

ERSA Research Brief

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The Impact of Multinational Enterprises on Public Governance Institutions in Areas of Limited Statehood

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Following the worldwide movement calling for responsible global corporate citizenry, there has been a shift in thinking about the role and involvement of multinational enterprises (MNEs) in areas of limited statehood. There is a growing expectation of transparency in MNE dealings with such governments and more active corporate social responsibility (CSR) programs, focused on capacity building and development. However, because the state is often unwilling or unable to provide basic services, facilities and infrastructure, local populations have come to expect these tasks to be carried out by MNEs operating in their area that often reluctantly comply. This has blurred the distinction between where the responsibilities of the MNE starts and ends, and has led to the creation of hybrid organizations, and innovative partnerships which seeks to engage with stakeholders and contribute towards broader development goals. Our focus is at a more aggregate level about when, how and why a MNE may opt for a more engaged approach as opposed to a more transactional one in a post-conflict setting.

We explore the impact of MNEs on public governance institutions in regions of limited statehood by focusing on three areas of inquiry: firstly, the impact of MNE involvement in these countries; secondly, the mechanisms and levels through which MNEs engage with external governance processes; and lastly, the strategic motivation for the mode and level of engagement. We use detailed case studies of four MNEs that are active in Afghanistan. There is a dearth of research on the specific roles and effects that MNEs have played in the Afghan reconstruction process, or analysis of the process and experience at the organizational level.

This study therefore provides a unique perspective on a topic that is important to large parts of the developing world and a region which has long played a vital role as a crossroads between civilizations and trade routes.

Understanding how and why non-state actors, like MNEs, interact with institutions and affect public governance institutions in areas of limited statehood will serve to help better understand the role and functions of business in any modern society, and to apportion such roles with commensurate responsibilities. It fills a gap in that it grows the still limited body of work on the range and influence of collaborative engagement across sectors to meet the challenges of development and security, especially in areas of limited statehood. Such understanding, in turn, will enrich discussions regarding the complexity of doing business in increasingly turbulent times especially in countries with weak institutions, high levels of uncertainty and instability. The results reveal a relationship between the depth of country embeddedness and the level of engagement of MNEs with public institutions and this is related to issues around risk mitigation and time horizons. Deeper embeddedness in the local markets

brings greater exposure to risk leading to more and wider engagement in governance processes and cross sector collaborations in order to influence these concerns. We reveal two models of MNE engagement in these areas of limited statehood, namely an embedded versus autonomous model and examine their implications.

In terms of implications, our research carries importance not only for the extreme cases of areas of limited statehood but also in developing countries more generally where there are often institutional voids and high levels of political risk. It also has sectoral implications. Where institutional voids exist we are more likely to see the 'embedded' model appear where MNEs need to engage with local consumers and stakeholders directly, whilst the 'autonomous' model is more likely to materialize where the industry is more insulated from consumers and the citizenry. In developing countries, the 'autonomous' model is most probable with the extractive sectors such as mining and oil and gas. These sectors often exist in vacuums with few backward and forward linkages into the domestic economy. This also ties into the literature on the 'resource curse' which often accompanies resource rich countries. MNEs may invest in these areas for quick returns with little regard for local communities and the result is repeatedly systems of corruption, rent-seeking and patronage. These are not only issues of theoretical but also of practical importance. MNEs may become part of the problem in these systems as they further weaken fragile institutions and prop up illegitimate governments. In fragile and conflict affected states MNEs can contribute towards peace- and institution-building and reinforce cycles of positive development, or they can further pathological behavior and contribute to conflict. MNEs are increasingly going to be expected to step into the gaps associated with institutional voids and this will require a different approach to doing business and their choice of approach will have a direct bearing on social outcomes in host countries.