



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

Dirk Hanekom and John M. Luiz

ERSA working paper 699

August 2017

Economic Research Southern Africa (ERSA) is a research programme funded by the National Treasury of South Africa.

The views expressed are those of the author(s) and do not necessarily represent those of the funder, ERSA or the author's affiliated institution(s). ERSA shall not be liable to any person for inaccurate information or opinions contained herein.

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

Dirk Hanekom* and John M Luiz†

August 16, 2017

Abstract

We explore the interaction between Multinational Enterprises (MNEs) and public governance institutions in regions of limited statehood by focusing on three areas of inquiry: firstly, the impact of MNEs in these environments; 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. 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 partnerships in order to influence these concerns. Two models of MNE engagement are presented, namely an embedded versus autonomous model and we examine their implications.

Keywords: Multinational enterprises; Institutional voids; Limited Statehood; Afghanistan; Business and society; Fragile states

JEL codes: M14; M21; O53; P48

1 Introduction

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 (Bondy, Moon, & Matten, 2012; Cash, 2012;

*Graduate School of Business, University of Cape Town, South Africa

†Graduate School of Business, University of Cape Town, South Africa and University of Sussex, UK

Cormier et al., 2016; Nijhof, de Bruijn, & Honders, 2008). 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 (Cash, 2012; Dahan et al., 2010; George et al., 2016; Rivera-Santos et al., 2012). 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 (Kolk & Lenfant, 2015, 2016; Pittz & Intindola, 2015; Wagner Mainardes, Alves, & Raposo, 2012; Williams & Shepherd, 2016). 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. What does exist is studies on efforts to determine and justify reconstruction and development agendas (McKechnie, 2003), comparisons on development practice, as implemented in Afghanistan, with development and reconstruction theory (Barakat & Chard, 2002; Ritchie, 2016), assessment of the contribution and effects of donor aid and development programs (Koehler & Zürcher, 2007), analysis of state-building theory and practice in Afghanistan (Debiel et al., 2009), evaluation of the possible impacts of natural resource extraction for development and reconstruction agendas, and analysis of the challenges and hopes for private sector development (Shroder, 2008). 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 (Kidd, 2007).

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 (George et al., 2016; Kreiser & Marino, 2002). These environments are not only relevant for fragile or failed states but exist in many developing countries. The research thus carries import beyond the extreme cases of limited statehood. The results reveal a relation-

ship 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.

2 Literature review

Areas of limited statehood refer to those geographical or functional parts of any state where its domestic sovereignty, which determines that state's ability to enforce collectively binding decisions or exercise a monopoly over the use of violence, or both, is curtailed along territorial, sectoral, social or temporal dimensions (Börzel & Risse, 2010: 119). Thus the context of the study is as much conceptual as it is geographical and temporal. Bennett (2001: 13) captures the essence of the complexity of the context and the importance of this study in the following statement:

One of the realities of doing business in the global marketplace is that managers in multinational corporations find themselves operating in areas of armed conflict, indigenous cultural disputes, epidemic disease and other kinds of social upheaval. As globalization of the world's economy continues, the international business community will increasingly find itself confronted with the challenge of promoting peacebuilding in its areas of operation, or being blamed for contributing to the conditions that lead to violent conflict. These new challenges will increasingly require business professionals to apply conflict resolution and peacebuilding strategies in situations where promoting peace is an essential element of successful business operations.

We use the term 'limited statehood' broadly to describe the relevant quality of states that are at times described as being weak, failing or failed, post-conflict or war-torn and even beyond that as we explain below (Gisselquist, 2014; Zulueta-Filscher, 2014).

2.1 Institutional voids and MNEs in areas of limited statehood

Institutional theory argues that institutions matter (both formal and informal) and impacts not only firms but the broader economic progress of countries. The institutional rules of the game affect the transaction costs of exchange activities and provide certainty and predictability for the business environment. Conflict can disrupt these institutions and there is a mounting acceptance that in the presence of institutional voids that MNEs must engage in novel cross-sector partnerships so as to compensate for these institutional gaps (George et al., 2016; Kolk & Lenfant, 2015). Rivera-Santos et al. (2012: 1726) state that in the absence of regulative institutions, alternative government mechanisms,

such as informal contracts and in-kind contributions, which rely on normative and cognitive institutions, arise. This suggests that as institutional distance between home and host country increases, the importance of these substitute mechanisms will also increase. Furthermore, MNEs by sharing control over their activities with other actors, and particularly non-market actors, are able to help address these institutional gaps because they can take on roles occupied elsewhere by traditional institutional actors. This places a premium on the abilities of MNEs to collaborate across organizational boundaries (Rivera-Santos and Rufin, 2010: 136). These cross-sector collaborations can result in new perspectives on learning and innovation especially at the base of the pyramid where formal institutions struggle to penetrate in many developing countries (Murphy, Perrot, & Rivera-Santos, 2012).

Others contend that while corporations should be held accountable for their actions, their accountability should be understood within the proper limits of corporate responsibility for addressing institutional voids (Cash, 2012). They state that it is important to distinguish between corporate responsibility and corporate accountability in order to avoid unrealistic expectations from stakeholders and to mitigate divergence of expectations between MNEs and their stakeholders regarding the appropriate role and responsibilities of MNEs in areas of limited statehood. Furthermore, they argue that MNEs are not development organizations and their role in areas of limited statehood is to contribute to and/or reinforce existing socio-economic development or state-led development policy, not to replace it (Cash, 2012). The challenge for MNEs is to develop frameworks for partnerships that minimize the negative impacts while enhancing their positive contribution to reconstruction and development and build sustainability by fostering domestic capacity and leadership (Abrahamov, 2010: 483).

In contexts of fragile states beset by violent conflict, MNEs need to decide whether and how they might respond to this violence facilitated by institutional weakness. Rosenau et al. (2009) summarize the strategic responses of MNEs in areas of limited statehood, in order to reduce their risk exposure, to the following: choosing to do little beyond ensuring the physical security of the business premises; shaping operating environments through social investment and community development initiatives; determining operating environments by engaging in a form of state-building, through enhancing the capacity of governing authorities, workshops on good governance issues and making FDI conditional on the state undertaking corrective state action, or refraining from engaging in specified behavior; incorporating internal 'soft' security measures, like the voluntary adoption of human rights principles, codes, guidelines, and implementing procedures; and developing and fostering community relations through special programs. However, MNEs choose to respond there is no question that they are affected by institutional voids in fragile states but likewise that they, too, impact on institutions in these contexts (Luiz and Stewart, 2014).

Williamson and Shepherd (2016) argue that in the aftermath of catastrophic events, organizations can contribute towards the redevelopment challenge in one of two approaches. The first, which they refer to as sustaining ventures, adopt

a more transactional approach with more distant relations with various stakeholders. The second approach, they term transformational ventures, are able to leverage relationships to satisfy additional needs, which generate subsequent interactions and allow beneficiaries to continue to grow. Their study focuses on the building of resilience after the Haiti earthquake and how organizations were able to meaningfully contribute towards this grand challenge. We examine how this applies in the context of a fragile and conflict affected area such as Afghanistan. The research is firmly embedded within institutional theory in its focus on how organizations adapt to institutional structures and shape them. Even in areas of limited statehood, we show that actors learn to cope with inefficient state institutions and find alternative ways of governance and as a result new forms of collective action emerge (Risse & Börzel, 2015).

3 Research methodology

This study explores the effects of MNEs on governance institutions in areas of limited statehood from an organizational level in Afghanistan. We follow an applied qualitative research approach, drawing on the principles of case study design, through interviews with executives that were involved in setting up four MNEs in Afghanistan and engaging with their institutional stakeholders on an ongoing basis (Guercini, 2014). We considered several factors in selecting our cases. We wanted to focus on larger companies and therefore the MNEs selected were all amongst the largest players in their respective sectors within the country. We also wanted to differentiate between the effects of different home country environments and different sectors so as to get a varied description of MNE engagement within Afghanistan which allows us to engage with institutional theory as to how institutions shape the behavior of agents and organizations. Our cases therefore come from four different home countries and from four different sectors. Another factor considered for case selection was that they had to be in operation within Afghanistan for a period of time so that we would be able to explore their involvement over time and how they potentially adapted to changing circumstances. A final practical factor was access to respondents which is nontrivial in a complex and contested environment such as this.

The study utilizes semi-structured interviews with key respondents, but also observations by the researchers during the extended fieldwork, and documents, records, minutes of meetings, and other documentary sources, where available to provide for triangulation. Interviews were recorded, with permission, and were then transcribed. The transcriptions were analyzed separately using content analysis procedures based upon our understanding of institutional theory of how and why institutions emerge in particular contexts and how they shaped the behavior of organizations and vice versa. We initially coded the data into the categories according to our three areas of enquiry, namely the impact of the MNE involvement in these countries, the mechanisms and levels through which they engage with external governance processes and how they create

new governance structures within these particular institutional environments, and the strategic motivation for the mode and level of engagement. We then created subcategories and coded the units in line with the categories to produce relevant themes.

The interviews were pre-arranged through correspondence and conducted in person in Kabul, Afghanistan during August-November of 2013. However, one of the authors spent several additional months in Kabul both before and after the interviews to more deeply understand the post-conflict context and to explore how companies were engaging with their economic activities and with local communities. The semi-structured nature of the research instrument and open-ended questions allowed sufficient scope to explore avenues of interest as they presented themselves and to explore concepts, themes and relationships. Our primary respondents in each of the MNEs were senior executives involved in both strategic and operational governance. Follow up interviews were conducted telephonically or via Skype for issues of clarification which arose during the coding process.

4 Presentation and discussion of results

4.1 Background to Afghanistan

The Afghan context is one of extremely limited statehood. Afghanistan has been referred to as a ‘modern protectorate’, in the sense that external actors have effective control over parts of its territory or policy areas (Börzel & Risse, 2010). With a population of 32.5 million people and a reported GDP of approximately \$19 billion in 2015, Afghanistan is one of the poorest countries in the Central Asian region (World Bank, 2016a). An estimated 27% of Afghans have access to safe drinking water and only 5% to adequate sanitation. The Afghan government estimates that approximately 30% of Afghans have access to electricity from grid-based power, micro-hydro, or solar panel stations, with some major urban centers, like Kabul and Mazar-e-Sharif, only recently enjoying mostly uninterrupted electricity supply for the first time in decades (World Bank, 2016a).

The institutional challenges in Afghanistan predate the last three decades of civil conflict – reports from the 1970s indicate that Afghanistan’s public institutions were weak even at that time (McKechnie, 2003). The civil service still consists in part of the empty shells of defunct state enterprises and is plagued by ingrained attitudes inherited from Afghanistan’s experiment with Soviet-style socialism, compounded by widespread and entrenched patronage in the civil-service appointment system (McKechnie, 2003). Reconstruction efforts over the last decade have done little to turn formal governance in Afghanistan around. Afghanistan ranks 177 out of 189 economies in the Doing Business 2016 rankings for ease of doing business (World Bank, 2016b), and jointly second last, in the Transparency International Corruption Perceptions Index 2015 (Transparency International, 2016). It therefore represents an extreme case of institutional

pathologies and limited statehood for MNE engagement.

4.2 Background to the participating company case studies

MNE1 is a for-profit deposit-taking microfinance institution and bank. Its holding company is considered to be the largest deposit-taking microfinance institution (MFI) in Afghanistan, with an outstanding loan portfolio of approximately \$80 million and 54,000 individual depositors. While it operates as a corporate and commercial bank, its focus is mainly on microfinance and small business loan products. The MNE1's parent organization has channeled more than U.S.\$700 million into Afghanistan. It has 37 branches in 13 provinces across Afghanistan, and employs close to a thousand direct employees, of which less than 10 are expatriates.

MNE2 is in the defence and security sector and specializes in information and technical services, in particular base operations and installation support services. Its parent company is a global leader in Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance related products and systems and information and technical services, supplying government and commercial customers worldwide. Its annual turnover is \$5.5 billion, and is listed on the NYSE, and is on the Forbes Fortune 500 list of top companies.

MNE3 is in the government services sector, and the architecture and engineering services market in particular. Its parent company is a British multinational consultancy, engineering and project management company that operates in approximately 40 countries in the oil and gas, mining, clean energy, and environment and infrastructure markets. Its annual revenue is £4.2 billion and is listed on the London Stock Exchange as a member of the FTSE 100 index.

MNE4 is the second largest of four mobile telecommunications providers in Afghanistan with 5.2 million subscribers. MNE4 is owned (91% shareholding) by a subsidiary of the South African-based MNE4 parent company. It has four offices in Kabul, customer service points throughout Afghanistan, and coverage of 33 out of 34 provinces in the country. It employs 489 people. MNE4's parent company operates in 22 countries, with almost 190 million subscribers across Africa, the Middle East and Central Asia. Its annual revenue is approximately \$13.9 billion.

4.3 The effects of MNEs on institutions in failed states

Our participating MNEs adopted strategic responses to overcome institutional voids and reduce their risk exposure. We find that these responses vary along a continuum of internal strategic realignment to external action aimed at shaping the institutional context of the company, in line with that predicated on institutional theory. These interactions between MNEs and the institutions governing it (or that should be governing it) could have either positive or negative consequences, both of which may not necessarily be entirely intended or anticipated

at the time of engagement. From the responses we were able to extract the following themes as regards the positive effects of MNE involvement in Afghanistan – see Table 1. The most common theme is that of transferring technology, and skills or best practices upon their institutional context. The MNEs refer to the improved sophistication of the institutional context as a result of the private sector development that has taken place, and through them setting professional business benchmarks, and pushing the state to train their own staff in order to be able to engage with the MNEs in a meaningful way. Furthermore, their successes in a region of limited statehood act as a strong signal and motivation for other MNEs to enter the market, opening it up to competition, and ultimately development.

The results of our interviews relate back to the literature on MNE engagement in fragile states and how they are able to affect institutional development in these contexts (Abramov, 2010; Dahan et al., 2010; Getz & Oetzel, 2010; Kolk & Lenfant, 2015, 2016). We see them ‘thickening’ markets by developing the private sector and bringing new perspectives to their organizational development. Technology transfers occur through collaborative partnerships with government agencies, NGOs, the nascent local business community, and other hybrid organizations.

From the responses we were also able to extract the following themes as regards the negative effects of MNE involvement in Afghanistan – see Table 2. There was an acknowledgement that MNEs can reinforce corruption and pathological institutions through their behavior and influence. This was especially likely to occur where MNEs adopted a short term approach to their investment horizon. As can be expected, all four MNEs acknowledged the potential negative consequences of MNEs in the context of limited statehood, but perceived these to be perpetrated by others rather than themselves, although a number of comments hint to their involvement in perpetuating negative institutional cycles. Where these were acknowledged it was very much seen as a consequence of institutional voids and limited state reach which necessitated unconventional approaches to doing business and succumbing to local ‘norms’. Here they saw themselves more as institution takers which ties into new institutional theory about how organizations conform to the prevailing environment through processes of institutional isomorphism. Our work supports prior research (Evans, 2007; Subedi, 2013) on the potentially negative consequences for host countries that result from a lack of MNEs meaningfully engaging with local development and adopting a hit-and-run approach of short-termism and exploitative profiteering. This often manifests in the reinforcement of corrupt institutional practices, the exploitation of valuable natural resources without linkages into the rest of the economy, the fostering of a conflict economy and co-opting of warlords, the creation of state dependency on MNE benefactors, patronage affording undue influence on regulatory processes, and social unrest as a result of environmental impacts and unfair labor practices.

4.4 Mechanisms of engagement with institutions

As predicated in institutional theory, our MNEs engage their institutional contexts through a variety of mechanisms. MNE1 and MNE4 are far more engaged and use a greater variety of mechanisms than MNE2 and MNE3. Engaging with government and local communities and various collaborative partnerships appear most frequently in the responses – see Table 3. Our results support institutional theory that organizations are deeply affected by local institutional frameworks and that context influences economic behavior. Where institutions are ineffective in reducing uncertainty and signaling what conduct is legitimate and which is not, organizations may engage in opportunistic behavior or seek to contribute towards the building of institutional capacity.

We see MNEs finding inventive ways to overcome institutional voids by engaging in cross-sector collaborations. These include formal and informal ties with the government, and individuals within the government. The latter is often necessary where the state institutions move slowly and may need personal ‘nudges’ which draw on networks of social capital. The collaborations extend beyond the formal and often require MNEs to engage below the institutional surface with local village communities and local customs. By engaging in cross-sector partnerships they are able to mitigate institutional voids by drawing on complimentary capabilities from other actors and thereby fill in the spaces left by these voids. There is recognition that given the complexity of the local environment it is not possible to go it alone and that cross-sector alliances are constructive as all these actors are likely to face similar challenges but have different strengths and approaches to dealing with these voids (Kolk and Lenfant, 2016).

4.5 Embedded versus autonomous models of MNE engagement with institutions

The thematic analysis that emerged from the interviews indicate that a company’s level of engagement is largely determined by their understanding and tolerance of risk, the depth of its embeddedness in the market, and the company’s economic viability in the country. Two models emerged from our case studies, namely an embedded and an autonomous model.

a) Embedded model

MNE1 and MNE4 reflect the embedded model of MNE engagement with the institutions of governance in Afghanistan. They are comparatively highly engaged and this can be seen through their organizational footprint including the number of local employees, the nature and number of its products / services / programs, its clients/beneficiaries, the size of its capital investment and its indefinite investment horizon. They serve Afghan clients directly and do not have external agencies to insulate them from the risks of operating in an environment of limited statehood. They therefore have to engage with institutions and attempt to develop them as their long term viability depends upon the overall success of the country and the ability of the institutions to provide them

with a sound and predictable business milieu. In this context, they attempt to create community buy-in and making positive impacts on the institutional environment, such as through private sector development, and collective engagement in policy dialogue. The nature of their industries requires them to be fully embedded within the broader economy of the country they operate in:

[I]f your presence is driven by community embracement ... a lot of security risk already goes down. Because when people start to own you they start to take responsibility for you. So I think that has played a major role in ensuring the safety of [our] infrastructure. ... If the community does not like you, you don't get the security, irrespective of how good the country is.

b) Autonomous model

MNE2 and MNE3 reflect the autonomous model of MNE engagement with the institutions of governance in Afghanistan. They operate largely in a socio-political and economic vacuum and parachute in their business models through external agencies. They are insulated from the normal business and security environment by operating figuratively within the 'green zone'. They do not seek to engage in institutional development as part of their long term planning as they have shorter investment horizons. They are often in the business of trading off institutional voids in the most fragile regions of the world (Luiz et al., 2017).

The nature of their services is such that they do not need to have much exposure to or engagement with the wider Afghan population or environment. Their risk mitigation strategies are often aligned to heavily secured compounds, sharing intelligence through informal networks and engaging the institutional context through intermediaries. They do not believe that there is much that they can do to assure institutional sustainability in Afghanistan. There are some obvious overlaps with how certain industries operate, most especially extractive industries. We often see mining and oil companies operating in developing countries in economic vacuums and existing in their own physical compounds with private security firms. The autonomous model thus carries import beyond the immediate context of these two cases.

Both MNEs see their level of engagement in Afghanistan as being determined by their alignment with their client's objectives and performing their contract. They do not consider institutional development as directly relevant and consider delivering shareholder value as their primary consideration for moving into and out of areas of limited statehood. A quote from MNE3 is illustrative:

You're following business. We're not a charity we have to give our shareholders value and we can only give them value where we know our services are needed and we're going to get paid.

5 Conclusion

The purpose of this paper was to address a perceived gap in research regarding our understanding of the impact of MNEs on public governance institutions in areas of limited statehood. Our analysis of the four case companies revealed a complex relationship between the MNEs and institutions in fragile states. The results of our case studies reveal two very different models of engagement by MNEs (embedded versus autonomous) in areas of limited statehood. We do not argue that these are the only models but rather they represent how our particular case studies responded to the extreme environment of Afghanistan. It is likely that they form part of a continuum and that other cases will demonstrate more of a mix in their level of engagement with indigenous institutions depending upon local conditions. Our work builds on that of Williamson and Shepherd (2016) and their models of sustaining and transformational ventures. We find that the deeper a MNE is embedded in a local context, the more exposed it is to risk or structural issues in the market that might threaten the MNE's business viability. If a company is both deeply embedded and exposed to risk, it is more inclined to address the risk or structural issue through engaging in processes that would lessen the source of risk. In areas of limited statehood these threats often arise as a result of the governance constraints and the only way to address these are to engage with institutions of governance through partnerships and hybrid organizational models (Forrer & Katsos, 2015; Kolk & Lenfant, 2015, 2016). For MNEs which have a long-term orientation to doing business in areas of limited statehood, and therefore need to address the underlying 'grand challenges' (George et al., 2016: 1882) of these environments, an embedded approach that engages with local institutions and collaborative efforts is better suited towards both the sustainability of the company and its domestic impact.

Our work builds on institutional theory by demonstrating that in environments where there are multiple and competing institutional logics, as a result of a lack of formal, hierarchical governance structures in areas of limited statehood, that organizations develop alternative governance mechanisms to overcome collective action problems and bring about new forms of cooperation (Risse & Börzel, 2015). Our embedded model demonstrates MNEs engaging with various levels of institutions, both formal and informal, and co-creating new ones that seek to create generalized trust in "imagined communities" of overlapping memberships, despite dysfunctional state institutions (Risse & Börzel, 2015). These new institutional structures and practices reflect responses to the underlying environmental pathologies and build on the socio-political and cultural conventions of that milieu.

The research contributes to institutional theory and demonstrates the interplay between organizations and the institutional surroundings. MNEs in Afghanistan are deeply affected by institutional weakness which contribute towards greater uncertainty and impact their behavior, but MNEs also have a direct bearing on institutions. We demonstrate a number of strategic responses by MNEs to institutional voids incorporating those raised by Rosenau et al. (2009). We theorize that their choice of institutional engagement is influenced

by the nature of the industry (including how they interact with clients), the extent to which they can contract with agents to ‘outsource’ risks and interaction with indigenous institutions, and the time horizons which affect how they see their role within the country.

5.1 Implications and future research

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.

A number of areas lend themselves to further study. First, the dynamic process through which MNEs are both affected by institutions and impact on their development through complex webs is an important future direction for research. Second, how MNE engagement with local institutions affect the broader dynamics of conflict and development needs exploration, as new hybrid orders may create winners and losers posing new risks to stability. Lastly, there are questions, from a policy perspective, regarding the role of business in peacebuilding in these areas of limited statehood, and whether business can contribute to the development process and, if so, whether there is an optimal phasing of policy reforms which can enhance the role of business.

References

- [1] Abramov, I. (2010). Building Peace in Fragile States—Building Trust is Essential for Effective Public–Private Partnerships. *Journal of business ethics*,

89(4), 481-494.

- [2] Barakat, S., & Chard, M. (2002). Theories, rhetoric and practice: recovering the capacities of war-torn societies. *Third World Quarterly*, 23(5), 817–835.
- [3] Bennett, J. (2001). *Business in zones of conflict: The role of the multinational in promoting regional stability*. New York. Retrieved from http://iacconference.org/documents/10th_iacc_workshop_Business_in_Zones_of_Conflict.pdf
- [4] Bondy, K., Moon, J., & Matten, D. (2012). An institution of Corporate Social Responsibility (CSR) in multi-national corporations (MNCs): Form and implications. *Journal of Business Ethics*, 111(2), 281–299.
- [5] Börzel, T. A., & Risse, T. (2010). Governance without a state: Can it work? *Regulation & Governance*, 4(2), 113–134.
- [6] Cash, A. C. (2012). Corporate social responsibility and petroleum development in sub-Saharan Africa: The case of Chad. *Resources Policy*, 37(2), 144–151.
- [7] Cormier, D., Cormier, D., Gordon, I. M., Gordon, I. M., Magnan, M., & Magnan, M. (2016). Corporate ethical lapses: do markets and stakeholders care?. *Management Decision*, 54(10), 2485-2506.
- [8] Dahan, N. M., Doh, J. P., Oetzel, J., & Yaziji, M. (2010). Corporate-NGO collaboration: co-creating new business models for developing markets. *Long Range Planning*, 43(2), 326-342.
- [9] Debiel, T., Glassner, R., Schetter, C., & Terlinden, U. (2009). Local state-building in Afghanistan and Somaliland. *Peace Review*, 21(1), 38–44.
- [10] Evans, M. D. (2007). New collaborations for international development: corporate social responsibility and beyond. *International Journal*, 62(2), 311–325.
- [11] Forrer, J. J., & Katsos, J. E. (2015). Business and peace in the buffer condition. *The Academy of Management Perspectives*, 29(4), 438-450.
- [12] George, G., Howard-Grenville, J., Joshi, A. and Tihanyi, L., (2016). Understanding and tackling societal grand challenges through management research. *Academy of Management Journal*, 59(6), 1880-1895.
- [13] Getz, K. A., & Oetzel, J. (2009). MNE strategic intervention in violent conflict: Variations based on conflict characteristics. *Journal of business ethics*, 89(4), 375-386.
- [14] Guercini, S. (2014). New qualitative research methodologies in management. *Management Decision*, 52(4), 662-674.

- [15] Kidd, J. (2007). The Great Game evolves for Central Asia and opportunities beckon. *Management Decision*, 45(8), 1224-1251.
- [16] Koehler, J., & Zürcher, C. (2007). Assessing the contribution of international actors in Afghanistan: Results from a representative survey. SFB-Governance Working Paper Series No. 7. Retrieved from <http://edoc.vifapol.de/opus/volltexte/2008/436/>
- [17] Kolk, A. and Lenfant, F. (2015). Partnerships for peace and development in fragile states: Identifying missing links. *The Academy of Management Perspectives*, 29(4), 422-437.
- [18] Kolk, A., & Lenfant, F. (2016). Hybrid business models for peace and reconciliation. *Business Horizons*, Forthcoming. <http://dx.doi.org/10.1016/j.bushor.2016.03.014>
- [19] Kreiser, P., & Marino, L. (2002). Analyzing the historical development of the environmental uncertainty construct. *Management Decision*, 40(9), 895-905.
- [20] Luiz, J. M., & Stewart, C. (2014). Corruption, South African multinational enterprises and institutions in Africa. *Journal of Business Ethics*, 124(3), 383-398.
- [21] Luiz, J., Stringfellow, D. & Jefthas, A. (2017). Institutional complementarity and substitution as an internationalization strategy: the emergence of an African multinational giant. *Global Strategy Journal*. 7(1): 83–103.
- [22] McKechnie, A. J. (2003). Humanitarian assistance, reconstruction and development in Afghanistan: A practitioners' view. CPR Working Paper 3. Washington DC.
- [23] Murphy, M., Perrot, F., & Rivera-Santos, M. (2012). New perspectives on learning and innovation in cross-sector collaborations. *Journal of Business Research*, 65(12), 1700-1709.
- [24] Nijhof, A., de Bruijn, T., & Honders, H. (2008). Partnerships for corporate social responsibility: A review of concepts and strategic options. *Management Decision*, 46(1), 152-167.
- [25] Oh, C. H., & Oetzel, J. (2011). Multinationals' response to major disasters: how does subsidiary investment vary in response to the type of disaster and the quality of country governance? *Strategic Management Journal*, 32(6), 658-681.
- [26] Oetzel, J., & Doh, J. P. (2009). MNEs and development: a review and reconceptualization. *Journal of World Business*, 44(2), 108-120.
- [27] Pittz, T. G., & Intindola, M. (2015). Exploring absorptive capacity in cross-sector social partnerships. *Management Decision*, 53(6), 1170-1183.

- [28] Risse, T., & Börzel, T. A. (2015). Dysfunctional institutions, social trust, and governance in areas of limited statehood. SFB-Governance Working Paper Series 67, Berlin.
- [29] Ritchie, H. A. (2016). Unwrapping Institutional Change in Fragile Settings: Women Entrepreneurs Driving Institutional Pathways in Afghanistan. *World Development*, 83, 39-53.
- [30] Rivera-Santos, M., & Rufin, C. (2010). Global village vs. small town: Understanding networks at the Base of the Pyramid. *International Business Review*, 19(2), 126-139.
- [31] Rivera-Santos, M., Rufin, C., & Kolk, A. (2012). Bridging the institutional divide: Partnerships in subsistence markets. *Journal of Business Research*, 65(12), 1721-1727.
- [32] Rosenau, W., Chalk, P., McPherson, R., Parker, M., & Long, A. (2009). *Corporations and counterinsurgency*. Santa Monica: RAND.
- [33] Shroder, J. (2008). Afghanistan's development and functionality: Renewing a collapsed state. *GeoJournal*, 70(2-3), 91-107.
- [34] Subedi, D. B. (2013). 'Pro-peace entrepreneur' or 'conflict profiteer'? Critical perspective on the private sector and peacebuilding in Nepal. *Peace & Change*, 38(2), 181-206.
- [35] Transparency International. (2016). Corruption Perceptions Index 2015. Retrieved October 7, 2016, from <http://www.transparency.org/cpi2015>
- [36] Wagner Mainardes, E., Alves, H., & Raposo, M. (2012). A model for stakeholder classification and stakeholder relationships. *Management Decision*, 50(10), 1861-1879.
- [37] Williams, T.A. and Shepherd, D.A. (2016). Building resilience or providing sustenance: Different paths of emergent ventures in the aftermath of the Haiti earthquake. *Academy of Management Journal*, 59(6), 2069-2102.
- [38] World Bank. (2016a). Afghanistan overview. Retrieved October 7, 2016, from <http://www.worldbank.org/en/country/afghanistan/overview>
- [39] World Bank. (2016b). Country update: the World Bank Group in Afghanistan. *Country Update*. Washington, DC.
- [40] Zulueta-Fülscher, K. (2014). Democracy-Support Effectiveness in "Fragile States": A Review. *International Studies Review*, 16(1), 29-49.

Table 1: Positive effects of MNE involvement in Afghanistan

Themes	Relevant Quote	Respondent
Technology or skills transfer and best practice benchmarking (4MNEs)	<p>- The more you are coming with professional arguments, the more they are obliged to train their staff in order really to debate with us. ... We brought a new way of doing business with them.</p> <p>- For the folks that actually work with us I think it's tremendous because we do teach them, first of all, rule of law things, that you just don't do that. ... I've been out to the other sites and I tell you, Kandahar is nothing like Kabul, and I think a major reason why is because the multinationals aren't out there and they're stuck in their old ways, and they're not going to progress.</p>	MNE4 MNE3
Community building and fostering social and human capital (4 MNEs)	[I]t helps if you have a successful telecom sector in any country, it helps really develop a lot the country, it helps the people open up, it helps the people communicate better, it helps them have access more to information, to the world, and having access to ideas that will help them really grow their business.	MNE4
Private sector development (3 MNEs)	Before [we] came no multinational company was interested in coming. After us, you see that [others] became interested to come.	MNE4
Infrastructure development (3 MNEs)	[W]e are interested in all emerging markets, especially countries like Afghanistan, where they were in a state of war and then... go into a phase or process of construction and rebuilding and developing the infrastructure.	MNE4
Value-added employment (3 MNEs)	Because of that inflow there's a capacity development of the local staff that takes place. Because business continuity can only be managed if the ratio of the local staff is bigger than that of the expatriate staff. That is the biggest contribution that I see from the international community besides the donor money that has come.	MNE1
Peace-building through development (1 MNE)	[Our] involvement in Afghanistan contributes to private sector development leads to economic stability, which will 'translate into peace.	MNE1

Table 2: Negative effects of MNE involvement in Afghanistan

Themes	Relevant Quote	Respondent
Reinforcement of poor governance and corruption (4 MNEs)	<p>- You'd better be prepared to [deal with local power brokers and pay them to get things done], because otherwise you're not going to succeed. You're just not; it's just a fact of life in Afghanistan. You will have to pay somebody something at some point.</p> <p>- I can't really say that we would've necessarily had an impact there, if anything, I would venture to guess because we end up, I used a word 'succumbing', to their demands, because we really have no other option in order to continue to operate, and that probably continues to feed the beast.</p>	MNE3 MNE2
Short-termism and exploitative profiteering (2 MNEs)	You've got some short term projects which provide immediate opportunities but without long term sustainability ... and that brings in a lot of instability.	MNE1
Unsustainable market distortions (2 MNEs)	Well, anytime we have a big influx of military and by extension contractors ... then you're going to have a big influx of a lot of money and then there's going to be almost a false economy built. ... So when all that begins to draw down and pull out, you find out their GDP was really 50% U.S. government or the Corps of Engineers. And then when that stops, wages are going to come crashing down and there are going to be high unemployment, so it's probably not a good thing.	MNE2
Draining of talent (2 MNEs)	The U.S. Government has a program – that special immigrant visa program – which you could consider is working at odds with what we hoped to gain in Afghanistan, that's the cream rise to the top and some really competent people or the younger generation maybe take hold of things here in 10 or 20 years, but unfortunately it seems like a lot of the competent personnel are doing whatever they can to get a special immigrant visa to the U.S. and other Western countries.	MNE2
Unfair labor practices (1 MNE)	I think one of the negative effects, and it's hard to do it otherwise, is the disparity in pay, you know. You can't pay an Afghan what you pay an expat ... so you bring that very real sense of inequality to them.	MNE2

