Mobility or Immobility: Reputation and Property Rights in the Mining Industry

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Abstract

This paper presents a property rights view of stakeholder reputations based on a study of stakeholder reputation formation in the mining industry. The findings of the study indicate that stakeholder reputations and other valuable firm resources may be complimentary resources in the resource based view of the firm. In particular, the place based nature of reputation with communities and the nature of competitive activity in the mining industry, based on gaining and maintaining access to mineral resources – social licence to operate – have implications for reputations as a strategic resource for the mining industry.

Key Words: Corporate Reputation, Stakeholders, Property Rights, Mining Industry

Introduction

This paper presents a property rights view of stakeholder reputations based on a study of stakeholder reputation formation in the mining industry (Tuck, 2009: 2007b). The findings of this study indicate that stakeholder reputations and other valuable firm resources may be complimentary resources in the resource based view (RBV) of the firm. In particular, the place based nature of reputation with communities and the nature of competitive activity in the mining industry, based on gaining and maintaining access to mineral resources – social licence to operate – have implications for reputations as a strategic resource for the mining industry1. The implications for stakeholder reputations as a strategic resource, more generally, in the RBV of the firm are discussed.

Relatively good reputations with community stakeholders are not necessarily rare within the mining industry generally. However, reputations with community stakeholders may not be transferable between communities. Communities are different, or more particularly the individuals constituting a community differ, hence a mining company’s reputation may even differ between the various communities in which it operates. It is acknowledged that reputations are not necessarily transferable between countries and that the transferability of reputational assets tends to be overestimated by managers (Collis & Montgomery, 1995). The irony is that because these valuable resources are hard to imitate companies may find it difficult to replicate them in new markets, or in the case of mining companies in new communities.

Understanding the nature of competitive activity in an industry is important. In the mining industry managers are building their strategies around mineral resources (mineral rights) which once obtained are physically unique and thus a source of competitive advantage in the RBV of the firm (Barney, 1991; Wernerfelt, 1997). From a strategy perspective, a resource owner’s ability to create, appropriate and sustain value from resources in part depends upon the property rights held and how well they are protected. It is acknowledged that the rights to use a resource may be constrained by the law, agreements, or norms thus influencing the value a resource owner can create and appropriate from the resource. Thus, relatively good stakeholder reputations in the mining industry can be viewed as necessary both to obtain and protect the property rights to these unique mineral resources. Furthermore, stakeholder reputations can be viewed as the means to minimise constraints on property rights and reduce the costs of operation, thus increasing the relative value of mineral resources to companies. This suggests that the value of a particular mineral resource is at least partially dependent on the company’s stakeholder reputations.

In summary, for the mining industry, the value of a company’s stakeholder reputations appears to be linked to both obtaining and maintaining property rights to mineral resources (the social licence to operate). Thinking of resources in terms of property rights to valued attributes suggests that in the mining industry a unique mineral resource may be valued differently by firms with different stakeholder reputations, supporting the view that:

1 An ongoing social licence to operate is viewed as critical to the growth of the Australian resources sector (Penney, Melanie, Stark & Sheales, 2012).
Seemingly identical resources may be economically different when they are controlled by firms that are not equally capable of protecting the relevant resource attributes. (Foss & Foss, 2005, p.544)

The implication of this is that firms require the necessary complementary resources, such as reputations, to obtain and maintain property rights to a valuable resource in order for that resource to be a source of sustained competitive advantage.

**Reputation and Sustainability: the RBV of the Firm**

The RBV², an approach grounded in economics, provides a framework to “explain how a company’s resources drive its performance in a dynamic competitive environment” (Collis & Montgomery, 1995). To achieve corporate sustainability companies pursue competitive strategies which rely upon and develop relationships between the corporation and its stakeholders. Reputations are a valuable strategic resource and a possible source of competitive advantage in the RBV view of the firm. There is a significant body of research which substantiates the importance of reputation (conceptualised as a single corporate reputation) in achieving above average corporate performance (Dierickx & Cool, 1989; Landon & Smith, 1998; Roberts & Dowling, 2002). The rationale for corporate citizenship also relies upon the reputational assets which it generates (Fombrun, 1997), because these reputational assets can stimulate long-term profitability and add economic value. For example, relatively good reputations may reduce operating costs, improve access to resources (such as capital and labour) and increase sales. Thus, the reputations of firms can be viewed as an important link between corporate citizenship and corporate sustainability. In addition, corporate citizenship may promote innovation in processes and improve community outcomes, through the pressures on cost structures and the interactions with stakeholders (Porter, 1998) thus improving reputation and ultimately financial performance.

The conceptual framework applied in this study, as outlined in Figure 1, builds upon the RBV of the firm and Fombrun’s (1997) model of corporate citizenship (Tuck, 2007b). The premise is that company history and performance in combination with policies relating to corporate citizenship determine corporate reputations. Corporate reputations then create cost advantages and lead to improved financial performance and corporate sustainability, which in turn impacts on reputation. From a strategy perspective it is essential to understand the mechanisms through which resources become a source of competitive advantage. In the case of reputation it is important not only to understand how it forms but also which reputation or reputations are the valuable resource(s) that can lead to competitive advantage.

![Figure 1: Conceptual Model of Reputation and Performance](source: Tuck (2007b: p.365))

Reputation as a strategic resource in the RBV model is hypothesised to impact on performance through a number of mechanisms. Firstly, corporate reputation in financial and product markets provides access to capital and product sales (Roberts & Dowling, 1997; Caruana, Cohen, & Krentler, 2006; Mazzola, Ravasi, &

² For a systematic assessment of empirical support for the RBV see Newbert (2007).
Gabbioneta, 2006). Secondly, corporate reputation in regulatory and stakeholder ‘markets’ provides stakeholders with an ability to influence access to resources and the planning conditions that set the rules and costs structures under which companies are able to operate (Fombrun, Gardberg, & Barnett, 2000). Finally, corporate reputation in labour and ‘knowledge’ markets can influence the quality of inputs, including labour, and alliances (Devine & Halpern, 2001, p.42).

Thus, it is evident that stakeholder specific reputations are strategic resources which can ultimately lead to cost advantages and corporate sustainability. The value of reputation stems from the reputations held by a company’s various stakeholders, for example a company’s access to capital is influenced by the reputation held by investors and financial institutions and access to labour is influenced by the reputation held by current and prospective employees, and so on. Hence, it is important to understanding how reputations are formed by the various stakeholders and which reputations are those that create reputational capital.

How then does reputation fit within a RBV framework? Barney (1991) concludes that a good reputation may be a source of sustained competitive advantage, if a good reputation is rare, imperfectly imitable (imitable), and has no substitute. This will be the case under three conditions: firstly if only a few competing firms have relatively good reputations then they are rare, secondly that the development of a positive reputation is dependent upon difficult to duplicate historical settings, and finally that reputations can be thought of as complex social relations between firms and key stakeholders, hence they are inimitable.

If reputation is a valuable resource which is a source of sustained competitive advantage, then from a strategy perspective, the key is to understand the mechanism by which this occurs. Essentially “competitive advantage, whatever its source, ultimately can be attributed to the ownership of a valuable resource that enables the company to perform activities better or more cheaply than its competitors” (Collis & Montgomery, 1995, p. 120). Further it is argued that the “key to a resource-based approach to strategy formulation is understanding the relationships between resources, capabilities, competitive advantage, and profitability – in particular, an understanding of the mechanisms through which competitive advantage can be sustained over time” (Grant, 1991, p. 133). In the case of reputation it is important not only to understand how the reputation resource forms, but also which reputation or reputations (if a multi stakeholder approach is adopted) are the valuable resource(s) that can lead to competitive advantage.

Corporate Reputation – A Stakeholder Perspective

A recent study of reputation in the Australian mining industry (Tuck, 2012; 2009; 2007b; Tuck, Lowe & McEachern) sought to provide a more comprehensive understanding of the formation of corporate reputation within the Australian mining industry and in particular, to explore reputation formation from a stakeholder perspective. The examination was conducted with the use of a Delphi study (an expert opinion survey), to identify the determinants of reputation for multiple stakeholder groups, and two case studies of mining organisations to explore the process of reputation formation.

The Delphi study revealed significant variations in the determinants of reputation across the stakeholder groups (Tuck, 2009; 2007a; 2007b). For mining companies, it also indicated that the determinants of reputation include a combination of company activities, industry activities and other stakeholder actions. In particular, the analysis of the Delphi study findings revealed variation in the focus of the stakeholder expert groups in the formation of reputation. The thematic analysis indicated that variation exists in the relative importance of the types of factors determining reputation across the stakeholder groups of mining companies.

Exploration of the reputation formation process in industry settings, the case studies, provided further insights into the reputation formation process for the stakeholders of mining companies (Tuck, 2012; 2010; 2009). The case studies revealed possible explanations for the variation in the determinants of reputation across the stakeholder groups. In particular, they illustrated the role of trust, knowledge and access to information in influencing the determinants of reputation for the stakeholder groups. They also provided an
insight into the means by which other companies' actions and industry reputations impact the formation of company reputation for the various stakeholder groups. The varying stakeholder priorities, reputation formation processes, and relationships with the company identified explain why differences may emerge between stakeholder groups and result in multiple reputations.

The study provides evidence for the Australian mining industry that:

- The determinants of reputation vary across a stakeholder groups and this variation can result in different reputational assessments, multiple/stakeholder specific reputations.

- The impacts of corporate citizenship activities on reputations are complex and may vary across stakeholder groups.

- The determinants of reputation are not limited to the direct actions and performance of the company, stakeholder network effects and industry effects (reputational interdependencies) can exist.

In summary, this study identifies stakeholder specific reputations, stakeholder network effects and industry effects (reputational interdependencies) in the formation of reputations for mining companies. Thus, providing support for a disaggregated view of corporate reputations and a network view of stakeholder relationships, whilst acknowledging the existence and impact of reputational dependencies.

**Stakeholder Reputations and Competitive advantage – the Mining Industry**

The premise of the conceptual model of reputation and performance proposed earlier (see Figure 1) is that company history and performance combined with a company’s approach to corporate citizenship determine corporate reputations. Corporate reputations then create cost advantages leading to improved financial performance and corporate sustainability. There is still however a question to be considered, regarding the implication(s) of multiple reputations, stakeholder network effects and reputational interdependencies (industry effects) for corporate reputations as a strategic resource in the RBV of the firm.

**Complementarity of Resources**

The original formulation of RBV suggests that good reputations with stakeholders may be a source of sustained competitive advantage if they are rare, imperfectly imitable (inimitable) and have no substitutes (Barney, 1991). However, Foss (1997) argues that there may be dangers in taking the individual resource as the unit of analysis in the RBV, unless a resource is sufficiently well-defined and free-standing – that is, unless the resource can be clearly identified and is not complementary to other resources. Foss (1997) stresses that when complementarity of resources occurs “it is the way resources are clustered, and how they interplay, that is important to competitive advantage” (Foss, 1997, p.365). This view is consistent with Dierickx and Cool’s (1989) framework of asset stock accumulation. This framework acknowledges the interconnectedness of asset stocks, in particular that the ability to increase stocks of an asset may be dependent upon not only the level of that asset but also the level of other assets.

The identification of interdependent stakeholder specific reputations in the mining industry suggests that the levels of stakeholder reputations (assets stocks) are interconnected. Thus the ability to improve reputation with one particular stakeholder group is not only dependent on the current level of reputation with that group, but also on the levels of reputation with other stakeholder groups. This suggests, following Foss (1997), that the focus should be on a company's bundle of stakeholder reputations as the possible source of competitive advantage. This is not implying that a single corporate reputation exists, but rather that competitive advantage stems from the combination of these various stakeholder reputations which themselves are complementary resources and interconnected assets. Further, a company's stakeholder reputations may themselves be complementary resources to other valuable firm resources, such as labour, capital, mineral resources and intangible resources such as trust.
Moreover, the values of the various stakeholder reputations are also interdependent. A good reputation with one stakeholder group may have little or no value if a company has a poor reputation with its other stakeholder groups. For example, a good reputation with employees is of little value unless a company can gain community and regulatory support and thus access to mineral resources. Similarly, a good reputation with community and regulators is of little or no value if reputation is poor with employees and the company is unable to attract and retain staff. The value of reputation with each of a company’s stakeholder groups is dependent upon the levels of reputation with the company’s other stakeholder groups, as well as the strategic importance of the particular stakeholder group. It is, therefore, the bundle of stakeholder reputations which can be a valuable strategic resource.

Firm Embeddedness

The existence of reputation interdependencies (industry effects) brings into question the rarity of relatively good stakeholder reputations and thus the value of reputations as a source of competitive advantage in the mining industry. However, it has been argued that it “may often not be the uniqueness or rareness of the resource that matters, rather its ability to fit into a system.” (Foss, 1997, p.356). This raises the issue of a firm’s embeddedness in its environment, the level of fit with the environment in which it operates as a source of competitive advantage. In the mining industry the issue of embeddedness is especially important given the place-based nature of a mining company’s operations and the need to obtain and maintain a social licence to operate in order to access mineral resources.

If only a few competing companies have a relatively good reputation with any one of the stakeholder groups, then ceteris paribus the bundle of stakeholder reputations which includes this rare stakeholder reputation will also be rare (irrespective of the rarity of relatively good reputations with other stakeholder groups). For example, the finding of reputation interdependence (industry effects) in the mining industry indicates that a relatively good reputation with a particular local community (community stakeholders and local NGO/environment stakeholders) will be a rare resource - at the most limited to those mining companies operating or having recently operated within a community.

Relatively good reputations with community stakeholders may not be rare within the mining industry generally, but the findings of this study indicate that reputations with community stakeholders may not be transferable between communities. Communities are different, or more particularly the individuals constituting a community differ, hence a company’s reputation may even differ between the various communities in which it operates. Evidence exists that reputations are not necessarily transferable between countries. For example, despite Marks and Spencer’s success in the UK “rooted in its [then] 100-year reputation for excellence in Great Britain” (Collis & Montgomery, 1995), they were unable to replicate this advantage when trying to enter new markets, such as in the USA. It has been argued that the transferability of specific assets tends to be overestimated by managers, the “irony is that because valuable resources are hard to imitate, the company itself may find it difficult to replicate them in new markets” (Collis & Montgomery, 1995, p.127). Importantly, reputations with communities are place specific and have to be developed over time (Tuck, 2009). Upon entry of a company into a community (a new operation) industry reputation may act as a proxy for company reputation for community stakeholders, due to reputational interdependencies. The implication of this is that a relatively good reputation with the community stakeholder group may be a source of competitive advantage for those companies currently operating in a particular community.

Mineral Resources and Property Rights

The work of Brammer and Pavelin (2004) suggests that corporate social strategy in the resources sector may differ from other sectors. Brammer and Pavelin (2004) point out in general, “the pressure for social responsiveness is associated with a poor reputation.” (p.710) However, their findings suggest this is not the case for the resources sector, where the pressure for social responsiveness appears to exist despite the finding that firm’s in the resources sector have relatively good reputations (Brammer & Pavelin, 2004). This
indicates that, in the resources sector, there may be strategic reasons, beyond improving poor reputations, for firms to be social responsive. It has been argued that “firm’s approaches to stakeholder engagement might yield clues as to the most valuable descriptive theory [of the firm]” (Bowen, 2007, p.107) for corporate social strategy. In particular, Bowen (2007) points out that a pro-active approach to stakeholder engagement is consistent with the RBV of the firm. An ongoing pro-active approach, such as in the mining industry (Dashwood, 2012), indicates that stakeholder engagement is viewed by mining firms as a potentially valuable resource and a possible source of competitive advantage.

It has been argued that understanding “the nature of competitive activity in an industry may add (realism) to the explanation of sustained competitive advantage in an industry” (Foss & Knudsen, 2003, p.303). In the mining industry managers are building their strategies around mineral resources (mineral rights) which once obtained are physically unique and thus a source of competitive advantage in the RBV of the firm. From a strategy perspective, a resource owner’s ability to create, appropriate and sustain value from resources in part depends upon the property rights held and how well they are protected (Foss & Foss, 2005). It is argued that property rights should be thought of as bundles of rights to attributes of the resource (Foss & Foss, 2005) acknowledging that the rights to use a resource may be constrained by the law, agreements, or norms thus influencing the value a resource owner can create and appropriate from the resource. Relatively good stakeholder reputations in the mining industry can be viewed as necessary both to obtain and protect the property rights to these unique mineral resources. In other words, relatively good stakeholder reputations are necessary to obtain and maintain a social licence to operate in a community.

Furthermore, stakeholder reputations can be viewed as the means to minimise constraints on property rights and reduce the costs of operation, thus increasing the relative value of mineral resources to companies. This suggests that the value of a mineral resource to a company is partially dependent on its stakeholder reputations. For example, if two mining companies are operating within the same community, each with property rights over specific mineral resources, the values to each of the companies of the two mineral resources may vary, as the value may be dependent upon the nature of their stakeholder reputations, as depicted in Figure 2.
Figure 2: Property Rights and Reputations – Social Licence to Operate

INITIAL COMPETITION FOR MINERAL RESOURCES

- Relatively Good Stakeholder Reputations
  - Value Resource Relatively High
    - OBTAIN MINERAL RIGHTS
      - Relatively Good Stakeholder Reputations Preserved
        - Maintenance of Property Rights & Social Licence to Operate
          - Value Resource Relatively High
            - COMPETITIVE ADVANTAGE
      - Relatively Poor Stakeholder Reputations Emerge
        - Restriction of Property Rights & Potential Loss of Social Licence to Operate
          - Value Resource Relatively Low
            - POTENTIAL LOSS/ TRADING OF PROPERTY RIGHTS
  - Value Resource Relatively Low
    - ENTRY RESTRICTED
      - Relatively Poor Stakeholder Reputations


Similarly, for possible new entrants, if the stakeholder reputations of a company are not all perfectly transferable then the value of the mineral resources to the new entrant may be less than the value for the existing companies. This re-emphasises the importance of bundles of resources (in this case stakeholder reputations), due to the complementarity of resources, as sources of sustained competitive advantage in the RBV view of the firm. Thus, relatively good stakeholder reputations may result in relatively high mineral resource values and relatively poor reputations may result in relatively low resource values as exemplified by the two shaded quadrants in Figure 3.
For companies competing for access to mineral resources in communities with no existing mining it can also be argued that the value of a particular mineral resource to prospective companies may vary as a result of companies having different bundles of stakeholder reputations and differing capabilities with which to develop stakeholder reputations (see Figure 2). This resultant differential in value is likely to act as a barrier to entry for non-mining companies (relatively low reputation and relatively low resource value, bottom right quadrant in Figure 3) and provide a competitive advantage to companies with relatively good reputations (relatively high reputation and relatively high resource value, top left quadrant in Figure 3).

In summary, for the mining industry, the value of a company’s stakeholder reputations can be linked to obtaining and maintaining property rights to mineral resources (the social licence to operate). Thus, in the mining industry relatively good stakeholder reputations in general can be viewed as necessary but not sufficient for sustained competitive advantage. Similarly, a company’s relatively good reputation with one particular stakeholder group can be viewed as necessary but not sufficient for competitive advantage in the mining industry.

Thinking of resources in terms of property rights to valued attributes suggests that in the mining industry a unique mineral resource may be valued different by firms with different stakeholder reputations. The implication of this, from an RBV perspective, is that firms require the necessary complementary resources to obtain and maintain property rights (including, access to the relevant resource attributes) to a valuable resource for that resource to be a possible source of sustained competitive advantage. In the mining industry stakeholder reputations can be viewed as necessary complementary assets to valuable mineral resources. Following this line of reasoning, stakeholder reputations (in addition to being themselves possible sources of competitive advantage) can be identified as possible complementary assets for other valuable resources within the mining industry and for firms more generally. For example, a firm’s reputation with its employees may be viewed as a complementary asset protecting the attributes of the firm’s labour resource which may be a firm’s source of competitive advantage.

**Discussion**

The evidence of stakeholder specific reputations in the mining industry has implications for firms in other industries. Firms in other industries may also have stakeholder specific reputations, along with stakeholder...
network effects and reputational interdependencies (industry effects). However, the nature of the stakeholder network effects and the extent of the industry effects in the formation of reputation is likely to vary between industries due to the variations in their principal business activities and variations in industry reputations. In spite of these possible variations between industries, there are a number of potential implications for stakeholder reputations in the RBV of the firm for other industries.

Firstly, if stakeholder specific reputations exist and stakeholder network effects exist for firms, then the implication is that a firm’s various stakeholder reputations may be complementary assets. Thus, it is the combination of these resources (stakeholder reputations) which may be a valuable resource to firms. This has implications for a firm’s strategy because it is argued that the disaggregation of resources is important “not only for identifying truly distinctive resources but also for deriving actionable implications.” (Collis & Montgomery, 1995, p.123). With stakeholder specific reputations and stakeholder network effects the uniqueness of the resource may stem from the unique combination of stakeholder reputations rather than uniqueness of one or more of the stakeholder reputations within the bundle.

Secondly, stakeholder reputations may be complementary resources to a firm’s other valuable resources. In particular, the importance of stakeholder reputations in obtaining, maintaining and minimising constraints on property rights identified in the mining industry has possible implications for firms more generally. In particular, for firms operating in industries which require access to unique resources, similar to the mining industry, such as, access to prime retail sites, stakeholder reputations may be an important source of competitive advantage. In addition, the value of unique resources held by firms within any industry may be determined by the firm’s stakeholder reputations as they affect the firm’s ability to secure property rights and minimise the cost of exploiting their unique resource(s).

Thirdly, the interdependencies between corporate citizenship activities (and particularly voluntary CSR) and stakeholder reputations identified in the mining industry may have implications for the strategic management of stakeholder reputations in other industries. In particular, the findings suggest that the value of voluntary CSR is a complex phenomenon which may be dependent upon the stocks of reputation with stakeholders, the nature of the particular activities and the nature of the firm’s principal business activity. Finally, the identification of reputational interdependencies within the mining industry suggests the possibility that reputational interdependencies may exist in other industries. Industry reputations may be complementary resources to stakeholder reputations under some circumstances. The implication is that a possible source of competitive advantage may result from firms differentiating themselves from the industry where public perception/industry reputation is relatively poor, such as in the mining industry. In contrast, when public perception/industry reputation is relatively good the implication may be that a firm with relatively poor stakeholder reputations can improve its reputations by aligning itself with the industry (free-riding). However, competitive advantage even in this situation may depend on firms differentiating themselves from the industry to achieve relatively good stakeholder reputations.

**Conclusion**

This study has implications for reputation as a strategic resource in the mining industry and more generally for the RBV of the firm. Stakeholder reputations are valuable complementary strategic resources for obtaining and maintaining a social licence to operate in the mining industry. Stakeholder reputations appear to be invaluable resources for gaining access to the necessary mineral resources, as relatively good reputations are necessary for obtaining and maintaining property rights to mineral resources. In particular, a network view of stakeholder reputations combined with a complementary property rights view of resources in the RBV may provide a fuller explanation of the mechanisms by which valuable firm resources can lead to a competitive advantage for firms.

In summary, managers need to consider not only the possible complementarity of stakeholder reputations to each other, but also the possible complementarity of stakeholder reputations to a firm’s other valuable resources. The consideration of economic property rights combined with the RBV suggests that stakeholder.
reputations may play an integral role in firms achieving sustained competitive advantage beyond their value as individual resources. This indicates that stakeholder reputations should be considered as an integral part of a firm’s overall strategy and an essential element of that strategy may be the firm’s approach to corporate citizenship and associated differentiation from the industry.

From a strategy perspective this study offers further opportunities for both reputation and strategy researchers. The complementarity of stakeholder reputations and the complementarity of reputations to a firm’s other valuable resources, indicated by the study of the mining industry, have implications for the level of analysis of resources in the RBV and for future research into corporate reputations and competitive advantage. In particular, there is reason to suspect that stakeholder reputations will be important resources in the protection of property rights to other valuable resources in a number of industries. This indicates that future empirical research on the RBV and reputations adopting a property rights view of reputations may add to our knowledge of the contribution of stakeholder reputations to sustained competitive advantage.
References


