that firms become increasingly involved in society and that an ever-greater variety of firm stakeholders expect private companies, *inter alia*, to respond to humanitarian or natural disasters (Ballesteros et al., 2017; Ferraro et al., 2015; Luo, Zhang & Marquis, 2016; Reinecke & Ansari, 2016; Williams & Shepherd, 2016), eradicate poverty (Battilana & Dorado, 2010; Rodell et al., 2017), or fight climate change (Adler et al., 2024; Ansari et al., 2013; Bansal et al., 2024; Davis & DeWitt, 2024; Howard-Grenville et al., 2014).

The argument for firms to get involved in solving societal grand challenges is based on three pillars. The first pillar is that in many institutional environments—which are prevalent, but not exclusive to, many developing countries—the private provision of public goods and services can leave societal actors better off, compared with a scenario in which the state delivers a given public good or service. For example, Ballesteros and colleagues (2017) find that in the aftermath of natural disasters, corporate involvement in disaster aid greatly increased the speed and quality of the response and helped countries recover faster. The second pillar comes from scholarship arguing that firms' involvement in tackling societal

grand challenges rewards firms with legitimacy vis-à-vis important institutional actors, and, in turn, helps firms win regulatory approval, increasing investor appeal, and buying goodwill from society (Mahoney et al., 2009; Matten & Moon, 2020). Even though some research on the relationship between corporate social responsibility (CSR) and economic performance has yielded inconclusive results (e.g., McWilliams & Siegel, 2000; 2001), the majority of studies suggest a positive, rather than neutral or negative relationship when firms cater to their stakeholders' needs (e.g., Awaysheh, Heron, Perry & Wilson, 2020; Porter & Kramer, 2011; Waddock & Graves, 1997; for a review, see Mellahi et al., 2016). The third pillar is rooted in normative arguments about the role firms *should* play in society. Regardless of how the private provision of public goods and services influences firm performance, scholars have argued that firms addressing urgent societal grand challenges is generally the *right thing to do* (Crane & Matten, 2005; Matten & Moon, 2020; Scherer & Palazzo, 2011; Scherer et al., 2013).

However, what the model of a legitimation trap exposes is that the first two pillars of increasing firm performance and improving societal wellbeing are fundamentally shaky. For, the pure private provision of public goods and services, even if it is in a firm's best intentions, can erode the legitimacy of the state, leaving firm and societal actors worse off than before. Instead of improving societal wellbeing, and creating "shared value" (Porter & Kramer, 2011) among societal actors and firms, the pure private provision of public goods and services can trigger a delegitimation process of the state as a provider of public goods and services. Similarly, in the case of already low levels of state legitimacy in terms of providing public goods and services, the legitimation of firms in terms of their overlapping nonmarket activities can hinder the state from obtaining legitimacy. Consequently, the increased pressure to conform to growing societal expectations as well as the risk of suffering societal attacks, as by-products of the firm's legitimation and the state's delegitimation, can

harm firm performance. Moreover, the decline of state legitimacy can increase societal actors' dependence on private actors and expose them to future risks when the private provision of public goods and services by a focal firm ends. As a result, neither societal actors nor firms are better off than before the pure private provision of public goods and services.

Importantly, however, I do not disagree with the normative pillar of the argument that claims that firms *should* get involved in solving societal grand challenges and helping people in need. To the contrary, in light of the devastating impact climate change, wars, persistent poverty and inequality, and institutional failures across the world have on humans and societies, the moral imperative for firms to aid and assist humans in need has never been greater. Still, I challenge an unconstrained version of this view without explicitly theorising the state and involving it in practice by revealing a theoretical process that shows hoe there can be a limit to the benefits of and even decreasing returns to firms trying to do the right thing. These considerations bring to the fore the normative rationale for the collaboration strategies, which help firms to not only avoid eroding state legitimacy but also help construct the legitimacy of the state in terms of providing public goods and services.

This challenge opens a broader normative debate that surrounds the roles firms should play in society in general, and particularly what roles they should assume relative to states. Indeed, what roles should firms play in society? How far do societal actors in a variety of institutional contexts seek private sector involvement in the delivery of public goods and services? Is the responsibility of a firm to society narrowly to maximise profits while avoiding harm (Friedman, 1971), or are firms responsible for the improvement of society on an expansive range of metrics (e.g., Mayer, 2018; 2023), whether as their core market activity like social enterprises or as part of their portfolio of nonmarket activities? In a historical study of the *Aktiengesellschaft*, a corporation according to German and Austrian law,

Leixnering, Meyer and Doralt (2022) suggest that the purpose of the corporation has historically been to act on behalf and in the interest of the state, employees, shareholders *and the general public*. These authors claim that we should rethink the organisational form of the corporation and charge it again with purpose that serves society (Leixnering, Meyer & Doralt, 2022; for a review, see Besharov & Mitzinneck, 2023; George, Haas, McGahan, Schillebeeckx & Tracey, 2023). In line with this research, my study suggests that societal wellbeing can be improved if firms get involved in providing public goods and services (e.g., Ballesteros et al., 2017; Luo & Kaul, 2018) but cautions that firms should in so doing—as far as boundary conditions allow—collaborate with the states of the countries they operate in. Inasmuch as Leixnering and colleagues (2022) argue that talking about the responsibilities of individual corporations to have purpose can distract from actually achieving that purpose. Instead, the authors propose to focus attention on rethinking the organisational form of the corporation, when it comes to the roles firms play in society generally. Therefore, it may be due to rethink the best system of capitalism with shared responsibilities among public and private actors that works best for societal actors, rather than talking about the responsibilities of firms *or* states on their own (e.g., Lazzarini, 2021).

A central motivation behind writing this thesis was to better understand how the increasingly private provision of public goods and services influences the relationships between societal actors and firms, and societal actors and the state. I offer some answers about the dangers lurking behind complex legitimation processes, especially those that concern activities that states usually provide. I also put forward strategic interventions firms (and states) can pursue in order to balance legitimation processes in ways that can improve firm performance and reduce the onset of conflict. Nonetheless, there are broader questions to be answered about the appropriate ways to supply citizens across the world with essential public goods and services.

In this light, scholars have increasingly begun to look how private actors and states can collaborate in the provision of public goods and services (Luo & Kaul, 2018; Quélin, Cabral, Lazzarini & Kivleniece, 2019; Quélin, Kivleniece & Lazzarini, 2017). For example, Lazzarini (2020) studies how public-private partnerships (PPPs) compare to purely publicly provided public goods and services, and social enterprises in creating social value. George and colleagues (2024) employ a similar model to study the managerial challenges of PPPs relative to pure public and pure private arrangements to tackle societal grand challenges. Identifying different spectra and how different forms of public, public-private, and private provisions of public goods and services influence a range of organisational and societal outcomes has helped us better understand different types of public-private collaborations. However, in spite of these important advances into collaborative forms of delivering public goods and services to citizens, this body of work focuses on organisations—mostly social entrepreneurs—that deliver public goods and services *as their core market activities*. In light of the increasing roles all firms play in society—as parts of their market and nonmarket activities—more work should be dedicated to studying the legitimation processes these collaborations unfold, asking how societal actors perceive the legitimacy of different entities employing varying modalities over time.

Future research should therefore look at what the public think is the best combination of public and private governance arrangements in different institutional environments. Researchers could ask how much more efficiently a given public good or service has to be delivered in order for it to be legitimately placed in the hands of a private actor or provided by a combination of state and nonstate actors—assuming that, indeed, the private provision of public goods and services involves efficiency gains, which need not always be the case (Radić et al., 2021). Under this assumption, it is conceivable that societal actors will be ready to submit demands for improved education and healthcare into the hands of private providers.

However, it is less obvious whether societal actors are willing to outsource internal public safety (e.g., the police and prisons) or external security (e.g., the military), or even the judiciary into the hands of democratically unelected firms. Here again, institutional differences matter. While in many European contexts private prisons would be unimaginable alternatives to publicly owned and run prisons, in the United States private prisons are more common. At the same time, even in Europe, many private security firms assume increasingly important public functions, for example at airports. In another institutional environment, Acemoglu and colleagues (2020) study private courts and dispute resolution systems in Pakistan that take place outside of the "formal judicial system" that "do not typically follow laws promulgated by the Pakistani state" (p.3092), and which often enjoy high levels of trust and legitimacy. In addition to the types of public goods and services societal actors are willing to outsource for a hypothesised efficiency gain, it would be interesting to see how the degree of private provision (ranging from PPPs to full private provision), the types of private providers (ranging from specialised providers like private schools or hospitals to nonspecialised firms like extractives or technology companies), the scope of private provision (ranging from one to all public goods and services in a given locality), and the concentration of private provision (ranging from one to several private actors assuming the provision of public goods and services), influences the legitimacy of private actors to assume certain public functions.

Societal grand challenges, global sustainable development, local sustainable development. Another central motivation for this thesis was to better understand how firms can contribute to solving societal grand challenges like meeting the United Nations Sustainable Development Goals and the 2015 Paris Climate Agreement to keep global temperatures below 1.5 degrees Celsius above preindustrial levels—without compromising local development. The extractive industries, including mining and fossil fuel companies,

represent—for better or worse—the bedrock of the world's energy systems that feed the global economy. In order to meet their climate goals, many states and firms have pledged to move away from 'dirty' fuels like coal, oil, and gas towards cleaner energy sources like solar, wind, and geothermal energy. In doing so, the world requires an increasing amount of mineral resources like copper, lithium, gold, zinc, tin, platinum, among other minerals. The mines at the heart of this dissertation produce these minerals; the minerals that we find in electric cars, solar panels, and wind turbines, but also in our phones and laptops.

Unfortunately, global and local sustainable development does not always align and can even be at odds with one another. The term 'sacrifice zones' has recently come to describe localities that suffer from the negative externalities of economic activity in one part of the world in order to create value for localities in other parts of the world (e.g., Lerner, 2012). It is often argued that mining areas are sacrifice zones. While the global energy transition requires the minerals located in specific localities to address the global challenge of reducing climate change, local environments and local populations often suffer the direct consequences of extractive activity. What are the moral, but also political and economic implications, that some people suffer from potential environmental and social disruption for some more abstract greater good like battling climate change; a changing climate that few people living in sacrifice zones have contributed to?

Importantly, not all mining areas are sacrifice zones and not all mining communities suffer from the consequences of extractive activity. In fact, communities can even greatly benefit from mining. However, this is not always the case and requires sustainable, inclusive, and well thought-through firm strategies; in the market and nonmarket environment alike. Therefore, what the present work has shown—among a great number of other research projects focusing on the challenges of sustainable extractive industries (e.g., Amengual, 2018; 2024; Arce, Hendricks & Polizzi, 2022; Avant, Finn & Olsen, 2023; Maher et al.,

2019; Steinberg, 2019)—is that mining operations take place in incredibly complex social environments. A territory's abundant mineral wealth has been related to a range of environmental, social, political, and economic dislocations, so much so that it has merited an own term: the resource curse (Ross, 1999; Sachs & Warner, 1995). Mining conflict is a major component of the resource curse and has historically had and continues to have detrimental impacts on humans, societies, firms, and states (Arce, 2014; Arellano-Yanguas, 2011; Gustafsson, 2018; Haslam & Tanimoune, 2016; Humphreys, 2005; Jaskoski, 2022). Mining conflict harms human life and health; tears entire societies apart (Amengual, 2024); hinders or halts whole mining projects which cost firms hundreds of millions of dollars every year (Davis & Franks, 2014; Franks et al., 2014). Mining conflict also directly erodes the revenue base of countries that often depend on resource extraction while indirectly harming these countries in the long run by poisoning the investment climate and keeping international investors at bay. The result is that the states in these countries have less money to invest in public goods and services for their citizens, especially in the territories where mining takes place.

Environments where societal actors live in the absence of public goods and services but in the presence of large mining operations, as this thesis has shown, provide fertile soil for firms to get locked into the legitimation trap. This social and institutional environment was the empirical point of departure for the cases I covered in this research. Firm managers and state officials should therefore take seriously the dangers of the legitimation trap—to themselves, to the societies that surround them, and to the integrity of the states they operate under; and above all, consider implementing the firm-state collaboration strategies that can help firms escape—and ideally avoid—the legitimation trap. As discussed at the beginning of this concluding chapter, the collaboration strategies that I derive inductively from the cases at the centre of this thesis should—to varying degrees—apply to a range of different contexts,

well beyond the extractive industries. Collaboration strategies should therefore play an important role in firms' and states' attempts at solving societal grand challenges, and contributing to global sustainable development without compromising, and even contributing to, local sustainable development.

APPENDIX 1

TABLE 3
List of Interviews

Interview (code)	Affiliation (anonymised)	Date	Length (min)
1	industry organisation, researcher	19 Aug 2021	67
2	state representative, director for private investment, Ministry of Economy and Finance (MEF)	31 Aug 2021	75
3	former state consultant, Ministry of Energy and Mines (MINEM)	2 Feb 2022	30
4	human rights and public sector specialist, industry organisation	3 Feb 2022	64
5	former firm manager (Mina Grande), superintendent social management	9 Feb 2022	62
6	civil society organisation, area manager (Costa region), Peruvian human rights ombudsperson	9 Feb 2022	58
7	firm manager (Mina Grande), sustainability and corporate manager	10 Feb 2022	65
8	former consultant, MINEM	10 Feb 2022	64
9	state representative, head of mining reform commission, MINEM	11 Feb 2022	61
10	former state representative, former vice minister, MINEM	12 Feb 2022	68
11	civil society organisation, deputy for the environment, public services and indigenous peoples, Peruvian human rights ombudsperson	16 Feb 2022	57
12	former state representative, former vice minister, MINEM	17 Feb 2022	84
13	industry expert, deputy director governmental affairs	18 Feb 2022	60
14	former firm manager (Mina Grande), sustainability manager	19 Feb 2022	57

15	civil society organisation, lawyer, fundamental rights and criminalisation of human rights defenders	23 Feb 2022	80
16	firm manager (Mina Plata), vice president, corporate development (Peruvian subsidiaries)	23 Feb 2022	71
17	former state representative, former minister, MINEM	24 Feb 2022	72
18	former firm manager (Mina Grande), sustainability manager	26 Feb 2022	75
19	state representative, former minister, Ministry of Development and Social Inclusion	1 Mar 2022	62
20	industry expert, communications and institutional relations manager	2 Mar 2022	57
21	civil society organisation, subdirector	3 Mar 2022	104
22	industry organisation, general manager	4 Mar 2022	47
23	former state representative, former vice minister, MINEM	10 Mar 2022	177
24	firm manager (Mina Gold), social responsibility and communications manager	11 Mar 2022	94
25	former firm consultant (Mina Grande)	14 Mar 2022	64
26	state representative, economic specialist, MINEM	15 Mar 2022	66
27	industry organisation, operations manager	16 Mar 2022	52
28	civil society organisation, deputy for the prevention of social conflict and governance, Peruvian human rights ombudsperson	17 Mar 2022	71
29	civil society organisation, area manager (River region), Peruvian human rights ombudsperson	18 Mar 2022	46
30	civil society organisation, lawyer, fundamental rights and criminalisation of human rights defenders	23 Mar 2022	63
31	industry expert, principal for socioeconomic development	24 Mar 2022	59

32	firm manager (Mina Antigua and Mina Nueva), global head of sustainability management	25 Mar 2022	74
33	industry expert, community relations manager	28 Mar 2022	82
34	civil society organisation, head of department (Montana and Luna region), Peruvian human rights ombudsperson	29 Mar 2022	61
35	firm manager (Mina Gold), community relations and corporate social responsibility specialist	1 Apr 2022	62
36	firm manager (Mina Gold), head of environmental affairs	1 Apr 2022	60
37	firm manager (Mina Gold), director for economic development	3 Apr 2022	59
38	firm manager (Mina Gold), social development specialist	3 Apr 2022	55
39	firm manager (Mina Gold), monitoring and evaluations specialist	3 Apr 2022	69
40	firm manager (Mina Gold), education specialist	3 Apr 2022	48
41	firm manager (Mina Gold), agricultural specialist	3 Apr 2022	43
42	firm manager (Mina Gold), healthcare specialist	4 Apr 2022	51
43	firm manager (Mina Gold), head of corporate social responsibility	4 Apr 2022	78
44	community leader (River region)	5 Apr 2022	15
45	community leader (River region)	5 Apr 2022	10
46	community leader (River region)	5 Apr 2022	15
47	community leader (River community)	5 Apr 2022	25
48	community leader (River community)	5 Apr 2022	20
49	firm manager (Mina Gold), community relations manager	5 Apr 2022	45
50	firm manager (Mina Gold), head of corporate social responsibility	5 Apr 2022	63
51	firm manager (Mina Gold), economic specialist	6 Apr 2022	99
52	state representative, governor (River region)	6 Apr 2022	40

53	firm manager (Mina Gold), communications specialist	6 Apr 2022	40
54	state representative, mayor (River region)	6 Apr 2022	30
55	firm manager (Mina Gold), head of corporate social responsibility	7 Apr 2022	90
56	firm manager (Mina Gold), community relations and corporate social responsibility specialist	11 Apr 2022	56
57	firm consultant (Mina Antigua and Mina Nueva)	21 Apr 2022	50
58	firm consultant (Mina Antigua and Mina Nueva)	22 Apr 2022	60
59	firm manager (Mina Gold), sustainability manager	28 Apr 2022	82
60	firm managers (Mina Plata), sustainability managers (4)	10 May 2022	95
61	civil society organisation, coordinator	11 May 2022	65
62	firm manager (Mina Plata), social project coordinator	12 May 2022	64
63	firm manager (Mina Antigua and Mina Nueva), global head of sustainability management	13 May 2022	125
64	firm manager (Mina Plata), social project coordinator	13 May 2022	66
65	firm manager (Mina Plata), social project coordinator	13 May 2022	53
66	community leader (president of *junta directiva* Luna community)	17 May 2022	60
67	community member (Luna community)	17 May 2022	30
68	community member (Luna community)	18 May 2022	65
69	community member (Luna community)	18 May 2022	40
70	community member (Luna community)	18 May 2022	40
71	community member (Luna community)	18 May 2022	45
72	firm manager (Mina Nueva), project coordinator	19 May 2022	40
73	community member (Luna community)	19 May 2022	30
74	community leader (secretary of *junta directiva* Luna community)	19 May 2022	30

75	community member (Luna region)	19 May 2022	15
76	community member (Montana community)	23 May 2022	45
77	firm managers (Mina Antigua), sustainability managers (4)	23 May 2022	80
78	community leader (Montana region)	24 May 2022	40
79	community leader (Montana region)	24 May 2022	40
80	community leader (governor Montana community)	24 May 2022	45
81	community leader (manager community enterprise Montana community)	24 May 2022	40
82	community member (Montana community)	24 May 2022	30
83	community member (Montana community)	24 May 2022	40
84	community member (Montana community)	25 May 2022	45
85	community member (Montana region)	25 May 2022	20
86	community member (Montana region)	25 May 2022	35
87	community member (Montana region)	25 May 2022	30
88	community leader (Montana region)	25 May 2022	75
89	community member (Montana region)	25 May 2022	45
90	community leader (president community enterprise River community)	30 May 2022	70
91	community members (2) (River community)	30 May 2022	45
92	community member (River community)	30 May 2022	30
93	community leaders (2) (River community)	30 May 2022	20
94	community leader (president for water and irrigation River community)	30 May 2022	40
95	community member (River community)	30 May 2022	20
96	community member (River community)	31 May 2022	40
97	community member (River community)	31 May 2022	30
98	community member (River community)	31 May 2022	20
99	community member (River community)	31 May 2022	30
100	community member (River community)	31 May 2022	30
101	community member (River community)	31 May 2022	20
102	community member (River community)	31 May 2022	20

103	community member (River community)	31 May 2022	20
104	community member (River community)	1 Jun 2022	30
105	community member (River community)	1 Jun 2022	40
106	community member (River community)	1 Jun 2022	30
107	community member (River community)	1 Jun 2022	20
108	community member (River community)	1 Jun 2022	40
109	community member (River community)	2 Jun 2022	20
110	state representative, superintendent (River region)	2 Jun 2022	20
111	firm manager (Mina Plata), community relations manager	6 Jun 2022	75
112	firm manager (Mina Plata), community relations manager	9 Jun 2022	67
113	firm manager (Mina Antigua), sustainability manager	9 Jun 2022	35
114	firm manager (Mina Antigua), sustainability manager	9 Jun 2022	40
115	firm manager (Mina Plata), community relations manager	13 Jun 2022	120
116	community leader (community secretary Silver community)	14 Jun 2022	45
117	community member (Silver community)	14 Jun 2022	35
118	community member (Silver community)	14 Jun 2022	40
119	community member (Silver community)	14 Jun 2022	30
120	community member (Silver region)	15 Jun 2022	40
121	community member (Silver region)	15 Jun 2022	40
122	community member (Silver region)	15 Jun 2022	35
123	firm manager (Mina Plata), project coordinator	16 Jun 2022	30
124	firm manager (Mina Plata), project coordinator	16 Jun 2022	45
125	community leader (community president Silver community)	17 Jun 2022	50
126	community leader (*fideicomiso* president Silver community)	17 Jun 2022	35

127	community leader (community enterprise president Silver community)	17 Jun 2022	30
128	community leader (alpaca farming president Silver community)	17 Jun 2022	45
129	community member (Silver community)	17 Jun 2022	40
130	community member (Silver community)	18 Jun 2022	30
131	community leader (wool production president Silver community)	18 Jun 2022	25
132	firm manager (Mina Plata), veterinary	18 Jun 2022	50
133	firm manager (Mina Plata), veterinary	18 Jun 2022	50
134	community leader (*Rondas Campesinas* president Silver community)	19 Jun 2022	60
135	community leader (school principal Silver community)	19 Jun 2022	70
136	community leader (head teacher Silver community)	19 Jun 2022	70
137	community member (Silver community)	19 Jun 2022	35
138	community member (Silver community)	19 Jun 2022	50
139	community member (Silver community)	19 Jun 2022	25
140	community member (Silver community)	19 Jun 2022	35
141	community leader (Silver community)	20 Jun 2022	60
142	former state representative, former mayor (Silver region)	20 Jun 2022	60
143	community leader (former *Rondas Campesinas* president Silver community)	20 Jun 2022	65
144	firm manager (Mina Grande), sustainability manager	23 Aug 2022	59
145	community leader (community communications specialist Agua community)	24 Aug 2022	61
146	community leader (youth leader Agua community)	25 Aug 2022	72
147	firm manager (Mina Grande), superintendent for Costa region	25 Aug 2022	60

148	firm manager (Mina Grande), superintendent for Costa region	25 Aug 2022	63
149	firm manager (Mina Nueva), superintendent for Luna region	26 Aug 2022	51
150	community member (Costa region)	26 Aug 2022	56
151	community leader (sector president Tierra community)	26 Aug 2022	73
152	community member (Agua community)	27 Aug 2022	66
153	firm manager (Mina Grande), communications specialist	27 Aug 2022	61
154	firm manager (Mina Antigua and Mina Nueva), sustainability manager	31 Aug 2022	43
155	former state representative (MEF), economic and development specialist	14 Sep 2022	74
156	state representative (manager municipality of Costa) and movement leader (Tierra community)	14 Sep 202	71
157	community leader (subprefect Agua community)	20 Sep 2022	75
158	community member (Tierra community)	20 Sep 2022	50
159	community member (Agua community)	20 Sep 2022	55
160	community member (Agua community)	20 Sep 2022	65
161	firm manager (Mina Grande), corporate social responsibility manager (Costa region)	20 Sep 2022	90
162	community member (Agua community)	20 Sep 2022	60
163	community member (Agua community)	20 Sep 2022	45
164	community member (Agua community)	20 Sep 2022	45
165	community member (Agua community)	21 Sep 2022	35
166	community member (Tierra community)	21 Sep 2022	45
167	community member (Tierra community)	21 Sep 2022	65
168	community member (Tierra community)	21 Sep 2022	65
169	community member (Agua community)	21 Sep 2022	35
170	community member (Agua community)	21 Sep 2022	65
171	firm manager (Mina Grande), head of corporate social responsibility management	22 Sep 2022	80

172	state representative, mayor (municipality of Costa)	22 Sep 2022	85
173	community member (Agua community)	22 Sep 2022	65
174	community member (Tierra community)	22 Sep 2022	40
175	community member (Agua community)	22 Sep 2022	35
176	community member (Tierra community)	22 Sep 2022	70
177	community leader (former president *junta directiva* Tierra community)	23 Sep 2022	80
178	community leader (secretary *junta directiva* Agua community)	28 Sep 2022	43
179	firm manager (Mina Grande), head of corporate social responsibility management	5 Oct 2022	86
180	firm manager (Mina Grande), corporate social responsibility manager and community relations specialist	6 Oct 2022	57
181	firm manager (Mina Grande), government relations manager	8 Oct 2022	74
182	state representative (manager municipality of Costa) and movement leader (Tierra community)	25 Feb 2023	81
183	firm manager (Mina Grande), corporate social responsibility manager and community relations specialist	25 Feb 2023	122
184	firm manager (Mina Grande), sustainability manager	25 Feb 2023	45
185	state representative, regional delegate (Costa region)	26 Feb 2023	69

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