

INSTITUTIONAL PERMISSIVENESS IN THE CONTEXT OF GOVERNMENT-BUSINESS RELATIONS

PERMISSIVIDADE INSTITUCIONAL NO CONTEXTO DAS RELAÇÕES EMPRESAS-GOVERNO

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ABSTRACT

Purpose - This article explores the extent to which business–government relations permeate socially irresponsible business activities. While existing theory provides traction in explaining the strength of the pressures to conform that emanate from the institutional environment, it does not adequately explain the conditions under which businesses might exercise discretion in choosing whether or not to conform to local standards of appropriateness and how local actors organize their responses accordingly.

Methodology - The empirical evidence is based on an in-depth longitudinal case study developed in an industrial district of Fortaleza, Brazil. Data were collected from three sources, including semi-structured interviews. An inductive thematic analysis of narratives was conducted to investigate the interactions between the different institutional actors and their experiences of institutional change and renegotiation.

Findings - It was found that the institutionalized forms of business–government relations are fundamentally permissive and personalized, being based on meeting specific and mutually opportunistic demands. We show that institutional permissiveness can make it possible for large firms to dominate an industrial area and force the government to reduce law enforcement. We demonstrate the historical evolution of forms of the appropriation of space and natural resources.

Originality - Our theoretical contribution is to the concept of institutional permissiveness. Unlike other institutional streams, we argue that the concept of the institutional void is inadequate to the task of understanding business–government relations in emerging markets. We show how an institutional configuration can emerge that sustains the power relations and resource appropriations that reproduce social relations distinct from those found in the Anglo-American institutional environment, which does not configure institutional voids.

Keywords - Institutions, institutional voids, institutional permissiveness, political corporate social responsibility, business–government interactions.

RESUMO

Objetivos – Este artigo explora em que extensão as relações empresas-governo estão imersas em atividades empresariais socialmente irresponsáveis. Embora a teoria existente forneça tração na explicação das pressões de conformidade que emanam do ambiente institucional, ela não explica adequadamente as condições sob as quais as empresas podem exercer o poder discricionário na escolha de se conformar ou não aos padrões locais de adequação e como os atores locais organizam suas respostas.

Metodologia – As evidências empíricas baseiam-se em um estudo de caso longitudinal em profundidade, desenvolvido em um distrito industrial de Fortaleza. Os dados foram coletados em três fontes, incluindo entrevistas semiestruturadas. Na sequência foi realizada uma análise temática indutiva das narrativas para investigar as interações entre os diferentes atores institucionais e suas experiências de mudança institucional e renegociação.

Resultados - Observou-se que as formas institucionalizadas das relações empresas-governo são fundamentalmente permissivas e personalizadas, baseando-se no atendimento de demandas específicas e mutuamente oportunistas. Mostramos que a permissividade institucional pode permitir que grandes empresas dominem uma área industrial e forcem o governo a reduzir a aplicação da lei. Demonstramos a evolução histórica das formas de apropriação do espaço e dos recursos naturais.

Originalidade - Nossa contribuição teórica volta-se para o conceito de permissividade institucional. Ao contrário de outras correntes institucionais, argumentamos que o conceito de vazio institucional é inadequado para a tarefa de compreender as relações empresas-governo em mercados emergentes. Mostramos como pode surgir uma configuração institucional que sustente as relações de poder e formas apropriações de recursos capazes de reproduzir relações sociais distintas daquelas encontradas no ambiente institucional anglo-americano.

Palavras-chave - Instituições, vazios institucionais, permissividade institucional, responsabilidade social corporativa política, relações empresas-governo.

1 INTRODUCTION

The relentless logic of the market drives companies to pursue ever-lower costs, forcing countries to reduce their regulatory capacity (Scherer & Smid, 2000). Rocha (2017) argues that global competition has led local governments to promote various incentives for multinationals, ranging from concessions and tax cuts to changes in laws and regulations, but causing a “race to the bottom” in respect of social and environmental conditions. These changes have intensified the link between the outsourcing of production by corporations and the development and decline of host locations.

Organizations and societies have been uncritically dependent on putative economic growth. It has been argued that, in order to settle and prosper, countries must overcome their institutional voids (Khanna & Palepu, 1997). The notion of institutional voids start from the idea that weak institutions result in high and unpredictable transaction costs, thus reducing market access and disincentivizing market actors from future participation (Khanna & Palepu, 1997). Doh, Rodrigues, Saka-Helmhout and Makhija (2017) claim that, when institutions are deficient in fulfilling their allotted roles, companies incur transaction costs in “circumventing” these failures, which in turn affects the performance of organizations.

Institutional voids reflect environmental conditions that tend to create obstacles or make the local economy unfeasible, favoring corruption and the emergence of opportunistic forms of behavior (Luo & Chung, 2013). The study of institutional voids brings to light reflections on “business–government” relations in institutionally dynamic environments. Institutional voids accelerate the negative social and environmental consequences of economic activity (Amaeshi, Adgbite, & Rajwani, 2016). The growing concern for environmental problems has attracted the attention of academics and practitioners to the ways in which companies deal with how their operations pollute natural areas. This in turn leads to reflections about corporate social responsibility (CSR), recent studies sug-



gesting the need for a new strategy that is different from the instrumental approach (Scherer, 2018; Scherer & Palazzo, 2011).

Crane, Matten and Moon (2008) suggest that we need to avoid jumping on to the bandwagon claiming that companies have no power to deliberate over social issues and/or no place in politics. The very real roles and impacts that organizations can exert on the social environment and on environmental policy must be analyzed properly. This discussion is also applicable to other aspects, such as labor conditions and anti-corruption activities (Scherer & Palazzo, 2011; Scherer, Rasche, Palazzo, & Spicer, 2016). den Hond, Rehbein, Bakker and Lankveld (2014) show that many corporations seek to participate through traditional political channels, thus exerting continuous pressure on other actors, economic and otherwise. Where the state does not fulfil its role in providing the basis for citizenship and for protecting its citizens, either through inefficiency or neglect, it would therefore be both justified and expected for non-state actors to seek to make good these distortions (Scherer et al., 2016). The notion of Political Corporate Social Responsibility (PCSR) is concerned with the participation of non-state actors in political decision-making and the promotion of public goods in contexts of institutional fragility (Scherer & Palazzo, 2011).

Hamann (2019) argues that the participation of companies in the elaboration of negotiated rules and in making contributions to public goods is not necessarily harmful. Roles need to be well defined, with the state being the custodian of “democratic authority.” For these authors, when companies and government generate poorly designed agreements or when responsibilities are mixed, these arrangements result in the transfer of responsibilities, and other stakeholders are likely to be harmed. Thus, when business–government relations are not well constructed, corporate social irresponsibility takes over.

In this paper, we combine the literature on PCSR with that on institutional theory, and more specifically recent discussions concerning institutional voids. These two literature streams have a few similarities, as the latter claims that institutional failures drive the development of compensatory strategies, whether within market relations (Doh et al., 2017) or outside them (Boddewyn & Doh, 2011). Discussions around the concept of PCSR are essentially normative, demanding ethical and socially just corporate behavior even in institutional environments with weak public governance systems (Scherer & Palazzo, 2011).

The main difference between the two streams is precisely in what they consider to be socially responsible action. While the institutional voids literature admits several types of response guided by the organizations’ pecuniary interests, the PCSR claims that gaps in governance that harm social well-being and undermine environmental protection can and should be actively avoided by organizations. Depending on how business–government relations are established in a given institutional environment, the organizational response to institutional voids will vary from the socially responsible (Amaeshi et al., 2016), indifferent (Doh et al., 2017) to the irresponsible (Hamann, 2019).

In order to analyze how business–government relationships develop and what different sorts of organizational responses to institutional pressures emerge, the research investigates the institutionalization of two phenomena in an industrial park: spatial planning (or the lack of it) and environmental inspection. The guiding research question is: How does the institutional environment shape corporate social (ir)responsibility? The research aims to understand how institutions shape organizational behavior in terms of their use of natural resources and the social well-being of local communities.

The article is organized as follows. Section two outlines the concept of institutional voids and PCSR deployed throughout the paper and examines the institutional literature. A third section outlines the methodology that informs the analysis of our case study. The analysis is developed



across two sections. We show that the notion of institutional voids has limited explanatory value. In the conclusion we discuss the implications of our results for institutional theory and consider its significance and breadth of application.

2 THEORY DEVELOPMENT

2.1 Institutions and the Use of Resources

Institutions are fundamental in shaping social relations, as they permeate relations between individuals, organizations and the state. Institutional arrangements impact on all relations of economic exchange in market economies (Scott, 2014). Institutions exert an influence on economic activities and wealth creation and distribution. North (1990) argues that institutions are basic to how companies are organized: institutional arrangements are formed by both formal rules (written and imposed by the state) and informal rules (not written or sanctioned, but enforced). Institutions and their complementarities shape possibilities and build barriers to the development of organizational capabilities (Rocha & Abreu, 2018), as well as influencing companies' adherence to socially responsible practices (Lourenço & Sousa-Filho, 2020) or structuring the relationship between firms and their use of natural resources (Vatn, 2010).

For Scott (2014), institutions are social structures composed of social activities, material resources and symbolic elements that resist change and endure over generations. As different institutional environments shape different organizational models, the institutions that make the relationships between companies and their markets viable are not equally present in all countries. Moreover, institutional differences also affect preferences and attitudes to nature. The result is that organizations need to adapt their strategies to the institutional contexts in which they operate (Marquis & Raynard, 2015). Any economic activity is embedded within a field located in an institutional context composed of social norms, rules and expectations that circumscribe socially acceptable economic behavior (Rocha & Granerud, 2011). A central tenet of institutional theory is that organizations must convince public audiences of their legitimacy and strive to enhance and protect it (DiMaggio & Powell, 1983; Scott, 2014). Here organizations are expected to conform to local standards of appropriateness.

In contrast, Oliver (1991) points out that organizational responses to institutional pressures vary. An organization may conform to or resist isomorphic pressures depending on how reliant it is on access to local resources and the degree of economic gain that is "perceived to be attainable from conformity to institutional pressures" (ibid.: 160-162). Friedland and Alford (1991) state that the complex symbolic, interpretive and adaptive processes through which organizations respond to institutional pressures are more often than not plural, giving rise to a variety of possible responses.

Khanna and Palepu (1997; 2010) argue that the lack of uniformity in institutions results in institutional voids, especially in emerging markets, making trade operations in these countries difficult and even unfeasible. Khanna and Palepu (1997) define some of the institutional voids that are commonly found in developing countries, such as informational problems, capital markets, labor markets, regulation and law enforcement. Accordingly, the institutional fabric of emerging countries is largely responsible for the delay in the development of these economies in the direction of the market economies that are already in existence in other countries (Easterly, Ritzen, & Woolcock, 2006).

Institutional voids make market negotiations difficult. Companies planning to enter these environments assume, to the same extent, the transaction costs of filling them (Khanna & Palepu, 2010). In the literature, some examples of voids are associated with the blurring of property rights,



which impact on companies' enforcement costs (Zhou & Poppo, 2010), or with the inefficiency and corruption of the government, which increase the costs of maintaining the relationship and obtaining permits and licenses. Consequently, entering markets that are permeated by institutional voids imposes a wide range of costs on organizations.

Institutional voids make possible opportunism, corruption, unfair practices and favoritism, which undermine entrepreneurship and competition in developing economies (Doh et al., 2017). Khanna and Palepu (2010) argue that, in addition to the typical strategy of mitigating institutional voids, it is possible, with the support of other field actors, to create new institutional arrangements (Kostova & Hult, 2016) by exerting political influence to get regulations changed (den Hond et al., 2014) and to form partnerships to create and legitimize new standards (Teegen, Doh, & Vachani, 2004), among other possibilities. Amaeshi et al. (2016) suggest that it is possible for companies in fragile institutional contexts to continue to be responsible by building adaptive mechanisms, and that CSR practices can be used to fill institutional voids, thus contributing to thinking about the political role of organizations, mediated by their social responsibility.

Landa (2016) argues that organizations can act politically to replace the lack of institutions, using trust to build a social network that can respond to risk. This network can be formed through close relationships between companies and local government, so that access to critical resources is facilitated. By strengthening ties with government entities, NGOs and other civil-society actors, it would be possible to reduce poverty, such as the absence of or limitations on the provision of public services such as health, transportation, education and housing (Doh et al., 2017). Mair and Martí (2009) explained how voids favor the emergence of markets and, consequently, how companies can promote social progress in developing contexts.

Although the current body of research on institutions in emerging markets suggests that companies play a central role in creating and strengthening institutions, Mair and Martí (2009) emphasize that organizations will only do this if they consider it economically advantageous. Although authors in the institutional voids stream suggest that socially responsible action is one way to tackle voids, if companies are guided solely by economic objectives, all they have to do is to exploit voids and take full advantage of them (Mair, Martí, & Ventresca, 2012). The institutional voids perspective is focused on understanding how companies develop market strategies to replace voids, while non-market strategies such as CSR, corporate political activity and others are left in the background (Tan & Meyer, 2011).

Recently, the institutional voids literature has been criticized for being loaded with ethnocentric assumptions that neglect "the richness and power of informal and non-market institutions in shaping local economic activity" (Bothello, Nason, & Schnyder, 2019). Mair et al. (2012) reconceptualize institutional voids as interfaces between different institutional orders and clearly reject the original view of them as spaces "empty of specific institutions". Quite the opposite, they acknowledge institutional plurality and understand voids as "the intermediate outcome of conflict and contradiction among" different institutional orders such as the "local political, community, and religious spheres" (Mair et al., 2012: 820).

While we are aware of recent criticisms of the concept of institutional voids, we argue that this concept can be adopted as an analytical phenomenon (Mair & Martí, 2009; Amaeshi et al., 2016) that reveals the construction and consolidation of institutions and organizational strategies. Institutional voids can be seen either as a phenomenon triggering socially and environmentally responsible practices (Amaeshi et al., 2016; Boddewyn & Doh, 2011), or as giving rise to questionable organizational practices created by supposed governmental weakness, or by corporate behavior which denies responsibility (Hamann, 2019).



2.2 Understanding the Concept of Political Corporate Social Responsibility (PCSR) and Corporate Social Irresponsibility (CSiR)

Scherer et al. (2016) argue that when firms are involved in institution-building they become political actors – that is, participants in public deliberations and collective decisions – when the competent authorities are unable or unwilling to play their part. From this perspective, companies emerge as social problem-solvers and promoters of the public good. The need to integrate social responsibility into the political arena is especially challenging for organizations operating in emerging economies, as such firms face different social and institutional demands and are immersed in a complex web of interests (Shirodkar, Bedewella, & Richter, 2018). Scherer and Palazzo (2011) claim that the boundaries between political and economic activities are blurred because companies, particularly multinationals, are under political pressure from NGOs. As a reaction, some of them are already beginning to operate with a politically broadened concept of responsibility.

The PCSR approach has not been free of heavy criticism. Banerjee (2008) points out that theorists in the fields of CSR and corporate citizenship actually advocate incorporating even more powers into organizations, thus favoring new forms of imperialism and colonialism and perpetuating inequalities. Fooks, Gilmore, Collin, Holden and Lee (2013) claim that the argument that governments lose power in the face of globalization is dangerous because organizations' political actions are likely to promote private interests. The very meaning of politics can be viewed in different ways; on the one hand, when viewed positively it can mean "serving the common good," while on the other hand it can mean "serving particular interests over others" (Djelic & Etchanchu, 2017).

Initially, PCSR was seen as a positive and progressive concept (Scherer & Palazzo, 2007), but as Fooks et al. (2013) point out it is important to assess the possibility and likely frequency of the negative social impacts of PCSR. Public and private organizations may progressively neglect their social responsibilities, falling into corporate social irresponsibility (CSiR) instead (Hamann, 2019; Lange & Washburn, 2012). Whiteman and Cooper (2016) describe CSiR as a "systemic phenomenon" in which CSiR is not a firm-level attribute but a consequence of "diffuse actions performed by a variety of institutional actors" (Whiteman & Cooper, 2016: 118).

Hamann (2019) argues that greater attention needs to be paid to how business–government relationships can become reciprocally influential. Based on a case study in South Africa, the author concluded that the interests and actions of multinational companies in fact conflict with social welfare and that, combined with poor public governance, this will synergistically increase CSiR. Hamann's (2019) contributions are especially important for understanding PCSR and CSiR in emerging-market contexts, as in these environments greater efforts need to be devoted to delineating responsibilities between actors, so that neither companies nor the government can excuse themselves from fulfilling their responsibilities.

3 METHODOLOGY

The empirical evidence for this paper is based on an in-depth, longitudinal case study. Minayo (2012) argues that the qualitative method is characterized by working with a universe of meanings, such as motivations, aspirations, beliefs, values and attitudes. We were interested in developing knowledge about how business–government relationships are built up, that is, processes whose complexity does not reduce the operationalization of variables. The study seeks to understand the characteristics and nuances of a real and specific context in greater depth. According to Yin (2016), case studies seek to understand both motivations (why) and the ways in which phenomena unfold



in reality (how).

The research for this paper was conducted in the Industrial District of Maracanaú (IDM) in Fortaleza (Brazil). The IDM is one of the largest industrial districts in Ceará state and is an extreme example of the problems generated by industrial pollution and the agglomeration of industry and human populations (Carvalho, 2009; Magalhães Neto, 2013). Extreme cases reveal more information because they activate more actors and basic mechanisms, providing a route to explanation, as opposed to mapping frequencies and “describing the symptoms of the problem” (Flyvbjerg, 2006: 229).

As such, extreme cases are by nature exploratory (Seawright & Gerring, 2008). Deploying the extreme case framework, our research design captures the interplay between the different institutions and actors that intervene in a process of institutional disturbance in order to forge change or maintain institutional continuity (e.g. Ahen & Amankwah-Amoah, 2018; Amaeshi et al., 2016). To analyze the dynamics of institutional disturbance and negotiation linked to environmental management, we evaluate how institutional actors drive, resist or react to challenges to accepted institutional constructs.

Data were collected from three sources: (1) semi-structured interviews, (2) written and electronic documentation furnished by the companies and trade associations involved, and (3) articles in the national and local press. The secondary data support data triangulation and increase the validity and reliability of the study (Eisenhardt, 1989). These data are composed of reports from the local media in the two most important newspapers (between 2014 and 2020) and historical information about the development of local industry and associated companies.

We deploy an inductive, thematic analysis of narratives to investigate interactions between different institutional actors and their experiences of institutional change and renegotiation (e.g. Hamann, 2019). We adopt narrative analysis to explore meaning-based constructs and the process-based research questions we are asking. Our narrative approach relies upon a longitudinal research design that is capable of identifying the temporal interrelatedness of different episodes and the temporal and spatial, and not just structural embeddedness of conflict situations (Ahen & Amankwah-Amoah, 2018).

Interviewees were chosen according to guidelines for ‘purposeful sampling’ (Lincoln & Guba, 1985) using a ‘chain sampling’ strategy and were selected on the basis of knowledge of the changes that had taken place in Maracanaú over time. Data were collected in the interviews using a semi-structured guide. The interview script covered four themes. The first two sought to identify how individuals perceive and construct the relationship between the government and private companies. The last two themes contained questions related to the institutions that were relevant to the study concerning environmental surveillance and spatial planning.

Eighteen interviews were conducted, eight (08) with representatives of the companies, three (03) with government agencies and seven (07) with representatives of the state government of Ceará and the municipality of Maracanaú. The interviews were held in two separate periods of time. The first round focused on companies and trade associations and took place between March and April 2017. The second round, which was focused on public agents, was conducted between December 2018 and February 2019. The interviews lasted between 45 and 60 minutes and were fully recorded, resulting in 15 hours and 24 minutes of recordings.

The transcriptions of the recordings went through a coding process, through it was possible to identify common terms and meanings. A content analysis was performed, following the logic of previous readings, categorizations and re-categorizations (Bardin, 2011). Our analysis aimed to find common elements in the participants’ statements so that characteristics could emerge and be discussed on the basis of the literature.



In order to hide the identity of the participants, we identify them using the following nomenclature: for companies, E1 to E8; for industry representatives, A1 to A3; and for public agencies, G1 to G7. In order to organize the collected data thematically, initially we present the results regarding the contexts in which the IDM is inserted and show how relations between companies and the government unfold. Subsequently, in the second subsection, the results concern the attitudes of both companies and public agencies to the highlighted institutions that are linked to environmental inspection and land-use planning.

4 RESULTS

4.1 Personalized Relationships Between Government and Powerful Private Actors

Any analysis of business–government relations in the DIF needs to consider its historical evolution, because what is found today is an accumulation of informal practices and agreements which have been concluded in recent decades. We dig into books, press articles and other official documents in order to revisit the history of the DIF. This history consists of a series of events that date back to its construction in the 1960s. Respondents suggest that the district emerged as a landmark in the industrialization of Ceará state, but was developed according to an unrestrained logic of attracting investments. Properties were practically donated by the state, and once the companies had had their land registered, public banks furnished credit lines.

In an article published in the local media, Pinheiro and Saraiva (2016, May 21) emphasized that the area “was once the most important investment attractor for Ceará state, responsible for laying the foundations for the region’s economic future.” Although the increase in investment and debt was significant, no collateral was required by the state banks, and environmental and labor regulations were not enforced. Interviewee E4 remarked: “The district itself was created in the 1960s, but basically as a place to set up industries, not an industrial district as such [...] let’s say this, with rules, with duties, with a whole system that would guarantee there was an industrial district here.”

A similar account emerged from the government actors themselves. Thus G4 and G6 suggested that laws and regulations, such as the Land Use and Occupation Act (LUOA) and the Municipal Master Plan, were created long after the industry had been set up. With the transitions that took place, from the emancipation of Maracanaú to the withdrawal of the state government’s involvement in the development of the district, the public administration began to deal with a series of sensitive issues, such as environmental preservation areas and indigenous reserves in high-density industrial areas (e.g. Silva, 1992; Sousa, 2007; Vianna, Albuquerque & Salmiteo Filho, 2015).

The above context reveals that the logic of state development that has evolved in recent decades has made serious errors in long-term planning by districts, favoring various types of institutional void. The dynamics of the business–government relationship have had a special impact on the ways in which institutions were addressed. Table 1 summarizes the findings:



Table 1. Overview of Government–Business Relationships

Participants	Characteristics	Representative quotes
Companies	Distrust of government action	C2: We all live in our closed boxes. I know the government needs to go hand in hand with the trade associations and firms, but in general we cannot wait for government action: it's a waste of time. C4: What we see from the government is that it does not make it possible for things to work out.
Trade Associations	Passivity Weak influence	TA3: There is no way we can demonstrate a more influential attitude. We do not have the power and legitimacy to force the municipality to do things [...] only when the government has an interest in doing [something] it does, but we need to have the municipality's support. If it doesn't want to, it doesn't do it, it can't be done.
Government	In search of a good relationship with firms Limited understanding of public/private partnership	G1: We keep our doors open to the companies. In the beginning I had certain difficulties with them because I was in the environment department. People were afraid, they always came with a lawyer, but not anymore. G3: We are a controlling body. Sometimes the businessman needs to get the right information from us because we are often seen as very tough. They complain a lot about fees... G4: In practice I don't see a lot of companies' engaging in CSR. They are all waiting for the government to do something, they don't even fix their own sidewalks. They are just waiting for city hall to do everything.

Source: survey data

The relationship between business and government unfolded in a very particular way in this context. First, private-sector managers generally explain that the government does not seek to build a good relationship with them, and the reverse also seems to be the case. Second, companies avoid pressuring the government with demands in order to avoid getting “into trouble”. The industries making up the sample claim that they have tried to have a good relationship with the government, but that the latter does not respond correspondingly, nor does it pay the necessary attention to the district, despite excessively charging companies different taxes. Another article in the local media, FCDL (2018, July 19), supports this claim and argued that it is possible to perceive this complaint by businessmen regarding the lack of governance in the DIF. The article expresses the following concern: “Not even public agencies have control over the number of companies installed, their impact on the economy, job creation and barriers to the economic development of the region”.

On the other hand, public officials, and even some business participants, explained that there is a very closed business culture in the district, with firms being overly concerned with their own interests, and being collectively weak and disorganized. The data provided by trade associations reveal that the number of associated companies is not even close to representative – less than 10% of the total installed companies (AEDI, 2020).

These features suggest a low-trust environment in which trust only exists between closely connected actors. There is no pragmatic view of how to fix this relationship or how to adapt institutions to deal with the new problems. Public agents claim that their relationships with the companies are good and that they treat companies as business partners, but their actions are concentrated in strategic sectors, making them responsible for the region's infrastructure and policy for attracting investments.



Depending on the area, the relationship between business and government is more or less distant. Three of the respondents from Maracanaú City Hall, specifically from the environment department, reinforced the view that the image of the role of the environmental agency is a distorted one. There is disbelief on the part of industry and the trade associations that represent it in City Hall's ability to offer any essential public services to local communities or the district itself. However, what becomes apparent is the personalized nature of these relationships, which vary with the closeness of private actors to the politicians in power, as well as the size of their economic contribution to the municipality.

4.2 The Changing Institutional Environment

As discussed above, there are different understandings of the business–government relationship. On the business side there is a recurrent concern over the negligence and weak role played by state agents. In their turn, the latter say that the companies are focused on their daily operations, passively expecting the government to solve all environmental problems. The enforcement of regulations and environmental supervision reveal other nuances in this conflict. Table 2 gives some research findings regarding how different actors perceive the role and functioning of these two mechanisms in relation to municipal environmental inspections.

Table 2. Perceptions of Environmental Actions

Actors	Institutional Effects	Representative quotes
Companies	Criticism of the inspection method Knowledge problems	C1: "Everyone I know complains a lot about the inspection process: it is too demanding, heavily bureaucratic, a lot of paper, a lot. At the same time, you have no guidance". C8: "There is no technical office in the municipality that has the know-how to assess our impacts, but we suffer pressure from the municipality to be licensed by it. We should not be licensed by the municipality because it really has no know-how how to assess it".
Trade associations	Criticizing the inspection method Underdeveloped environmental knowledge on the part of the state Environmental enforcement as a source of income	TA1: "[The environmental agency], let's say, has a low level of knowledge concerning the licensing process and compliance with the legislation, so that you can have the "basics". We are seeking to build a relationship with other companies and then bring in resources that can leverage new environmental programs." TA3: "They have to make a cultural change in City Hall itself. Do all these fees generate an income for the municipality, or do they have an educational purpose?"
Government (state and municipality)	Lack of resources Inability to respond to the new conditions	G2: Well, as the industrial sector is already established there, there is no way to remove those who are there: we have to adapt to the situation. So, the office has to act through enforcement, monitoring, environmental permit requirements, environmental studies and so forth. G5: 2018, it was a quite difficult year ... here we gave up a lot of things because there was no financial means. Even our income dropped a lot this year, 2018, a lot.

Source: Survey data

Regarding the application of environmental regulations, until 2008 companies were inspected by the State Environmental Department. From that year on, with the creation of the Ma-



Maracanaú Department of Environment and Urban Control (SEMAM), activities related to permits and certificates, and to environmental supervision and education, have been gradually transferred to the municipality. Local inspection has not been systematic, focusing mostly on the larger companies, and is not accompanied by one important task of any environmental agency, namely education. The sectors responsible for environmental education were more focused on projects for communities, not for industry. The only activity to be mentioned that had anything to do with industry was the suggestion that companies should plant trees as a means of offsetting their emissions. However, there was no control over which trees were planted, whether they survived, or whether they fitted in with the local ecology.

Companies and the trade associations that participated in the research had feelings of unfairness regarding the procedures adopted by SEMAM. While some organizations are audited by the agency weekly, others would go unnoticed. What is common to the companies and the trade associations – a point that was unexpectedly made in an interview with one of the members of the public office – is that the environmental agency is a major tax collector for the municipality. Although this sounds outrageous, it generates more revenue for City Hall if companies continue to commit infringements than if they are actually educated in how to implement serious change. Table 3 summarizes our findings concerning institutional permissiveness and the spatial planning system in the municipality.

Table 3. Examples of Institutional Permissiveness

Actors	Feature	Representative quotes
Companies	<p>Coping with uncertainty</p> <p>Finding solutions</p> <p>Risk management</p>	<p>C4: “So today the district is saturated with residences, which makes it difficult for the industry. I am not saying that the community is wrong or that industry is wrong. This is not [a matter of] right or wrong, but we should not occupy the same space”.</p> <p>C5: “We spent U\$22 million to install a filter, just because the community demanded it. In fact, if you look at the legislation, we were following the legislation, but the law in this case was not restricted. So we adapted to the needs of the community.”</p> <p>C8: “In Maracanaú District, if you think outside the box there is a risk. A risk of not having an emergency care plan, there is a risk that you are letting this community get so close that it will soon become a big city”.</p>
Trade Associations	Lacking specific long-term planning	TA3: “There is no buffer zone between industry and the population. The worst situation is in industrial district 1. We are here because it was done in a way that was planned and done without a long-term view”.
Government (state and municipality)	<p>Accepting previous mistakes</p> <p>Recognizing the harm to communities</p>	<p>G1: Living in the industrial district area with the boundary communities is important for us. We need these communities, but then you ask me, if an industrial accident occurs, are we prepared? Today I already tell you certainly not!”</p> <p>G2: “We have realized with the Department of Health that these industrial areas and their surroundings have companies that generate a greater impact and produce higher toxic emissions, while the incidence of cancer in the communities is a lot higher than in other areas. People have many respiratory and kidney problems”.</p>

Source: survey data

The lack of territorial planning in Maracanaú in past decades has permitted migration into the industrial district, especially of individuals seeking jobs in the new industries. As no specific urban macro-zoning existed, the community grew by surrounding the industry, which is now largely enclosed. During the years of economic growth political statements promoted industrial develop-



ment as a panacea for local problems, and the business–government relationship was formed to reproduce and sustain irresponsible environmental action in the surrounding area.

The relationship between government agents and companies was based on control of the state’s capacity to enforce the law in order to take advantage of the situation. The business–government relationship was personalized, in the sense that close relationships existed between a few businessmen and state agents. These actors collaborated closely to decide who their enemies and allies were. When this type of relationship becomes institutionalized, the destinies of one’s allies become secure in so far as their allied politician is now in power. In order to obtain new advantages, these relationships are based on trust and secrecy, with powerful allies becoming the gatekeepers of the business community.

Significantly, during the first phase of industrialization the proximity of the workforce was very advantageous for the companies, as it provided them with stable and cheap labor. Companies could occupy the space, access cheap labor, and produce externalities without state control. Therefore, there was no interest in rigid spatial planning that could undermine the attractions for labor. Nowadays the state tries to enforce its environmental legislation, having taken significant steps to reduce toxic air pollutants and provide important health protection for the surrounding community.

Currently, managers can see that this disorganized form of spatial occupation is hampering the expansion of local industry. Public officers understand that companies are an important source of municipal revenues, though at the same time communities cannot easily be displaced, so the only possible solution is to try to reconcile the different interests. These findings have been documented by media articles on more than one occasion. FCDL (2018, July 19) and *Diário do Nordeste* (2011, January 31) both emphasize the planning deficiencies, especially with regard to territorial ordering. These plans followed both specific technical criteria for urban planning and different interests, including economic ones.

The problems generated by this proximity have promoted vociferous debates regarding the appropriateness of having industry in the area at all. As the early institutional literature suggests, this debate reflects the normative and cognitive expectations of local actors that the municipality should enforce environmental law. Notably, industry had been quite important for at least fifteen years prior to the emergence of environmental problems. It was its growing size alongside the growing surrounding population that generated acute concerns about the appropriateness of siting industry close to the community.

In the past, all actors had ignored or minimized the risks inherent in this use of the same space by industry and housing. Currently, industrial actors say that industry came first, and therefore the communities should accept the situation, but they also remark that the proximity was for long a win-win situation. As the population became aware of the negative environmental externalities of industries and ceased to be willing to tolerate them, tensions have arisen. Eventually, the DIM has changed from an industrial zone into a mixed zone, but without due consideration of the risks for both sides.

5 DISCUSSION

In order to discuss the business–government relationship in this case, we highlight the opinions and understandings of the subjects involved, which support a better understanding of this relationship and consequently of how it evolves over time. Following Khanna and Palepu (1997, 2010), we have investigated institutional voids and asked how local organizations make use of these voids (Doh et al., 2017, Marquis & Raynard, 2015). Our in-depth investigation reveals the different



institutional and organizational nuances, contradictions and tensions involved.

The regulatory systems that make up the institutional fabric consist of government laws and regulations, as well as oversight agencies and their procedures (Scott, 2014). When we investigate the evolution of environmental and spatial planning problems in an industrial area, we show how various actors have changed their roles over time. Although successive governments have developed laws and plans to alleviate the lack of spatial planning, the problems persist. The problems with spatial occupation were the result of a previous development policy that did not recognize the problems involved in merging industrial and residential occupation (Carvalho, 2009; Magalhães Neto, 2013). The industries that had already been installed were favored with the presence of communities that could provide cheap labor, and were able to benefit from these institutional conditions (Bothello et al., 2019).

The environmental problems, in turn, became a source of revenue for the city. The environment agency generates revenues from fines and fees, and the city receives substantial revenues that fund sizable proportions of their budgets, generating a tension for the public agents. On the one hand these agents are responsible for environmental protection, while on the other hand environmental problems may generate revenues from the fees and penalties they charge (Hamann, 2019). As the revenues are not used to alter behavior through education, they generate an environment of legal uncertainty, combined with mistrust, isolation and inertia among organizations (Ahen & Amankwah-Amoah, 2018).

Institutional theory argues that organizations must transmit signs of conformity and normality in order to maintain their legitimacy (Scott, 2014). However, institutional forces may differ within the same field when it is composed of organizations and actors that are positioned differently within power structures. This poses a challenge not only to the organizations involved, but across the entire field, as the law is not necessarily enforced equally. In many emerging markets law enforcement is used against political enemies and competitors (Rocha, 2017).

Our analysis of the emerging market institutional environment shows that it is structured in conflicting ways (Santagelo & Meyer, 2011). These institutions are ineffective legal structures with inconsistent rules, but they are institutionalized as a specific form of institutional structure that is created and reproduced by interacting social actors, based on informal agreements (Puffer, McCarthy, & Jaeger, 2016) or poorly negotiated formal agreements (Hamann, 2019). They are not fair democratic institutions, but taken-for-granted structures, being both reproduced and resisted by different actors (Bothello et al., 2019).

Our analysis is not limited to marginal phenomena. This is apparent when we consider the specificity of the relationships between organizations and local government. Despite the influence of organizations in the local political context, this does not result in social and environmental improvements. We do not totally reject the idea that institutions are able to pressure responsible practices (Lourenço & Sousa-Filho, 2020), but on the other hand we argue that institutions were historically constructed to favor an instrumental and philanthropic CSR without any strong influence on corporate political strategy (Ahen & Amankwah-Amoah, 2018; den Hond et al., 2014).

Therefore, in order to understand how to change these institutions, which could provide access to resources more democratically, it would be more productive to understand how they are created and reproduced in the local context, instead of calling them voids. The idea of institutional voids goes against the definition of institutions. Our analysis shows that institutions have become inadequate in the face of the new conditions they have helped create. This appreciation is closely related to the idea of an (institutional) lock-in in which a new collective capacity for action is required for proper progressive institutional change to emerge (David, 1985).



We agree with Bothello et al. (2019), who argue that this concept “is built on a narrow transaction cost conceptualization of institutions as regulatory ‘rules of the game’, ignoring a more holistic treatment of institutions as regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provides stability and meaning to social life” (Scott, 2014: 56). We have shown how institutional permissiveness allows socially (ir)responsible acting. Our analysis supports Campbell’s (2007) suggestion that corporations are more likely to act opportunistically when they are operating in a permissive institutional context.

In our case is evident that institutional permissiveness has favored powerful actors for years. This institutional environment creates uncertainties for subordinate actors (Rocha & Granrud, 2011) and allows abuses by dominant economic actors through corruption (Ahen & Amankah-Amoah, 2018, Doh et al., 2017), which in turn feeds the sense of injustice among subordinate actors. It was observed that the institutionalized forms of business–government relations are fundamentally permissive and personal, being based on meeting specific and mutually opportunistic demands (Hamann, 2019).

Permissiveness implies that powerful actors have the leeway to benefit themselves at the expense of other actors in the community. It is not institutional voids but permissive institutions that accommodate the opportunistic strategies of powerful actors. Powerful incumbents and challengers are likely to enter into social conflicts in which actors articulate, sponsor and defend practices and claims to knowledge that serve their institutional positions (Lawrence, 1999). The state’s central position in many emerging markets means that those with political power can enforce different institutions and, by following this line of action, can favor different actors.

Hamann (2019) argues that corporate social irresponsibility is characterized by the evasion or denial of social responsibility in given contexts, which can harm a variety of stakeholders. From an institutional void perspective, one could argue that passivity and the denial of responsibility is manifest at DIM in different ways on the part of both the government and the companies. The government reduces its investments in the region and neglects the externalities of industrial activity. However, our analysis indicates the existence of institutional permissiveness rather than an institutional void. Highly institutionalized relations of power control access to natural resources. Strong relationships between state agents and a few companies reveal social irresponsibility to be a consequence of institutional permissiveness. Laws are enforced to please powerful actors and attack challengers. Permissiveness means that institutions do not structure action in a field equally.

6 CONCLUSION

This article started by asking: How does the institutional environment encourage corporate social (ir)responsibility? The exploratory qualitative research, which took place in an institutional environment located in an emerging economy, shows how local institutions shape but are also shaped by organizations, influencing the understanding of phenomena that directly impact the quality of the natural environment and social well-being. The findings reject the path advocated in the normative writings on PCSR, according to which large organizations located in institutionally fragile environments are likely to promote social and environmental gains. We show that large organizations are likely to take advantage of institutionally fragile environments to exercise power and control over other organizations, including public organizations, for their own benefit.

Our theoretical contribution turns on the concept of institutional permissiveness. We show that institutional permissiveness can make it possible for large firms to dominate an industrial area and to force the government to reduce environmental protection and law enforcement, but only for



some. Initially institutional permissiveness favored the industry that needed local manpower and access to local natural resources, disregarding the potential externalities.

In this regard, in this paper we have contributed to the literature on PCSR by improving understanding of corporate irresponsibility in an emerging market. We have used a process of theory elaboration (Lee, Mitchell, & Sablynski, 1999) to identify, re-direct and re-connect different strands of institutional theory in order to explore PCSR activities. We did this by presenting the implications for the broader literature on neo-institutionalism and institutional voids, and more specifically by strongly criticizing the literature on institutional voids by conceptualizing how CSR is exercised in developing economies in the context of the institutional permissiveness of their institutional environments.

Institutional permissiveness provides opportunities and advantages to powerful actors in the short and medium terms, but it has also produced various negative consequences in the long run. Initially, companies were able to occupy the area in a way that benefited themselves by attracting workers to live in the neighborhood while being able to disregard the negative environmental effects and externalities of their activities. Over time, these advantages became a problem for the same organizations, given the enforcement of environmental laws and the increasing awareness that pollution is having severe negative effects on the local population's health. The overlapping use of space triggers constant conflicts between the companies and the neighboring population.

This criticism is not intended to defend the strategy of powerful actors in these environments that aim to keep their own control over access to resources, but rather to analyze different local situations critically, instead of claiming that there is a void when the institutional environment does not fit neoliberal ideals. Moreover, it is problematic to highlight "institutional voids" while entirely disregarding the complex social constructions and local histories through which local institutions have emerged. By ignoring historical entanglements, the institutional voids perspective disregards the possibility of diverse developmental trajectories which do not converge on the Anglo-Saxon model.

This research also has its limitations, being exploratory research with only a few actors being interviewed. It is crucial for future research to understand how the influences of incumbent powerful actors are institutionalized and how they can hinder change. It would be interesting to investigate further institutional permissiveness in other contexts in order to compare how institutional permissiveness may affect the CSR in different business systems.

In order to build an alternative path for a system that ensures multiple long-term benefits for society, we need to develop a strategic approach that unfreezes the undesirable resilience of local institutions: viewing them as voids will have severe negative consequences on the way these can be reconfigured. Therefore, we need to ask who wins, who loses, and over what timescales? To change the prevailing institutions, new ideas, technologies, business models and cultural norms will have to emerge, while critical ones may need defending from immediate pressures emanating from the regime.

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2. Development of hypotheses or research questions (empirical studies)	√		√
3. Development of theoretical propositions (theoretical work)	√	√	√
4. Theoretical foundation / Literature review	√	√	
5. Definition of methodological procedures	√		√
6. Data collection	√		√
7. Statistical analysis			
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