Mistakes in Managing Local Community; Exploring the Case of Repsol in Canary Islands

Roya Derakhshan
Department of Department of Management, Economics and Industrial Engineering
Politecnico di Milano
Milano, Italy
School of Industrial Engineering
Universidad Politécnica de Madrid
Madrid, Spain
Roya.derakhshanalavijeh@polimi.it

Victor Gomez Frias
School of Industrial Engineering
Universidad Politécnica de Madrid
Madrid, Spain
victor.gomez.frias@upm.es

Abstract

This paper aims at learning from the mistakes of a single case in which the mismanagement of the relationships with the local community stakeholder has resulted in extensive social protests against the project and its shut down. Interviews with local authorities and journalists reflected their perception from Repsol's behaviour during the period starting from oil prospection initiating phase in early millennium till 2015 when the project was completely abandoned by the project organization. The results of the exploratory case study revealed that the shareholder orientation of the project organization has resulted in several mistakes in community management policies and have eventually amplified the opposition against the project. Lack of transparency, reluctance to build trustful relationship with the local community, lack of respect to the local community's dignity and prioritization of the shareholders' demands and values over those of the local government and community have resulted in being recognized as illegitimate and invalid.

Keywords

Stakeholder, ethic, local community, mass opposition

1. Introduction

Large-scale infrastructure projects are sources of strategic development of the society and improving the country's social image (Flyvbjerg, Bruzelius and Rothengatter, 2003; Jia et al., 2011; Van Marrewijk, 2017). Despite being beneficial from some aspects, these driving motors of the society are not always favorable for all of the stakeholders. Some external stakeholders perceive that these projects are sources of threats to their culture, society, environment and economy (van den Ende and van Marrewijk, 2018). Slovic (1987) argues that this perception can be error or wisdom. It, however, can result in emergence of emotions and actions against the project and its performing organization.

Conflicts and collective actions against the projects may increase the projects' costs, delay and damaging reputation of the project organization (Liu et al., 2018; Derakhshan, Mancini and Turner, 2019; Di Maddaloni and Davis, 2017). The trend of community's collective actions against projects is escalating since, on the one hand, the communities are increasingly becoming educated and empowered (Teo and Loosemore, 2014) and on the other hand, the investment on major infrastructure projects is increasing to the level to touch the 'biggest investment boom in the history' (The Economist, 2008). This general condition has resulted in a boom in investigating community's collective actions in different majors of research including psychology, sociology and management.

Some scholars describe that community protests are positive and necessary, since they are important aspect of individuals' and collective human rights (Hanna, Vanclay, Langdon, and Arts, 2016) and that in the conditions of social pressure communities surpass their dissatisfaction (Kuran, 1997; Derakhshan, Mancini and Turner, 2019). Researchers noted that individuals have However, the local community's collective actions of different types (demonstrations, sit-ins and occupations to express their dissatisfaction) is not acceptable if one refers to the ethical and moral aspects of business implementations stemmed from the normative formulation of the Stakeholder theory which explains that the rights and demands of all of the stakeholders must be considered while managing the business (Donaldson and Preston, 1995). According to this stream of stakeholder theory, project organizations must put effort on satisfying the local community stakeholder and divide a fair share of the project with them. This, however, is not the case in all of the projects where community's collective actions are put off by violence or the project is shut down due to the extreme barriers posed by the community.

In the light of stakeholder theory, this research delves into an extreme case where local community's collective actions have defeated the project organization to an extent that the project organization eventually decided to abandon the project after years of legal actions against the project. The aim of this research is to investigate the reasons lead to the unfavorable results from the communications made between project organization and the local community and authority. The result would shed light on the missing puzzle piece of the debates between the two sides of the negotiations.

2. Stakeholder Theory and Local Community

Even though Edward Freeman has constantly attributed the credit of his "stakeholder theory" to be from other former researchers (Abraham, 1954; Ansoff, 1965), his landmark book of Strategic Management: A Stakeholder Approach (1984) is commonly recognized by practitioners and academics as the main reference for this theory. In 1995, Donaldson and Preston introduced three aspects for stakeholder theory: descriptive, instrumental and normative (Donalsdon and Preston, 1995).

As the most basic types of theories, the descriptive theories tend to describe or classify the specific characteristics of individuals, groups or situations. They answer the question of "what is…?" and bring the basic understandings about a phenomenon. According to Donaldson and Preston (1995), the descriptive aspect of stakeholder theory presents a model describing what the corporation is. It explains that the corporation is shaped from a set of stakeholders with contradicting interests seeking to reach some values. Although the descriptive formulation of stakeholder theory tells whether stakeholder interests are taken into account (Gibson, 2000), it does not support the answer on how this inclusion should be applied.

Instrumental theories are to provide tools and techniques to stakeholder management. The instrumental formulation of the stakeholder theory bridges between the management of stakeholders and achievements of corporation goals. In particular, the instrumental perspective requires the prioritization of organization goals over those of the stakeholders. In this formulation, stakeholders are considered as tools for achieving organization's goals, more than being interested legitimate groups or individuals. Mitchel et al. (1997) extended this formulation by introducing three relationship attributes through which the stakeholders would be prioritized over each other: power, legitimacy and urgency. This prioritization was then criticized by Freeman and McVea (2001) where they stipulate that there is no such thing as illegitimate stakeholders, implying that all stakeholders ought to be considered simultaneously without prioritization. This leads to the normative formulation of stakeholder theory, which is introduced as the core principle of the stakeholder theory.

After Donaldson and Preston (1995)'s work, in several articles, Freeman and his co-authors further developed the idea of the stakeholder theory (Freeman, 2001; Phillips et al., 2003; Freeman et. al., 2004; Freeman et al., 2010). Considering the distinguishing difference made by the normative and instrumental formulations of stakeholder theory, their concentration was generally on explaining the fact that stakeholder theory is a normative theory, and both practitioners and academics should establish their practices and research on that.

Among the most important, yet overlooked classes of stakeholders defined by Freeman (1984) are local communities. Hillery (1955) was one of the pioneer community scholars who brought out from the literature a wide range of nineteen disparate definitions of community with on focal aspect of dealing with people. In his general classification Freeman (1984) placed "community" beside customers, suppliers, employees and fanciers. Admitting that this broad-brushing definition is not suitable for practical purposes of stakeholder theory, Dunham, Freeman and Liedtka, (2006) further classified the community within four sub-categories of community of place, community of interest, virtual advocacy of groups and community of practice and proposed three different stakeholder management strategies in regard of these sub-categories. The categorization is still broad; they concluded at the end of their article and suggested that stakeholder theorists and practitioners make smaller groups within each category for each case in real world.

Community living in proximity of a megaproject is the target of this study. However, according to the aforementioned discussion we are not limiting the definition and consequently the stakeholder strategies to those proposed by Dunham, Freeman and Liedtka, (2006). Instead, we assume due to the depth and vast of the impact they receive from project activities their life as well as the level of common identity they consider for themselves, specifically in close communities with shared believes and values, mega projects' hosting communities are closely bounded to the project. Project activities on their turn may reform community's objectives and values. This consideration of the context sheds light on the possibility that mega project hosting community has a more complex formation rather than just belonging to any of the four distinct groups proposed by Dunham, Freeman and Liedtka, (2006). Because on the one hand community would be more interested in project activities due to the vast impacts they receive from these activities and on the other hand the commonalities of individuals are not limited to geography of living, but also to their identity and interactions with each other as well as sharing values and norms. Here we follow Dunham, Freeman and Liedtka, (2006)'s suggestion: Closer investigations within each case will clarify the detailed composition of each community as a whole.

3. Method and Case Description

Case studies are designed to gain an in-depth understanding from unexplored research fields (Yin, 2003; Eisenhardt, 1989). Hans Eysenck (2013) explains that "sometimes we simply have to keep our eyes open and look carefully at individual cases—not in the hope of proving anything, but rather in the hope of learning something!" (p. 9). This 'learning' from single case is the target of our study and therefore we chose this specific extreme case to be explored in order to 'learn' from the mistakes made by an oil extraction company in communication with opposing local community.

The promoter of the project of the study in the Canary Islands was Repsol Investigaciones Petrolíferas S.A (RIPSA) and the competent body for authorization was the Directorate General for Energy Policy and Mines of the Ministry of Industry, Energy and Tourism. Therefore, the two supporting participants of the project were Repsol and the

National Government of Spain, respectively. The objective of the Repsol research project for the Canary Islands was to determine the existence of hydrocarbons in the area and to assess the viability of the extraction. For this purpose, two exploration surveys were initiated off the coasts of Lanzarote and Fuerteventura, within the research permits denominated "Canarias 1-9". The plan was to start the exploration phase at the end of 2014, which would last about four months. The investigations were planned to be conducted 60 km from the islands, near the border with Morocco.

Different designed phases for the project included: Mobilization and positioning of the drilling unit, well drilling and removal of the drilling unit. In November 2000, Repsol asks for the permission from the government to explore the marine hydrocarbons in Canary waters. After one year, the Spanish Government grants Repsol the necessary permits to conduct nine oil prospecting off the coasts of Lanzarote and Fuerteventura. But within few months a contentious-administrative appeal is filed by the Council of Lanzarote against the central executive for the permits to Repsol. Two years later, in 2004, The Supreme Court rejects the authorization granted by the Central Government for the Repsol oil drilling in the Canary Islands for not complying with the environmental protection measures or with the restoration plan required by the Hydrocarbons Sector Law.

Over the following years, different local and national authorities, including the Parliament of the Canary Island and the Council of Ministers of Spain, are involved in the legal actions against Repsol's project. In 2012, Greenpeace opposes the Canary Islands Government against the Repsol project after which, the European Commission and Several important British tourism associations inform the Spanish government of their concern about the impact that the project could have on the tourism of the area.

Initiated from March 2012, thousands of individuals participated in the protests against the project in the Islands, Madrid and Barcelona. The cyclical actions are continued over three years by holding meetings, giving speeches against the project and its overlooked impacts on the islands, several appeals were presented to the Spanish supreme court, city councils of the islands and the constitutional court and European Union as well as UNESCO. International organizations like Friends of Earth, Bird-Life International, Greenpeace, WWF or Clean Ocean Project gave their support in the fight against the prospection. It was created a web page in 30 languages (SAVECANARIAS.ORG) where all the companies that joined appeared. In this page, in a year and a half, more than 222,000 signatures were obtained from people who supported the cause.

During this period, the project activities were suspended for so many times and it was in January 2015 when Repsol eventually announces that the samples obtained in the sounding of the explored well were analyzed and the existence of natural gas is confirmed but without the volume or enough quantity to consider a future extraction, hence, abounding the project and investigations altogether.

Repsol claims to work proactively to identify and understand the expectations of its stakeholders, according to its corporate social responsibility agreement and adapted to three levels: in the company as a whole, at the country level and at the operation sites. Repsol uses the criteria of responsibility, influence, proximity, dependence and representation to identify and classify its stakeholders.

The stakeholders identified by Repsol are illustrated in Table 1.

Table 1. Project stakeholders identified by Repsol

Corporate Level	National Level	Local Level
Employees	Employees	Employees
Members of the global corporate responsibility committee	Members of the country's corporate responsibility committee	Members of the administrative committee of the operation centers
International governing bodies: United Nations Global Compact, United Nations Environment Program, World Business Council for Sustainable Development, European Commission: Enterprise and Industry Division, World Bank: International Finance Corporation, World Energy Council, World Economic Forum, International Labor Organization.	Civil society: National NGOs of ethical, social and environmental nature, representatives of the academic field, national trade union organizations, indigenous associations or in defense of other groups of the country, national civil associations of interest, referents and experts.	Civil society: local NGOs and academics, local trade union organizations, local business associations, business sectors that may be affected by the activity of the company (fishing, tourism, etc.), neighborhood associations, parents associations, housewives ..., experts and local referents.
Organizations of the sector: IPIECA, OGP, American Petroleum Institute	Institutions and public bodies: central authorities, regional authorities, other bodies of public influence	Bodies and public institutions: central authorities, regional authorities, local authorities and other public bodies of influence.
Civil society: international NGOs of an ethical, social and environmental nature, international trade union organizations, other international civil associations, international experts in sustainability	Value chain: suppliers and contractors, operating partners, non-operational partners, retail distributors and other business relationships in the country.	Value chain: local suppliers and contractors, local partners, other local business relationships.
International media	Media of international, national and regional communication	Media of local, regional, national and international communication.

After identifying the stakeholders, Repsol conducts studies to identify their expectations, in which they carry out interviews with representatives of each group to develop a specific list of their concerns and expectations about the ethical, social and environmental behaviour and impacts of the company.

For the case study, the most influential interest groups in the development of the surveys would be the public bodies, the civil society and the local communities affected by the project. Therefore, we interviewed journalists, NGO activists and authorities from local government of Tenerife and Lanzarote of the time of the protests as the targets of our explorations. Nine interviews were conducted and a vast review of the media reports and news paper articles related to the topic was included in the process of data collection.

In the Canary Islands, Repsol carried out different activities to promote a better image of the project. These activities include: a visit with journalists to the Repsol Technology Center and the Casablanca platform, a conference to the House of the Canary Islands in Madrid, a meeting with the Provincial Association of Las Palmas through the

National Association of Pescadores, a meeting with the Business Circle of Las Palmas, a meeting with the Business Association of the Canary Islands in Las Palmas, a debate with the Hotel and Hotel Association of Tenerife, La Palma, La Gomera and El Hierro, a meeting with the Association of Spanish Entrepreneurs of Tenerife, a visit with journalists to the logistics base and to the Rowan Renaissance, a meeting with the representative of the central government. Despite being one of the communities with which Repsol carried out more commitment activities, it is one of the few with which no agreement was reached.

4. Findings

In this section, in the light of stakeholder theory, we will highlight the mistakes made by Repsol in communications with the local community.

4.1. Management-of-Stakeholders

The first mistake of Repsol was assuming that communities will perceive the benefits coming from the project can override the negative impacts of that. While Repsol had started their project with this assumption, the community's concerns and values appeared to be quite different. According to Repsol, the job opportunities brought to the Canary Islands due to the project would be appealing enough for the community. This, however, proofed to be wrong when local communities explained that they first, consider great values for the ecosystem of the environment around the islands and second, do not believe if any job opportunity could replace the jobs created by tourism industry.

"Repsol offered a wide range of 'benefits' for the community, such as jobs that would be created. Although the numbers were not clear. And of course they did not match the number of direct jobs that tourism generates in the Canary Islands, which depends on its nature and that the extraction endangered." (Paulino Rivero-Former president of Canary Islands)

The support Respsol was receiving from the central government was reinforcing the assumption of being undefeatable. This has resulted in Repsol, underestimating the importance of local government and oppositions of local residents. The benefit sharing policy of Repsol was also designed based on this assumption. While in reality the local government and the community noticed that their share from the project's benefit was trivial.

"The population of the islands has a great ecological conscience. In addition, a large part of the population lives on tourism, whose benefits go entirely to the Canaries. The benefits of the prospects would hardly be noticed in the Canary Islands. The law did not contemplate any fiscal benefit for the islands." (Carmelo Rivero- Editor of the Avivos newspaper)

During the years of debate, Repsol continued to conduct its Stakeholder management based on these assumptions. This is interesting to see that it the next steps of negotiations Repsol was yet emphasizing that this project would bring 'financial' benefits for the Canaries and insisted on their former assumption, despite the local community clearly showed no interest on that.

"Very few (benefits were considered) for the Canary Islands. They talked about taxes, jobs, etc. that would benefit the Canary Islands. (But) the biggest share of the benefits would go to Repsol." (Fernando Ríos -Professor of Constitutional Law)

If we analyze this approach of Repsol through the lens of normative formulation of Stakeholder theory (Donaldson and Preston, 1995) we realize that this approach was more instrumental or management-of-stakeholders (Freeman et al., 2007, 2010). While in contrary, management-for-stakeholders considers stakeholders as legitimate people or groups whose interests are respectful and valuable for consideration on their own. This holistic approach takes into account 'secondary' groups of stakeholders regardless of their ability to help or harm the organization. As opposed to the instrumental approach, stakeholders are identified according to their interest in the corporation and not vice versa. In addition, the management-for-stakeholder approach explains that "firms have a normative [moral] commitment to advance stakeholder interests and that this commitment shapes firm strategy and influences financial performance" (Harrison and Freeman, 1999, p. 480). The aim is focused on meeting and exceeding stakeholders'

needs and expectations and not emphasizing on the organization's initial assumptions despite being in contradiction to stakeholders' interests. While Repsol was clearly 'prioritizing' its own interests over the Local government and community of Canaries, the managing-for-stakeholders explains that corporations should care about the stakeholders and should consider their interests and concerns in their corporation activities. This opposes the management-of-stakeholders view, which prioritizes organization interests by leading stakeholders to be aligned to their interests and needs.

Mistale 1: Having a wrong assumption from community's values, concerns and demands and emphasizing on this wrong mentality during the communications with local government and community by trying to change community's demands, instead on managing the benefits 'for' the community.

4.2. Unethical behaviour

Stemmed from the previous mistake, Repsol's approach towards the community was mixed with lack of understanding about the community's values as well as neglecting ethical behaviour and respects. From the beginning of the project the project benefits targeted to the local government and community were announced vaguely.

"They had promised at the project would generate close to 30,000-40,000 jobs… Obvious that it was all a lie. In addition, what was initially intended to be done in the Canary Islands was a prospecting, not an extraction, and for such activities no such number of operators is needed. After proving that it was impossible for prospection to generate this amount of jobs, Repsol was retreating and reducing the number of jobs it would generate, reaching the figure of 3,500 jobs." (Ezequiel Navio-President of the "Office of Global Action" of Lanzarote)

Repsol was not transparent about the risks generating from the project and despite being questioned by experts, they insisted on their former wrong numbers. Environmental activists and professionals mentioned that there are different sources of risk neglected or underestimated in Repsol's feasibility studies but all of these questions were remained without a satisfying response.

On the other hand, the behaviour Repsol adopted against the journalists, media and local community was perceived to be very arrogant and without respect to community's dignity. Almost all of the interviewees mentioned this feeling of arrogance in Repsol's behaviour:

"Repsol acted at all times with arrogance and arrogance, trying to use its economic power to buy the editorial line of many media to deceive the citizens of the Canary Islands. Due to these attitudes, communications with the company were null and void, and at no time did the multinational worry about their interests and demands." (Pedro San Ginés-President of the Cabildo of Lanzarote)

Some of the interviewees mentioned that Repsol's 'gift' of wine and cheese, offered to the journalists after a press conference in 2012, made the community feeling being humiliated and was perceived as 'a great offense'.

Repsol's application of media was not perceived positively as well. Interviewees mentioned that some of the newspapers were 'bought' by Repsol. While the president of the popular party, the only party in favor of the project, considers this as a serious effort along the process of negotiations:

"The president of Repsol, Antonio Brufau, traveled two or three times to the Canary Islands to give an image and try to dialogue, conferences and interviews were held, all with the aim of explaining the development of the process involved in the project and the risks involved. It also dealt with the press, to publish articles in which all the issues related to the project that had concerned the Canarian population were detailed. For all this...I consider that Repsol made a great effort to carry out this entire information campaign. Even so, the company was subjected to great criticism and social rejection." (Astrid Pérez- President of the Popular Party of Lanzarote)

This humiliating behaviour was continued even after the project was shut down in 2015.

"Years after the end of Repsol's prospection, the president of the company continues to offend the Canarian community with statements in which he calls 'third-world' the development of the project and the opposition of the community to the prospection. (Paulino Rivero-Former president of Canary Islands)

This was, in fact, perceived as a sign of dishonesty, hypocrisy and lack of transparency which amplified the negativity of the community against the project. While feminist reinterpretation of stakeholder theory (Wicks, Gilbert and Freeman, 1994) emphasizes on the importance of building transparent relationships with stakeholders, Repsol's behaviour was totally in contradiction with this lucrative recommendation and has eventually ameliorated the oppositions against the company.

Mistake 2: Downplaying the role of transparency, respect and honesty with local community and neglecting the community's dignity, instead of building transparent relationship with them with the aim of cooperating to solve the problems and co-creating values.

4.3. Lack of Trust

Followed by the previous mistakes, Repsol never considered making direct contact with local community and local government. The company built strong connections with national government and for many years avoided responding to the local authorities.

"I did not feel heard at any time and that Repsol's attitude was quite arrogant, without ever appearing to care about the concerns and interests of the local community." (Ezequiel Navio -President of the "Office of Global Action" of Lanzarote)

When, due to the mass oppositions against the project, the organization started to change its behaviour towards having better relationship with the local community, they did not embrace 'the community' and its values, but instead they started to make contacts with few individuals from the society.

"The activities that Repsol carried out (2014 report) did not reach to the local community either. They went to certain circles of the elite that did not reach the society at its lowest levels or (did not discuss) the influence (of the project) on the ecological culture of the community." (Carmelo Rivero- Editor of the newspaper Avisos)

It was already too late when Repsol decided to change its organizational approach towards the local community, since the society had already established their collective judgment from the organization's legitimacy. As Derakhshan, Mancini and Turner, (2019) argued, the established decision of the local community about legitimacy of the organization does not easily change. The insistence on the legitimacy judgment can extend to the level that any new evidence coming from organization's behaviour is considered as another support in confirming the community's former judgment. Therefore, the recently adopted behaviour of the organization did not bring favorable results for them but instead, increased the level of anger and negativity against the project.

Mistake 3: Lack of building direct relationship with local community and

4.4. Summary

Linked together as a chain, these three mistakes made by Repsol are signs of shareholder orientation of the company. Obvious prioritization of the investors over the legitimate local community and local government and neglecting their demands, avoidance of making trustful relationship with them and collaboration for reaching mutual understanding from community's concerns and lack of transparency have eventually resulted in mass opposition against the project and losing the organization's public image and legitimacy.

It is not confirmed if Repsol's decision for abandoning the project is due to the public opposition and the dread of loosing its public image or, as officially announced by the company, due to the low quality and quantity of the oil in the reservoir. What is certain, though, is the influence of the role of collective actions against the company in delaying the project and facilitating its final decision.

Originated from its shareholder orientation, almost all of the steps taken by the organization were wrong and perceived negatively by their target audience (local community) who were not even considered as an important barrier against the project in the organization's evaluations.

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Biographies

Roya Derakhshan is a double degree PhD researcher at Politecnico di Milano and Universidad Politecnica de Madrid. Her research is focused on stakeholder management with a focus on ethical duties of organizations towards local communities. Her publications were presented in international conferences and valid project management journals. She holds a MSc in Construction Management from Baha'i Institute for Higher Education and has several years of working experience in the industry.

Victor Gomez Frias is an associate Professor at Universidad Politécnica de Madrid (UPM) in Engineering Management at Escuela de Ingenieros Industriales. Delegate of the Vice-Rector for Academic Strategy and Internationalisation for the European Engineering Learning Innovation & Science Alliance (EELISA). He holds an MSc in Civil Engineering from the UPM and École des Ponts ParisTech, a PhD in Management by École Polytechnique (France). He also holds an MSc in Law and Political Sciences (UNED, Spain). He was formerly Deputy Dean for Academic Affairs at École des Ponts ParisTech. He is experienced as a consultant in transportation and infrastructures. His research fields are related to professional regulation, higher institution quality assessment, public policies evaluation theory and project management.