

# CORPORATE DIPLOMACY ACTIONS IN THE EXTRACTIVE INDUSTRIES

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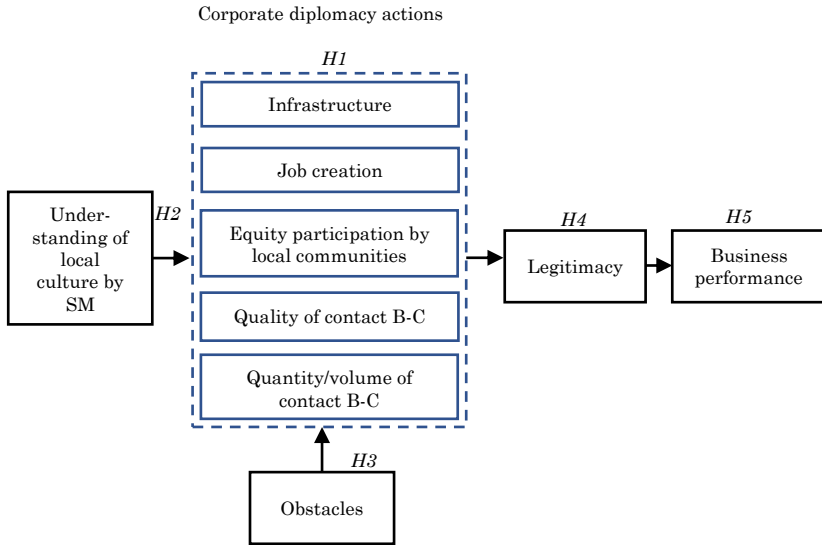
## Abstract

Based on empirical information from the Peruvian mining, hydrocarbons and electricity sectors, a model is proposed that empirically relates the influence of management actions on organizational variables that impact the financial and social performance of the firms in the extractive sector. On an organizational level, this study analyses the effects of corporate diplomacy actions (CDA) on legitimacy, as well as legitimacy on business performance.

From a corporate governance perspective, it also seems relevant to study the influence of organizational obstacles to implementing CDA.

The study empirically confirms the social and economic relationships between extractive companies, communities and stakeholders at large, and guides managers, politicians, and authorities to prevent conflicts and allow the performance of extractive industries to improve. It also contributes to closing the gap of empirical studies in less advanced countries.

It applies advanced analytical methodology like quantile regression, which proves to be significantly valuable in a study like this where the distribution of the variables is non-linear and the efforts exercised to gather data have been major.

**Figure 1.** Conceptual model

This study aims to validate empirically the influence of the managers on the organizational variables under their command that can condition the financial and social performance of the firms in the extractive sector. From an organizational perspective, this study analyses the effects of corporate diplomacy (CD) on legitimacy, as well as the impact of this latter variable on business performance. Also, the influence of organizational obstacles to the implementation of CD is discussed.

The scarcity of previous empirical studies that dwell on the relationships modeled in this study have led to selecting the use of two methodological levels and approaches to validate the hypothesis. At the exploratory level, the following techniques are applied: factor analysis, Pearson correlation, and Eta coefficient. At the causal level, two techniques are used: ordinary least squares in path models (PLS-SEM), and quantile regression (RC). This latter technique allows for a more exhaustive analysis of the relationship between the variables, as well as measuring their non-linear behaviours.

At an exploratory level, the hypothesis that predicted the relationships between the individual variables, the business ones, and the results of the business performance, are validated. Also, the conceptual identity of the CD is validated. However, when causal procedures of higher statistical precision are applied, the influence of only some of the indicators of the variables modeled is validated. Furthermore, it is found that the behavior of some of the variables is

non-linear, for example, the impact of the obstacles on the CDA, and the influence of the CD on legitimacy. The hypothesis that predicted the impact of legitimacy on business performance was validated from a causal perspective, as well as all indicators of this independent variable.

The principal shortcoming of this study is its capacity to be extrapolated to other contexts. The few studies that have analyzed some of the relationships integrated in this study's model have been undertaken in countries with different cultures. Hence, it would be necessary to replicate the study in countries where their economies would also be highly dependent on these industries. Thus, it could be determined whether the results are contingent on the characteristics of the country studied, or can be extended at large to the extractive industries.

The questionnaires used to operationalize the organizational variables also constitute a valuable source of information and management tool. Not only line management, but directors and governing bodies can refer to them to align and control strategic direction with day-to-day management.

**Table 1.** The dimensions of corporate diplomacy

<i>Dimensions</i>	<i>Authors</i>	<i>Activities</i>
Improvement of socio-economic infrastructure	Bures (2015), Ingenhoff and Marschlich (2019), Oetzel and Doh (2009), Westermann-Behaylo et al. (2015)	The firms can exert their diplomatic efforts to promote political decisions that could strengthen the infrastructure of the community, as well as support improving services like education, health, sustainability and safety.
Adequate job creation	Bures (2015), Ingenhoff and Marschlich (2019), Ordeix-Rigo and Duarte (2009), Ross-Larson (2011), Westermann-Behaylo et al. (2015)	Develop human resources practises that generate a positive impact on the surrounding audience presenting evidence that the company cares about generating stable and secure jobs.
Equity and leadership participation by the community	Bolewski (2007, 2018), Halevy et al. (2020), Henisz (2016, 2017), Kochhar and Molleda (2014), London (1999), Sarkhanian (2017), Trice et al. (1995)	Develop actions to make the diplomatic subject matters fairer to the indigenous groups.
Quality of contact between the company and the community	Besley (2010), Mirvis et al. (2014), Mogensen (2017), Ordeix-Rigo and Duarte (2009), Wang (2011)	Develop processes that truly value the participation of all stakeholders.
Quantity of contact between the company and the community	Egea et al. (2020), Pigman (2010), Sriramesh et al. (2019), Zaharna (2008)	Develop simplified processes of communication that allow for a good understanding by all stakeholders.

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