Beyond profits

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RESEARCH ARTICLE

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Beyond profits: The linkages between local embeddedness, social legitimacy, and corporate philanthropy in the mining industry

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Abstract

Despite the growing body of research on corporate philanthropy, there remains a lack of understanding regarding how local embeddedness impacts the philanthropic activities of firms. Our study addresses this gap in the philanthropy literature by proposing and testing a model that elucidates this mechanism. Drawing on data from 166 firms operating in the mining industry, our findings indicate that local embeddedness has a positive effect on a firm's social legitimacy. However, we also discovered that this relationship is amplified when there is greater legal inefficiency. Additionally, our results demonstrate that a firm's social legitimacy serves as a mediator in the relationship between local embeddedness and corporate philanthropy. The theoretical and practical implications of these findings are discussed in detail.

KEYWORDS
corporate philanthropy, Ghana, legal inefficiency, local embeddedness, mining, social legitimacy

1 | INTRODUCTION

The mining industry is known for its controversial nature, as it has the potential to both benefit and threaten society. The mining sector is intricately linked to a country's economy and its natural resource activities, including mining operations. However, mining communities in developing countries often serve as residential areas for a significant portion of the population (Siawor-Robertson & Awaworyi Churchill, 2015). This situation inherently poses numerous threats to the well-being of inhabitants in mining communities. Considering the diverse environmental impacts resulting from mineral extraction and use, as well as the social implications on local communities, the mining industry must engage in philanthropic activities to ensure sustainable communities also benefit from their activities.

Philanthropic activities (i.e., charitable contributions) have been recognized as a metric for assessing positive corporate social performance (Chen et al., 2008; Gautier & Pache, 2015). Firms engaging in corporate philanthropy in developing countries play a vital role in driving positive social change and sustainable development. These firms recognize their responsibility to contribute to the well-being of the communities in which they operate and aim to address pressing social and environmental challenges. Corporate philanthropy in developing countries takes various forms, including financial contributions, in-kind donations, volunteer programs, and strategic partnerships. For example, the mining industry in Ghana views its corporate philanthropy not only as a way to give back to society but also as an evolving strategy for long-term community sustainable development (Adomako & Nguyen, 2023). Although current sustainability reporting guidelines, such as the Global Reporting Initiative (2006), do not specifically require reporting on philanthropic giving (Erusalimsky et al., 2006). While this emphasis on corporate giving may be less concerning if the reports also provided comprehensive information on the negative impacts of businesses, many social reports from companies prioritize presenting a positive image rather than offering a balanced account of the firms' social impacts (Chen et al., 2008; Gray & Bebbington, 2007).

In the field of corporate philanthropy research, scholars have dedicated their efforts to various areas of study. For instance, researchers have examined the factors that precede corporate philanthropic initiatives, such as the antecedents of corporate giving (Breeze & Wiepking, 2020; Ji et al., 2021), motives for engaging in corporate philanthropy (Peterson et al., 2021; Sánchez, 2000), and the outcomes of philanthropic initiatives (Seifert et al., 2004; Wang et al., 2008). These studies have significantly contributed to our understanding of the literature. However, one area that remains less explored is the influence of local embeddedness on corporate philanthropy. Although previous research has examined the impact of local embeddedness on corporate social performance (Adomako & Tran, 2022), the specific mechanisms through which this relationship operates have not been fully understood. Therefore, the primary objective of our study is to investigate the mediating role of social legitimacy in the relationship between local embeddedness and corporate philanthropy. We aim to shed light on how local embeddedness influences corporate philanthropy through the mechanism of social legitimacy. Additionally, we seek to identify the conditions under which local embeddedness predicts social legitimacy.

To achieve this aim, we collected data from 166 firms engaged in mining-related activities in Ghana. Our findings provide support for the hypotheses proposed in our study, thereby contributing to a deeper understanding of the relationship between local embeddedness, social legitimacy, and corporate philanthropy.

This article makes significant contributions to the corporate philanthropy literature in three key areas. Firstly, we explore the impact of local embeddedness on social legitimacy. This is an important contribution as local embeddedness improves trust and builds a positive reputation within the local community (Adomako & Tran, 2022; Zhang et al., 2020). Second, we elucidate the mechanism through which local embeddedness influences corporate philanthropy. Specifically, we demonstrate that social legitimacy acts as a mediator in the relationship between local embeddedness and corporate philanthropy, particularly in emerging markets. By highlighting the role of local embeddedness in shaping corporate philanthropy, this article expands the existing philanthropy literature (Adomako & Tran, 2022). Third, we identify a crucial condition that affects the relationship between local embeddedness and social legitimacy. We reveal that legal inefficiency serves as a moderator in this relationship. This finding extends the philanthropy literature by shedding light on the boundary conditions that influence the impact of local embeddedness.

The subsequent sections of this article are organized as follows: Firstly, we provide a theoretical background for the study. This is followed by the formulation of hypotheses. Secondly, we outline the methodology employed in the study and discuss the results. Finally, we analyze the implications of the findings for theory and practice, along with a comprehensive discussion of the results.

2 | THEORETICAL BACKGROUND AND HYPOTHESES

2.1 | Legitimacy theory

Securing support from the community is vital for businesses to establish legitimacy (Pfeffer & Salancik, 1978). When organizations' actions are seen as inappropriate, community members and pressure groups often challenge them (Palazzo & Scherer, 2006). External pressures, such as social and political influences, can threaten a company's sustainable legitimacy. To address this, firms often "create competitive advantage based on a deep understanding of and integration with the local environment" (London & Hart, 2004, p. 364). This helps to change stakeholders' perceptions and meet their increasing demands. By doing so, respond to social and stakeholder pressures (Cho & Patten, 2007; Di Vaio et al., 2022).

According to the legitimacy theory, unsatisfactory sustainable behavior becomes known to wider legitimacy forces and motivates companies to improve their discretionary sustainability (Cormier & Magnan, 2015). Achieving legitimacy is based on the positive outcomes resulting from a company's existence or behavior, as well as an explicit moral discourse regarding the acceptability of the firm and its activities. Furthermore, in line with the legitimacy theory, companies gain higher organizational legitimacy when their activities align with social values and norms within the context, making it easier for them to obtain necessary resources and satisfy stakeholders.

Corporate social philanthropy is also driven by the need to legitimize a firm's activities (Gautier & Pache, 2015). With high stakeholder expectations, it is believed that stakeholders deliberate on what activities are acceptable. As members of the community, companies are expected to operate within the boundaries of acceptability defined by that community. For instance, if a company's activities hurt the environment, the company's management may seek to restore its credibility by providing additional information through disclosure. Therefore, as awareness grows regarding a company's environmental, economic, and social performance, sustainability disclosure, mainly through reporting, becomes a significant tool for boosting corporate social performance. Companies are likely to take actions to legitimize their activities and ensure acceptability by stakeholders.

In light of the preceding discussion, the legitimacy perspective has been utilized as a guiding framework to explore the drivers and outcomes of social legitimacy. This examination specifically focuses on social legitimacy where the legitimacy framework assumes greater

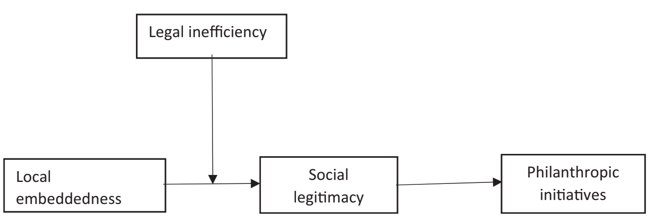

FIGURE 1 Conceptual model of the study.

significance for companies involved in social philanthropy. Figure 1 below summarizes the conceptual model of the study.

2.2 | Local embeddedness and social legitimacy

In this study, we argue that a firm's level of local embeddedness would improve its social legitimacy. Previous studies define local embeddedness as the firm's capacity to gain a competitive advantage by deeply understanding and integrating with the local environment (London & Hart, 2004). Research has demonstrated that in emerging markets, the firm's operational context plays a significant role in enabling social legitimacy (Adomako & Tran, 2022). Social legitimacy pertains to the evaluation made by the public and social communities regarding the acceptance, suitability, and desirability of a particular entity or phenomenon (Adomako & Tran, 2023; Suchman, 1995). Assimilating into existing local networks poses a major challenge for firms operating in such markets. Given the institutional voids and challenging business environments prevalent in developing markets, local embeddedness becomes crucial. Firms unfamiliar with the local business environment need to quickly learn the rules of the game in these contexts.

This study proposes that when a firm is deeply embedded in local networks, it reduces the risks associated with an unfamiliar context, thereby enhancing its social legitimacy. First, local embeddedness enhances the firm's comprehension of local peculiarities and challenges, leading to increased engagement in social legitimacy within the local context. Second, since a significant proportion of the population in developing countries faces low incomes and numerous grand challenges, local embeddedness enables firms to grasp the reality of these challenges (Baù et al., 2019; Kalantaridis & Bika, 2006). By understanding the problems in these markets, firms can develop novel and more effective, efficient, and sustainable solutions to solve local problems. This can be achieved through establishing partnerships with community-based non-governmental organizations, local government agencies, and influential figures in the community (Suchman, 1995). Thus, the degree of local embeddedness becomes a vital source of networks that improve the firm's social legitimacy. Accordingly, we hypothesize that:

> **H1.** Local embeddedness has a positive influence on social legitimacy.

2.3 | Mediating role of social legitimacy

Further, we suggest that social legitimacy would mediate the relationship between local embeddedness and corporate philanthropy. Corporate philanthropy plays a crucial role in strategic corporate social responsibility, where the integration of responsibility, business, and philanthropy is seen as vital for competitive advantage (Chen et al., 2008; Weeden, 2015). It serves as a means to demonstrate a firm's commitment to fulfilling its social obligations (Miller, 2008; Shu et al., 2016). Corporate philanthropy typically involves activities such as charitable giving and involvement in humanitarian projects related to community education, healthcare, welfare, and social justice (Sánchez, 2000). Philanthropic activities often gain the most visibility in the aftermath of catastrophic events such as hurricanes, tsunamis, and earthquakes. These large-scale disasters create significant social, economic, and environmental needs, providing companies with an opportunity to showcase their commitment to corporate citizenship and garner positive media attention, thereby appealing to consumers.

In this study, our argument revolves around the relationship between local embeddedness, social legitimacy, and corporate philanthropy. First, firms operating in emerging or developing countries tend to establish local networks to adapt their products according to the specific requirements of the local environment. By successfully adapting their products and services to meet these local needs, these firms can provide acquire legitimacy that effectively addresses changes and caters to the local population's needs.

Second, local embeddedness fosters trust and builds a positive reputation within the local community (Adomako & Tran, 2022; Zhang et al., 2020). When a firm is deeply integrated into the local environment, it is more likely to understand the needs and values of the community and this understanding enhances social legitimacy, as the community perceives the company as a genuine and trustworthy entity. As a result, a firm's philanthropic initiatives are more likely to be received positively and seen as genuine efforts to contribute to the community's well-being.

Third, local embeddedness allows a firm to align its actions with the social expectations of the local community (de Beer, 2018; Marquis & Tilcsik, 2016). When a firm is deeply connected to the local environment, it has a better understanding of the social issues and challenges that the community faces. By addressing these issues through philanthropic initiatives, the company demonstrates its commitment to fulfilling its social responsibilities. This alignment with community expectations enhances the company's social legitimacy and reinforces the positive perception of its philanthropic efforts.

Finally, a firm's level of local embeddedness facilitates strong relationships and engagement with local stakeholders, including community leaders, organizations, and residents (de Beer, 2018; Sharafizad et al., 2022). These relationships provide the firm with valuable insights and guidance on where its philanthropic initiatives can have the most meaningful impact. Moreover, when the firm involves the local community in the planning and execution of its philanthropic initiatives, it is likely to strengthen community support and participation. This active engagement and support further enhance the firm's social legitimacy, as the community recognizes its genuine commitment to making a positive difference. Based on these arguments, we propose that social legitimacy acts as a mediator between local embeddedness and corporate philanthropy. Thus, we suggest the following hypothesis:

> **H2.** Local embeddedness has an indirect effect on philanthropic initiatives through social legitimacy.

2.4 | Moderating the role of legal inefficiency

In emerging markets, legal codes often suffer from poor enforcement due to uneven economic development and fragmented local bureaucratic systems (Wei et al., 2017; Zhou & Poppo, 2010). The presence of legal inefficiency can significantly impact the importance attributed to environmental social responsibility signals and how stakeholders interpret them during the process of legitimacy judgment. In cases where legal implementation is efficient, both the government and business stakeholders perceive that firms must proactively adopt environmental social responsibility practices (Wei et al., 2017). In such circumstances, stakeholders often attribute the firm's philanthropy in terms of mitigating environmental disasters or problems to strict regulatory pressure rather than genuine goodwill toward the environment (Adomako et al., 2023). When a firm underinvests in environmental or social philanthropy, it is seen as illegitimate, while adopting social responsibility is considered normal. As a result, most firms allocate resources to social and environmental philanthropy activities, requiring a high level of commitment to generate a salient signal.

First, in contexts where legal inefficiency is high, local embeddedness becomes crucial for establishing trust and credibility with stakeholders. When legal systems are fragmented and enforcement is weak, organizations that are deeply rooted in the local community can gain social legitimacy through their close relationships and engagement with local stakeholders (Sheng et al., 2011). This social legitimacy, built on trust and credibility, enhances the positive perception of the organization's philanthropic initiatives. Local embeddedness allows organizations to navigate the challenges posed by legal inefficiency and reinforces the belief that their philanthropic efforts are genuine and aligned with the expectations of the community.

Second, high legal inefficiency often leads to institutional voids in which formal regulations and policies are lacking or poorly enforced. In such environments, local embeddedness enables organizations to fill these voids by taking on social responsibilities that go beyond legal requirements. By actively addressing societal needs and investing in philanthropic initiatives, organizations can contribute to the well-being of the community and help overcome the shortcomings of the legal system (Sasse & Trahan, 2007; Su & He, 2010). This proactive engagement in philanthropy, driven by local embeddedness, reinforces social legitimacy and strengthens the perception that the organization is fulfilling its obligations and playing a positive role in the absence of effective legal mechanisms.

Third, we argue that legal inefficiency can create social and economic disparities within a community, leading to social unrest and dissatisfaction. Local embeddedness allows organizations to understand and respond to the specific needs and concerns of the community (London & Hart, 2004; Zhang et al., 2020). By actively supporting philanthropic initiatives that address these issues, organizations can contribute to social cohesion and community development. The positive impact of their philanthropic efforts, coupled with their embeddedness in the local context, enhances social legitimacy. As a result, the community is more likely to support and value the organization's initiatives, creating a positive cycle of trust, engagement, and further philanthropic activities.

Taken together, we contend that when legal inefficiency is high, local embeddedness plays a pivotal role in bridging the gaps and challenges created by the weak legal system. It fosters trust, fills institutional voids, and promotes social cohesion, all of which contribute to the indirect positive effect of local embeddedness on philanthropic initiatives through enhanced social legitimacy. Thus, we suggest that:

> **H3.** Local embeddedness has a greater positive indirect effect on philanthropic initiatives through social legitimacy when legal inefficiency is high.

3 | METHOD

3.1 | Study context

Ghana is an important context for testing our hypotheses for several reasons. First, the mining industry has been a crucial component of Ghana's economy for over 150 years (Famiyeh et al., 2021), contributing significantly to government revenue through exports, taxes, and royalties. It has also played a vital role in generating employment opportunities and developing infrastructure. Over the years, this industry has deeply embedded itself in local communities and made significant contributions to Ghana's economic growth. The adoption of CSR by the mining industry in Ghana reflects a growing recognition of the industry's role in society and its commitment to responsible and sustainable practices.

Second, Ghana's open market economy offers a unique environment to examine how Western theories of industrialization apply to an emerging country (Adomako et al., 2018). Third, Ghana, like other countries where mining is a key economic sector, faces pressing challenges related to institutional stability and economic management. In particular, addressing poor economic management and weak institutions is crucial for sustainable development in Ghana (Adomako & Nguyen, 2023). It is important to note that this study focuses on mining operations involving metals and minerals, excluding oil and gas activities.

3.2 | Sample and data collection

To ensure the validity and accuracy of the survey instrument, the initial items were derived from existing literature and underwent pre-testing with experts in the academic community. Feedback from these experts was used to refine the items. The research involved collecting data from experienced managers in general, production, and human resources positions at operating mines. The surveyed managers predominantly work in energy fields, exploring various natural resources such as oil, gas, gold, bauxite, and manganese. Production managers are responsible for overseeing and managing engineers to ensure environmentally conscious mineral extraction from mines, pits, and quarries, with a focus on maximizing profit while minimizing environmental damage.

Data for this study, which relied on self-reporting, was collected from the top and middle managers of selected firms between July 2021 and August 2022. The managers received an initial invitation, followed by three reminders. Respondents rated all items on a 7-point Likert-type scale, ranging from strongly disagree to strongly agree. A total of 500 questionnaires were distributed and received 240 completed questionnaires. However, only 166 questionnaires were

TABLE 1 Constructs, reliability, and validity.

Details of measurement items	Factor loading	Cronbach's α	CR	AVE
Local embeddedness (Ernst et al., 2015).		0.90	0.91	0.71
Please indicate your level of agreement with these statements related to your current venture	0.88			
We focus on utilizing local social networks in design and producing our products	0.89			
We focus on strengthening ties with local communities in product designs	0.90			
We work with nongovernmental organizations (NGOs) in our product design	0.78			
We work with unorthodox partners, such as locally influential community members or small entrepreneurs in our product design process	0.77			
Social legitimacy (Scott, 1995; Suchman, 1995).		0.89	0.90	0.70
In the past 3 years, what our company has done				
Has been accepted by the community	0.76			
Has been accepted by the public	0.87			
Has been accepted by financial agencies (such as state-owned banks)	0.85			
Has been accepted by public stakeholders, such as environmental protection agencies	0.88			
Legal inefficiency (Sheng et al., 2011)		0.94	0.95	0.80
In the past 3 years				
Firms have frequently experienced unlawful competitive practices	0.89			
It has been difficult to rely on laws and regulations to fight unlawful competitive practice	0.92			
Unlawful competitive practices have easily harmed a firm's interest	0.94			
Many illegal competitive practices such as knock-offs and copycats have arisen	0.87			
Other firms have frequently and illegally falsified products or trademarks	0.88			
Philanthropic initiatives (Zheng et al., 2015)		0.85	0.86	0.61
Our company is cooperating with other non-governmental organizations to conduct philanthropic activities	0.78			
Our company sets up a specific team responsible for philanthropic activities	0.83			
Our company has a specific budget for philanthropic activities	0.77			
Our company conducts philanthropic activities regularly	0.75			
Past performance (Chen, 2022)		0.85	0.86	0.68
We are satisfied with the last year's sales	0.80			
We satisfied with the last year's return on capital	0.81			
We are satisfied with the last year's net profit	0.84			

Abbreviations: AVE, average variance extracted; CR, composite reliability.

included in the analysis due to incomplete responses. This represents a 33% response rate.

To assess nonresponse bias, we compared early and late respondents in terms of firm size, and firm age (Armstrong & Overton, 1977). The results of a *t* test found no significant differences between the groups. Thus, non-response bias was not considered a serious threat in our study.

3.3 | Measures

In this study, all measurements were obtained using a 7-point multi-item scale, with rating options ranging from 1 (not at all) to 7 (to an extreme extent). Further information regarding these multi-item measures can be found in Table 1.

Local embeddedness. We measured local embeddedness with four items from Ernst et al. (2015). These items reflect our focus on incorporating local social networks, strengthening ties with local communities, collaborating with NGOs, and engaging with unorthodox partners in our product design process, emphasizing the concept of local embeddedness.

Social legitimacy. We measured social legitimacy with four items from previous studies (Scott, 1995; Suchman, 1995). Our measure comprises four indicators that capture the level of acceptance attained by the focal company from external social institutions, including the public and the community.

Legal inefficiency. In line with Sheng et al. (2011), we employ a five-item scale to measure the prevalence of illegal behaviors, such as piracy and counterfeiting, and illegal competitive practices in the marketplace, as well as the challenges faced by firms in enforcing regulations to penalize perpetrators.

Philanthropic initiatives. To assess philanthropic initiatives, we utilized a four-item scale adapted from Zheng et al. (2015). These items evaluate factors such as corporate budget allocation for philanthropic activities, consistent implementation of philanthropic initiatives, the presence of dedicated teams for philanthropic efforts, and engagement in external collaborations related to philanthropic activities.

Control variables. To mitigate the influence of confounding factors, we incorporated several variables that might affect philanthropic initiatives. Firm age was measured by the natural logarithm of the number of years the firm has been operating. Firm size was measured using the natural logarithm of the total number of employees. Additionally, we included a dummy variable for ownership type, specifically distinguishing foreign-invested firms from domestic firms, which served as the reference group. Furthermore, we controlled for the potential impact of past performance, which typically indicates an effective corporate strategy and strong management (Zheng et al., 2015). Past performance was assessed by comparing its performance level to that of its competitors (Chen, 2022), utilizing a 7-point Likert scale ranging from 1 ("very low") to 7 ("very high").

3.4 | Common method variance, reliability, and validity

To address the issue of common method variance (CMV), we implemented procedural and statistical techniques for mitigation and assessment (Podsakoff et al., 2003). Procedurally, we gathered data from two sources within each organization, specifically one top manager, and one middle manager. By utilizing multiple informants for both the independent and dependent variables, we significantly reduced the potential influence of CMV.

Additionally, we employed the marker variable (MV) method to evaluate CMV. We included an MV (i.e., I like the color green), which does not relate to any other variable in our study, thereby representing potential CMV (Lindell & Whitney, 2001). The responses for the marker item were obtained exclusively from the top managers. To address the issue of CMV, we adjusted the correlations and statistical significance of the constructs based on the lowest positive correlation observed between the marker item and the other variables ($r = 0.005$). Upon examining the results, we found that none of the significant correlations became insignificant after the adjustment. This outcome suggests that common method bias is unlikely to be a significant concern in our study. To ensure the reliability and validity of our study, we conducted several confirmatory factor analyses (CFA). Following the recommended guidelines by Hu and Bentler (1999), we used specific cut-off scores to evaluate the goodness of fit for our models: SRMR = 0.07, RMSEA = 0.05, CFI = 93 and IFI = 0.92. Our hypothesized five-factor model demonstrated satisfactory fit indices (χ^2 [292] = 539.33, IFI = 0.95, CFI = 0.94, SRMR = 0.06, RSMEA 0.05).

To assess convergent and discriminant validity, we examined the intercorrelations among all items. High correlations were expected between items measuring the same construct, while correlations between theoretically dissimilar measures should be low. The intercorrelations within each construct were indeed very high. These correlations were significantly higher than the cross-construct correlation coefficients in the same column, indicating the appropriateness of our measurements for each construct. The results supported both discriminant and convergent validity.

Convergent validity was further evaluated by examining reliability values and the amount of variance extracted from each factor by its components. The composite reliability values for the constructs ranged from 0.86 to 0.95 (see Table 1), surpassing the cutoff (Bagozzi & Yi, 1988). The variance extracted from each construct ranged from 0.61 to 0.80 (see Table 1), exceeding the cutoff suggested by Fornell and Larcker (1981). These findings, along with our additional analyses, indicate satisfactory convergent and discriminant validity in our study.

Additionally, we conducted an exogeneity test for the explanatory variables in both the philanthropic and local embeddedness models. The Wu–Hausman F-tests (F = 0.57, 0.01; $p = 0.44$, 0.92) and Durbin–Wu–Hausman Chi-squared tests ($\chi^2 = 0.61$, 0.01; $p = 0.45$, 0.92) did not provide evidence to reject the null hypothesis that the explanatory variables are exogenous.

4 | RESULTS

In Table 2, we present the statistical measures such as means, standard deviations, and square roots of average variance extracted. To avoid potential issues with multicollinearity, the key variables were mean-centered. We found that the largest variance inflation factor (VIF) value was 2.30, which is well below the suggested threshold of 10 (Neter et al., 1996). This indicates that multicollinearity is not a significant problem in our data. Before analyzing the data, we checked for violations of normality assumptions and outliers, but found none, confirming that the data were suitable for regression analysis. We used hierarchical regression to test our hypotheses, and the results are presented in Table 3.

In Models 1–4, the dependent variable is social legitimacy. Model 1 included the control variables, but none of them showed a significant effect on social legitimacy. In Model 2, we introduced the variable of local embeddedness, which had a significant positive effect on social legitimacy ($\beta = 0.21$, $p < 0.01$), supporting H1. Model 3 included the moderating variable (legal inefficiency), and the results showed that local embeddedness still had a significant positive effect on social legitimacy ($\beta = 0.20$, $p < 0.01$). In Model 4, we added the interaction term between local embeddedness and legal inefficiency, which was found to be positive and significant ($\beta = 0.32$, $p < 0.01$). This indicates that legal inefficiency positively moderates the relationship between local embeddedness and social legitimacy, providing support for H3.

In Models 5–8, the dependent variable is philanthropic initiatives, and we tested the mediating hypothesis (H2). First, we found a

TABLE 2 Descriptive statistics and correlations.

	Variables	Mean	SD	1	2	3	4	5	6	7
1.	Firm age	24.67	13.15							
2.	Firm size	142.23	124.109	−0.03						
3.	Ownership type	0.50	0.49	0.05	0.01					
4.	Past performance	4.47	1.18	−0.11	−0.04	0.02				
5.	Local embeddedness	4.90	1.58	0.13*	0.07	−0.11	0.10			
6.	Social legitimacy	4.53	0.86	0.14*	0.13*	−0.04	0.09	0.22**		
7.	Legal inefficiency	4.48	1.44	−0.02	−0.03	−0.03	0.01	0.14*	0.08	
8.	Philanthropic initiatives	4.52	0.84	0.12	0.16*	−0.12	0.14*	0.30**	0.25**	0.06

Note: $N = 166$; *$p < 0.05$; **$p < 0.01$ (two-tailed test).
Abbreviations: AVE, average variance extracted; SD, standard deviation.

TABLE 3 Regression results.

	Models 1–4: Social legitimacy				Models 5–8: Philanthropic initiatives			
Control variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**
Firm age	0.15*	0.15*	0.14*	0.13*	0.10	0.09	0.08	0.08
Firm size	0.14*	0.14*	0.13*	0.12	0.14*	0.13*	0.13*	0.13*
Ownership type	−0.03	−0.03	−0.03	−0.02	−0.09	−0.08	−0.08	−0.06
Past performance	0.04	0.04	0.03	0.02	0.14*	0.12	0.11	0.10
Independent variable								
Local embeddedness (LE)		0.21**	0.20**	0.19**		0.27**	0.24**	0.01
Moderator								
Legal inefficiency (LI)			0.08	0.07	0.09	0.03	0.04	0.04
Interaction								
LE * LI				0.32**				
Mediator								
Social legitimacy							0.23**	0.20**
Model fit statistics								
F	1.79	3.35**	3.27***	3.92**	2.10*	3.18**	4.91**	5.66**
R^2	0.11	0.15	0.19	0.22	0.13	0.16	0.20	0.23
ΔR^2	-	0.04	0.04	0.03	-	0.03	0.04	0.03
Largest VIF	1.19	1.44	2.10	2.17	1.22	2.30	2.05	2.19

Note: $N = 166$; *$p < 0.05$; **$p < 0.01$; Standardized coefficients are shown.

positive and significant relationship between local embeddedness and social legitimacy (mediator) in Model 2 ($\beta = 0.21$, $p < 0.01$). Second, social legitimacy was positively related to philanthropic initiatives in Model 7 ($\beta = 0.23$, $p < 0.01$). Third, when we included both local embeddedness and social legitimacy in the equation, social legitimacy was still positively related to philanthropic initiatives ($\beta = 0.20$, $p < 0.01$), while the effect of local embeddedness on philanthropic initiatives became non-significant ($\beta = 0.01$, $p > 0.10$). These findings indicate that social legitimacy mediates the relationship between local embeddedness and philanthropic initiatives, supporting H2.

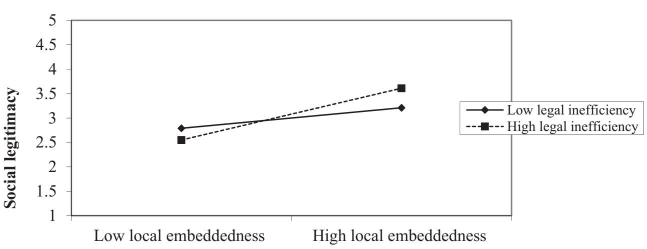

FIGURE 2 Interaction effect of local embeddedness and legal inefficiency on social legitimacy.

TABLE 4 Indirect effect and significance using the normal distribution.

	Value	SE	z	p
Sobel	0.03	0.04	2.07	0.05
Bootstrap results for the indirect effect	Effect	SE	LL 95% CI	UL 95% CI
	0.04	0.04	0.03	0.11

Note: $N = 166$. Bootstrap sample size = 10,000. *$p < 0.05$; **$p < 0.01$.

TABLE 5 Moderated mediation results for philanthropic initiatives across levels of legal inefficiency.

	Philanthropic initiatives				
Moderator	**Level**	**Conditional indirect effect**	**SE**	**LL 95% CI**	**UL 95% CI**
Legal inefficiency	Low (−1.09)	−0.01	0.02	−0.10	0.03
	High (1.09)	0.05	0.03	0.04	0.12

Note: $N = 166$. Results are based on 10,000 bootstrap sample.

To further investigate the direction of the moderation, we plotted a graph of the moderation at different levels of legal inefficiency (Aiken & West, 1991). The results in Figure 2 showed that the relationship between local embeddedness and social legitimacy was strong when legal inefficiency was high.

We also tested the significance of the indirect effect using the Sobel test and bootstrapping (Hayes and Preacher, 2010). The results in Table 4 confirmed a significant indirect effect, supporting H2. Additionally, we examined the conditional indirect effect of local embeddedness on philanthropic initiatives through social legitimacy at different levels of legal inefficiency (see Table 5). The results showed that the indirect effect was stronger and significant at a high level of legal inefficiency, but weaker and insignificant at a low level of legal inefficiency, confirming H3.

5 | DISCUSSION AND CONCLUSION

This research aimed to explore the impact of local embeddedness on corporate philanthropy through social legitimacy. Additionally, we examined how the relationship between local embeddedness and social legitimacy is influenced by the level of legal inefficiency. Legitimacy theory, which is widely recognized in various fields as a framework to understand firm behavior (e.g., Nurhayati et al., 2016; Tilling, 2004), served as the basis for our study. Our findings demonstrated a significant positive effect of local embeddedness on social legitimacy. Moreover, we discovered that higher levels of local embeddedness and increased legal inefficiency are associated with higher levels of social legitimacy. Finally, we find that local embeddedness has a positive influence on corporate philanthropy through social legitimacy. These outcomes contribute three important theoretical insights to the existing corporate philanthropy literature.

5.1 | Theoretical implications

First, our research expands the existing literature on social legitimacy (e.g., Adomako & Tran, 2023; Suchman, 1995) by examining the impact of local embeddedness on social legitimacy. While previous studies have acknowledged the significance of local embeddedness in a firm's legitimacy efforts, there is limited knowledge regarding how integrating with the local environment influences social legitimacy. Our study reveals a positive correlation between higher levels of local embeddedness and increased social legitimacy. By aligning with the emerging perspective that views local embeddedness as a firm's ability to "create competitive advantage based on a deep understanding of and integration with the local environment" (London & Hart, 2004, p. 364), we address an important research gap by explicitly linking local embeddedness to social legitimacy.

Second, we contribute to the local embeddedness literature (e.g., Adomako & Tran, 2022; Ernst et al., 2015; London & Hart, 2004) by investigating how legal inefficiency influences the relationship between local embeddedness and social legitimacy. Although local embeddedness can drive social legitimacy, simply having a strong ability to integrate with the local environment may not be sufficient. Surprisingly, previous research has overlooked how local embeddedness enhances social legitimacy and the extent to which its effectiveness is conditioned by legal inefficiency. Our findings indicate that social legitimacy is enhanced when local embeddedness is high and legal inefficiency is high. This finding is particularly relevant for firms operating in less-developed societies, which often face weak institutional environments characterized by greater market uncertainty and volatility.

Third, our study extends the corporate philanthropy literature by highlighting the mediating role of social legitimacy in the relationship between local embeddedness and corporate philanthropy. While existing research has identified various factors that contribute to corporate philanthropy (e.g., Gautier & Pache, 2015; Muller et al., 2014; Ouyang et al., 2020), the specific mediating role of social legitimacy has not been explicitly examined. Our findings demonstrate that social legitimacy mediates the link between local embeddedness and corporate philanthropy, enhancing our understanding of the drivers of corporate philanthropy. This complements previous studies on corporate philanthropy literature (e.g., Breeze & Wiepking, 2020; Eger et al., 2019; Ji et al., 2021) by emphasizing that local embeddedness serves as an indirect driver of corporate philanthropy. This theoretical contribution enhances our understanding of the mechanisms involved in the relationship between local embeddedness and corporate philanthropy. These insights provide valuable knowledge to improve our understanding of the complex dynamics between local embeddedness, social legitimacy, and corporate philanthropy.

5.2 | Practical implications

This paper offers practical implications based on our findings. Our results indicate that local embeddedness positively influences social legitimacy. Furthermore, we found that social legitimacy mediates the relationship between local embeddedness and corporate philanthropy. The results also show that the impact of local embeddedness on social legitimacy is more pronounced when there is high legal inefficiency. These insights have relevance in real-world scenarios.

First, the finding that firms that prioritize local embeddedness are more likely to improve their social legitimacy is important for managers that are looking to improve their social legitimacy. Therefore, managers are advised to focus on effective local networking activities to reap the benefits of social legitimacy. By actively engaging with stakeholders, firms can better align networking practices with stakeholder expectations.

Second, managers should consider improving their social activities through corporate philanthropy. This is particularly important when there is high legal inefficiency. In such cases, local embeddedness becomes even more beneficial for firms. Managers can gain valuable insights and enhance their commitment to corporate philanthropy when local embeddedness is high. This insight is valuable for managers seeking to improve their firm's corporate philanthropy commitment in the presence of high local embeddedness and social legitimacy.

Finally, our finding that local embeddedness influences corporate philanthropy through social legitimacy has implications for managers in developing countries aiming to enhance their firm's corporate philanthropy. Managers are encouraged to re-evaluate their business models and consider integrating corporate philanthropy strategies to improve overall performance. By prioritizing social legitimacy and actively involving local community members or stakeholders, firms in developing countries can strengthen their corporate philanthropy and contribute to sustainable development.

5.3 | Limitations and future research

This article has some limitations that open avenues for future research trajectories. First, despite implementing a robust data collection strategy, which involved gathering data from multiple sources such as CEOs and their deputies to mitigate potential common method bias (Podsakoff et al., 2003), this study did not manipulate variables or employ a random assignment strategy, which could have facilitated the establishment of causal relationships. To overcome this limitation, future research could adopt a longitudinal design and collect data from the same sample at different time points, thereby strengthening the ability to infer causality between local embeddedness, social legitimacy, and corporate philanthropy.

Second, the generalizability of the study findings is limited due to its focus on the extractive industry (i.e., oil, gas, gold, bauxite, and manganese). It would be valuable for future studies to investigate large firms in other industries to ascertain whether the results hold in those contexts.

Third, the study exclusively relied on data from one emerging economy, Ghana, which may not perfectly represent the diverse environmental contexts found in other emerging economies. Ghana possesses unique customs, culture, and regulatory environments that influence firms' activities, thus limiting the general applicability of the findings beyond this specific context. To address this limitation, future studies could be conducted in a multi-country setting such as Brazil, South Africa, India, and China.

Finally, we did not control other contextual variables that might influence our results. Specifically, factors like environmental threats and financial resource scarcity can potentially impact the relationship between local embeddedness, social legitimacy, and corporate philanthropy. It would be valuable for future studies to consider controlling for these variables to obtain a more comprehensive understanding of the relationship. Additionally, we encourage researchers to explore the influence of environmental factors, such as dynamic versus stable environments, and institutional factors, including regulatory, cognitive, and normative environments. These factors have the potential to significantly impact corporate philanthropy.

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