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Racing to the Top?

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Sans Fibre, a large chemical industrial textiles firm in Bellville, Cape Town, was a heavy environmental polluter during apartheid times (Héritier et al. 2009, Bray and Thauer 2014). The surrounding neighborhoods suffered badly from the Sans Fibre factory's industrial fallout, effluents, uncontrolled hazardous waste disposal and emissions. With South Africa's full transition to democracy, the local community would not take it any more. Citizens rallied together against the business. To force the company to reduce its pollution output, inhabitants organized a series of actions. A media campaign was launched; protests were organized in front of the factory gates; and local politicians and state representatives, who in South Africa often lack the capacity to enforce environmental laws, were pressured to take action against the pollution of the firm. As a consequence, the firm agreed to establish an environmental forum as a conflict mitigation mechanism. In the context of this forum, Sans Fibre was forced to negotiate pollution reduction measures with the local community. Today, the firm is in the process of ISO 14001 environmental management certification, and has significantly mitigated its negative impact on the locality.

This example illustrates the contested role of business in society and global governance. Until recently, most of the literature on business and governance in areas of limited statehood analyzed firms in the context of economic, environmental and social exploitation. Sans Fibre seems to be a case in point. To save costs, the firm simply dumped the negative side effects of production on the local environment and community. This behavior reflects a general tendency of business to relocate its production sites to areas of limited statehood in order to escape the strict regulation of high-regulating home markets in the EU, the United States or Japan. In competing for foreign direct investment, this relocation

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strategy of globally operating business forces states to enter a regulatory 'race to the bottom', resulting in the downsizing of regulation. Emerging markets and developing countries, in turn, cannot catch up with the industrialized part of the world in a sustainable way.

More recent analyses, however, suggest a different perspective on business and governance in areas of limited statehood. Rather than undermining state regulation, business may help fill governance gaps left by states that are not capable and are often unwilling to provide collective goods and services. The example of Sans Fibre is again helpful in illustrating a less detrimental role of firms for governance in areas of limited statehood. To gain the trust of the local community and thereby lower public pressure, the managers of the firm decided to invite residents to the plant regularly and demonstrate the implemented measures. This kind of direct monitoring appeased the protests, while the environmental performance of the chemical fiber producer improved as an outcome of further negotiations between the firm and the residents. Over the years, the relationship between the residents and chemical fiber producer was transformed. 'There is no longer a need for the firm to negotiate with the residents because we've exhausted the problems, our list has gone',[1] says the environmental manager of Sans Fibre. Nonetheless, the firm still organizes the environmental forum today. It seems as if the firm has changed sides. It is now allying with the residents and helping them to target other heavy polluting firms and competitors in the neighborhood. In order to avoid competitive advantages, it now pressures other firms into becoming more environmentally friendly themselves.

This edited volume is not partial to either of the two perspectives on the role of business for governance in areas of limited statehood. We believe that it is, in the end, an empirical question what this role is and under which conditions business is ready to play it. This role is indeed ambivalent. On the one hand, the business of business is to make business, as Milton Friedman infamously pointed out. The institutional mandate of companies is profit-oriented. Since social and environmental standards involve costs, companies tend to have a preference for less rather than more regulation. On the other hand, business increasingly accepts its social responsibility to mitigate negative impacts of economic activities on the natural and social environment. The direct delivery of public health or education is still conceived of as a public task to be fulfilled by the state (Deitelhoff and Wolf 2010). Yet companies require certain collective goods and services to make profits. In industrialized countries, these goods and services are usually delivered by the state. In areas of limited statehood, by contrast, the state is too weak, and

often not willing, to provide minimal security, basic infrastructure or sufficient energy and clean water – public goods the provision of which is necessary for business activities.

The contributions to this book present ample evidence that companies voluntarily implement environmental protection standards, provide HIV/AIDS-related services, or agree to use sustainable energy in areas where the South African state lacks the capacity or the willingness to do so. At the same time, however, the various chapters do find significant variation, both with regard to the extent to which companies engage in health and environmental governance as well as to the quality of their contributions. This book therefore asks what kind of governance contributions firms in South Africa make and how these governance contributions can be explained.

Governance by business: what and how firms contribute

Four findings stand out with regard to the dependent variable of our study; that is, *what* firms do and *how* they do it when they contribute to governance. Firstly, *what* governance contributions businesses make, and to which extent, varies across the four industry sectors we have analyzed in this book. Large car companies operating in South Africa actively fight HIV/AIDS – though to different degrees. Firm programs offer comprehensive health services to employees who have contracted the disease. They also work with suppliers to provide for such services, offer them to the families of employees and sometimes even to the local communities in which they are embedded. The findings for the mining industry are similar. As in the car industry, mining firms are active governance providers. Large textile retailers, by contrast, are only just now beginning to consider what they may be able to offer employees infected with HIV/AIDS. They are hardly active in this area, and do not address the problem the disease causes beyond their own business organization. Finally, the record of food and beverage firms is mixed. Some are as active as the large car companies, while others seem just as indifferent to the disease as most textile retailers.

Finding 1: The automotive and mining industries are active governance providers, whereas the textile industry does not provide much governance. Food and beverage takes on a middle position.

Secondly, we find – these general differences notwithstanding – substantial variance between individual firms and sub-segments within

each of the four industry sectors. For example, there are differences among textile firms between, on the one hand, industrial textiles and the apparel and garment manufacturing segments, on the other. The chemical fiber producer, Sans Fibre, mentioned above illustrates how substantial the governance activities of industrial textile firms have become. A laggard with respect to environmental standards until the mid-1990s, the firm is today in the process of ISO 14001 certification and collaborates with the local community forum to make industry in general more environmental friendly. However, whereas industrial textiles are a relatively strong governance provider, the apparel sector is on the weak end of the spectrum in this respect. Paltex, for example, a dyeing factory in Garankuwa, which produces for large South African clothing retailers, releases its effluents untreated in the environment and shows absolutely no concern for corporate social responsibility or for contributing to governance (see Chapter 12; Héritier et al. 2009). In the automotive industry, differences persist between, on the one hand, large multinational car companies such as Ford, VW or BMW and, on the other hand, the supplier segments. The multinationals in this industry sector provide comprehensive health services to their employees and adopt high environmental standards in their processes of production. In addition, they assist suppliers, government agencies and NGOs to raise the level of services and standards in the locality they operate in (see Chapters 4 and 9 in this book). For example, BMW has, in cooperation with German development agencies and the South African state, set up a hospital for the local community to provide HIV/AIDS related health care. In contrast, the suppliers in this sector are usually less active governance providers, with the notable exceptions of large multinationals in this sector segment, which behave similarly to BMW, Mercedes and the like (e.g. Robert Bosch South Africa) notwithstanding. In general, large suppliers that directly deliver to multinationals, such as VW or General Motors ('first tier suppliers'), often have some form of HIV/AIDS workplace policy and also run the environmental management system ISO 14001. However, they do not contribute much to governance beyond that and so hardly ever collaborate with government or NGOs to provide for common health care services or generally high levels of environmental standards. The smaller the supplier, and the lower the position in the automotive value chain (i.e. 'second tier suppliers' that supply to the suppliers of large firms such as Nissan or Mercedes), the fewer are the governance contributions. In the mining sector, governance contributions also vary between larger, internationally well-known companies, and medium-sized and smaller companies.

Anglo American and De Beers, for instance, have been leading in building comprehensive private programs to combat HIV/AIDS in South Africa, whereas Goldfields and Harmony Gold do less and only followed behind (see Chapter 5). We found similar patterns in the environmental field. In several sub-regions, small, polluting companies even pose problems to larger brand firms. Chapter 10 demonstrates, however, that there is variation between medium-sized companies. Anglogold Ashanti performs better than many of its peers, which suggests that size is not the most relevant factor but reputation. In the food and beverage sector, similar differences persist between, on the one hand, large firms and international brands and, on the other hand, small firms and domestic brands. Whereas the former run HIV/AIDS workplace and environmental protection programs, try to motivate suppliers to do the same and collaborate with NGOs and government to contribute to service provision in general, the latter hardly show any such activities.

Finding 2: There is significant variation within the industry sectors, both between sector sub-segments and individual firms.

Thirdly, with regard to *how*, firms contributing to governance make use of all modes of governance provision, including in-house programs, supply chain regulation, multi-stakeholder initiatives and public–private partnerships, as well as lobbying of and consultation with government. For example, Mercedes in East London provides employees and their families with HIV/AIDS health care services on a level high above South African health care institutions. The firm also applies the environmental regulatory standards of the municipality of Stuttgart to its South African operations, to which no regulatory or business standards in South Africa are a match. In addition to these in-house programs, the firm also works with suppliers to motivate and assist them in adopting similar in-house programs. Mercedes also requires its direct suppliers to attain ISO 14001 environmental management certification and so regulates its supply chain. Moreover, the multinational company works with local NGOs, schools, clinics and governmental ministries in the context of collaborative sexual education programs to tackle the problem of HIV/AIDS in society, and provides for some local communities health care services for citizens who have contracted HIV/AIDS. The firm also approaches the local government in order to raise the level of environmental standards in the municipality of East London (see Chapters 4 and 9), and has lobbied the central national government in the past to change its insufficient approach toward HIV/AIDS. What is interesting is that this finding

of firms making use of all available modes of governance holds irrespective of sector context; that is, it characterizes the four industry sectors in the same way. In the food and beverage industry, too, those firms that contribute to governance, such as Unilever, do so in various ways, employing a diverse set of governance modes. While the findings are analogous in the mining industry, an exception is, to a certain extent, the textile industry. Some of the large retailers engage in governance, for example, when they insist that suppliers adhere to environmental standards or when they begin offering HIV/AIDS-related services to their employees. In these (rare) cases, the engagement does not, however, extend to public–private partnerships, lobbying or government consultation activities. Textile retailers in general avoid direct involvement with government on all levels and in every respect and therefore do not lobby for stricter environmental or health regulation or engage in public–private partnerships with state agencies (see Chapters 7 and 12).

Finding 3: Firms and sectors that are active governance providers make comprehensive use of the various governance modes available.

Fourthly, the analyses in this book reveal a policy field-specific variance with regard to the mode of governance provision. HIV/AIDS is a social problem that requires direct governance contributions and calls for a more cooperative approach than the reduction of negative externalities, such as environmental pollution, which is often achieved through unilateral technical measures. A firm, such as Mercedes Benz South Africa, is therefore part of a whole web of collaborative initiatives designed to combat HIV/AIDS, as described for the previous finding, ranging from supply chain initiatives, capacity building in public institutions, lobbying of governance to the direct provision of health services in local communities. The firm's activities in the field of the environment, by contrast, are more limited. They mainly focus on improving the firm's ISO 14001 environmental management system and internal processes. Few activities go beyond that, such as the lobbying and consultation activities described of the firm in East London, which aim to motivate and assist the municipality to adopt and implement higher standards (in the fields of air pollution and effluents). Unlike its activities to combat HIV/AIDS, however, Mercedes does not collaborate with South African state agencies and/or foreign developmental agencies in the context of public–private partnerships in the field of the environment, nor does it work with NGOs to coordinate multi-stakeholder processes. There is some variation within the policy fields, in particular in the

field of environment. Water management is, for example, sometimes addressed by means of in-house programs only, for example when firms reduce effluents in the context of ISO 14001 management systems. As the food and beverage industry shows, however, water management can resemble common pool resource problems (Ostrom 1990), rendering it a highly complex task – much higher than when a firm is reducing its own waste output. Task complexity is key for how firms seek to provide governance – the more complex the task, the more firms have to rely on involving other actors.

Finding 4: The provision of HIV/AIDS services (that is common goods) leads to more cooperative modes of governance than environmental pollution reduction (i.e. the reduction of negative externalities).

Explaining business governance: drivers, context conditions and enhancing/mitigating variables

How to explain these findings? In this book, we discuss five arguments concerning business contributions to governance as (potential) independent variables:

1. *Shadow of anarchy:* the anticipation of companies that collective goods and services will not be provided at all if they do not step in as governance providers.
2. *Shadow of the market:* financial costs and benefits generated in competition with other firms and constituted by
   a. *Asset specificity:* two arguments relate to asset specificity. Firstly, investments in human resources lead to health governance contributions; secondly, investments with long pay-off periods in production technology motivate firms to provide environmental governance.
   b. *Reputational concerns:* a brand name to protect, the target market of a company, consumer expectations, NGO and community pressure and so on.
3. *Shadow of hierarchy:* the regulatory threat by state agencies to impose regulation unilaterally.
4. *Firm size:* the turnover and number of employees of a firm as well as the financial, technical and informational resources determine the capacity of a company to engage in governance.
5. *Task complexity:* the degree to which the provision of governance necessitates the actions of and cooperation with other actors.

What is the causal status of these factors? Which of these arguments explain firms' motivation, which are rather context conditions, and how does the explanatory power of the various drivers and context conditions vary across industry sectors and policy fields?

The main driver that explains variation in firms' motivation to contribute to governance is the *shadow of the market*; that is, *asset specificity* and *reputational concerns*. When firms invest in skills of employees or make long-term investments in production technology, they have strong incentives to adopt HIV/AIDS policies and environmental standards to mitigate risks associated with such investments. Likewise, firms that have a brand name to protect and/or are under scrutiny of civil society organizations or local communities are under pressure, and are motivated to contribute to HIV/AIDS and environmental governance. The shadow of the market varies between and within industry sectors. Asset specificity and reputational concerns account for the greatest proportion of the overall variation of governance contributions between and within industry sectors.

The *shadow of anarchy* is a necessary context condition for the shadow of the market to be effective. In areas of limited statehood, it is by definition a constant rather than a variable, which has made it difficult for us to isolate its casual effect. In the exceptional case of the mining industry and HIV/AIDS, however, we can show that the shadow of anarchy is a true driver for governance contributions by business. The industry confronts such high prevalence rates among workers in the mines – higher than in any other industry sector in this book – that the firms' motivation to fight the disease is similarly strong as in cases in which firms have made asset specific investments or are concerned about their reputation (i.e. in which firms are under the shadow of the market). In this specific case, a strong shadow of anarchy is a functional equivalent to the shadow of the market as main driver of firms' motivation.

Firm size turns out not to be a driver, but an enhancing and/or mitigating variable of the causal effects of the shadow of the market. If a firm is rather small, it lacks the necessary preconditions for governance. Hence, even if a firm is motivated to contribute to governance on account of asset specificity or because it is concerned about its reputation, the resulting governance contributions will not be very significant. To become an important contributor to governance, firms need a basic infrastructure and substantial resources, which small firms usually do not have. At the same time, the larger the firm, the lower the relative costs of governance provisions and, therefore, the more significant the governance contributions if firms are affected by the shadow of the market.

Task complexity, finally, accounts for *how* firms contribute to governance and *how effective* these contributions are. The more complex the task, the more will firms engage in cooperative modes of governance provision and, consequently (given that coordination always involved problems of collective action), the less effective will be the provision of governance. Task complexity is thus a driver of governance modes and effectiveness; it varies across policy fields. Fighting HIV/AIDS among its workers is a much more complex task for a company than reducing its greenhouse gas emissions, since the pandemic spreads outside its purview. In consequence, when firms fight HIV/AIDS they have to make attempts to collaborate with suppliers, NGOs and local state agencies in order to yield the desired effects. At the same time, addressing complex tasks through such cooperative modes is less effective.

Unsurprisingly, the *shadow of hierarchy* is largely absent in areas of limited statehood as we find them South Africa. This is true for the automotive, textile and food and beverage industries. In the mining and, to a much lesser extent, food and beverage sectors, the South African state has, however, developed some credible regulatory capacities and thus casts a shadow of hierarchy over firms. In these cases, the shadow of hierarchy becomes a source of and driver for the motivation of firms to contribute to governance.

Relating drivers to outcomes: four key findings

With regard to the sector variance, the automotive industry is an active governance provider on account of its high level of *asset specificity*. Car firms invest a lot in (engineering) skills of employees that are hard to find on the South African labor market – more than any other industry sector considered in this book (see Chapters 4 and 9). They also make investments in production sites with long pay-off periods on a higher level than in the other industry sectors. Accordingly, the car industry sector as a whole is, besides mining, the main positive case of the analyses in the context of this book. Multinational car firms are particularly strong governance providers: they run strong HIV/AIDS workplace programs as well as environmental policies such as ISO 14001 management systems. In addition, they give suppliers incentives to start up and run such programs, too. They also contribute to governance beyond the purview of their factory gates and value chains in the context of public–private partnerships, multi-stakeholder initiatives and other interactions with government. Given the different levels of complexity, these coordinated modes of governance are

strong in the area of HIV/AIDS, whereas they feature less prominently in the field of the environment. However, even small- to medium-sized firms in the industry contribute, though to a lesser extent, to governance in the context of in-house HIV/AIDS and environmental programs. On the other side of the spectrum, the textile industry operates on particularly low levels of asset specific investments – both in human resources and production technology (see Chapters 7 and 12). Textile production is driven by short-term margins, not by long-term skills development or investments in production facilities. This makes firms rather risk-averse as concerns problems such as HIV/AIDS or (the costs of insufficient) resource use efficiency. The textile industry is, on account of these features in relation to asset specificity, the weakest provider of governance in the areas of HIV/AIDS and environment in the context of this book. The food and beverage sector ranges somewhere in between. Some firms invest in skills and soil development and thus run strong HIV/AIDS workplace programs and also contribute to governance beyond their own purview, as described for the automotive industry above. Other firms, however, have not made any such investments and therefore are rather laggards with respect to HIV/AIDS and environmental standards. In addition to asset specific investments, the mixed record of the food and beverage industry with respect to contributions to governance is partly also caused by reputational concerns (see below).

The mining industry does not conform to this pattern, however. Production in this sector is not based on high or rare skills. Despite low levels of asset specificity, mining firms are actively fighting HIV/AIDS. Rather than asset specificity, the prevalence rates, which are significantly higher than in any of the other industry sectors analyzed in this book, increase the intensity of the *shadow of anarchy* mining firms are exposed to, and have motivated the trade unions to put pressure on firms. It is therefore the higher intensity of the shadow of anarchy in the mining cases in combination with union pressure (i.e. *reputational concerns*) that is driving mining firms to engage in HIV/AIDS governance and that compensates for the lack of asset specificity (see Chapter 5). Asset specificity, on the one hand, and the shadow of anarchy combined with reputational concerns, on the other, are thus causally equivalent in motivating firms to engage in governance.

The mining industry is also an exceptional case with respect to environmental governance. As in the field of HIV/AIDS, it is not asset-specific investments in production sites that induce firms to engage in governance. Instead, it is the regulatory threat of national government

and inter-/transnational organizations that prompts firms' engagement. Unlike the other three sectors, mining is a highly 'political' industry that relies on state licenses for its operations. Companies therefore feel a relatively strong *shadow of hierarchy* cast by the state over their activities, which compensates for the lack of asset specificity motivating firms to engage in governance. The shadow of hierarchy is also stronger because mining companies make 'site-specific' investments in natural resource deposits and hence do not have an easy exit option. The shadow of hierarchy is furthermore enhanced by public pressure. South African activists have employed different strategies, such as lobbying, campaigning, capacity-building and litigation to make companies reduce negative environmental externalities and compensate for their effects. They also link up with transnational campaigns and, for instance, have brought problems with acid mine drainage to the attention of international news media. Such public pressure enhances the threat of regulation (*shadow of hierarchy*; see Chapter 10).

Finding 5: Different intensities of the shadow of the market explain the variance of governance contributions between industry sectors – the notable exception being the mining industry, which is also driven by the shadows of anarchy and hierarchy.

Asset specificity and *reputational concerns* also explain most of the intra-sector variance. Investments in the rare skills of employees (in the field of HIV/AIDS) and a strong brand name orientation determine the degree to which firms engage in HIV/AIDS programs. For example, industrial textile firms often invest in the skills of their employees, unlike apparel and garment manufacturers. The hotel carpet manufacturer Crossley Carpets is a case in point (see Chapter 7). The firm trains employees with skills that are unique to its production process. On account of this investment in skills, the firm runs a sophisticated HIV/AIDS workplace program to protect it from becoming negatively affected by a high prevalence rate of the virus among the workforce. On the (rare) occasions when garment firms actively provide governance they are driven by reputational concerns and brand image. Woolworths, for example, capitalizes on serving socially conscious, well-off customers and, accordingly, presents some activities to do with the fight of HIV/AIDS in the workplace. The food and beverage industry is also driven by both asset specificity and reputational concerns. Woolworths is, again, a case in point. The firm is a food retailer in South Africa, and so fights HIV/AIDS on account of its brand image. For automotive firms,

the incentives deriving from asset specific investments in the employee skills endangered by sick leave, lower productivity and social conflict are particular strong and therefore supersede reputational concerns as a motivation. In the field of the environment, investments in production facilities with a long duration before they pay off are a predictor for intra-sector variance of individual firm's engagement in governance across all four industry sectors. Similarly to HIV/AIDS, however, reputational concerns are additional strong drivers in the textile and food and beverage industries for those firms who are active as governance providers. In contrast, car firms are largely determined by asset specificity. Reputational concerns play a role here, too, but are usually superseded by asset specificity concerns. Firm size is a mitigating or enhancing variable with respect to intra-sector variance. Small firms, even if they have made asset-specific investments or are concerned for their reputation, can usually not contribute much to governance; the larger the firm, however, the bigger the contribution (everything else being equal). Crossley Carpets, for instance, is heavily dependent on the specific skills of its employees and thus has, on account of this asset specificity, a strong motivation to contribute to HIV/AIDS governance – which for a textile firm is rare. The firm provides employees with a range of sophisticated health services. However, as a small- to medium-sized firm with 600 employees it lacks the capacities to go beyond this rather narrow focus of activities. Crossley Carpets therefore does not and cannot build clinics for the local community or develop, together with public institutions, sexual education projects for the general citizenry. Large firms such as, VW, by contrast, have not only the motivation but also the resources and, accordingly, contribute much more to the governance of HIV/AIDS. Within the mining industry, reputational concerns explain much of the intra-sector variation in governance contributions too, especially in the environmental domain. In addition to NGO campaigns, local contestation incites contributions to environmental governance by mining firms. This mechanism even works for smaller companies with no brand name. Gold miner Harmony Gold, for instance, has started to reduce dusk and improve the air quality around its operations in response to local community protest (see Chapter 10). In the field of HIV/AIDS, in addition to reputational concerns, firm size has a particularly strong mitigating effect on companies' governance contributions. The shadow of anarchy (extremely high HIV/AIDS prevalence rates) and public pressure are high for all companies. However, Anglo American and De Beers – due to their size – have more capacities to invest in comprehensive workplace and community

programs than smaller companies, such as Harmony Gold could afford (see Chapter 5).

Finding 6: Different intensities of the shadow of the market explain the intra-sector variance of governance contributions between individual firms and industry sub-sectors; firm size amplifies or mitigates the causal effect.

The shadow of the market also explains the extent to which firms make use of different modes of governance. Those firms and industry sectors over which the shadow of the market looms strongly make use of the different modes of governance available to them. Those little affected by reputational concerns or asset specificity do not contribute much to governance at all. Again, firm size is important here as a mitigating or enhancing variable, as the cases of Crossley Carpets in comparison with VW illustrate.

Finding 7: Modes of governance contributions are explained by the shadow of the market and firm size.

The observed variance with respect to the modes of governance provision between policy fields (HIV/AIDS vs. environment) and within policy fields (within environment) is determined by the different degrees of complexity of the respective governance tasks. Complex tasks, such as the governance of HIV/AIDS or, within the issue area of the environment, of a fresh water basin, require collective efforts and thus involve cooperative modes of governance provision. Multi-stakeholder initiatives, collective action in associations, or public-private partnerships mark the governance of such complex tasks. Non-complex tasks, by contrast, do not necessitate collective action. For example, the reduction of negative externalities, such as of environmental pollution, can be achieved by firms on their own by adopting ISO 14001 environmental management systems.

Finding 8: The higher the task complexity, the more cooperative the modes of governance provision.

Fostering regulation?

What do our findings reveal with regard to the role of business in driving countries into a race to the bottom or rather fostering a race to the top? Our results are mixed in this respect. In light of the diversity

of industry sectors and firms we analyzed, this may not come as a big surprise (Madsen 2009). Nonetheless, our ambivalent results reconfirm that the effect of business on governance in areas of limited statehood is an empirical rather than principal question.

The textile industry and also large parts of the food and beverage sector do not contribute much to governance in areas of limited statehood. On the contrary, their outsourcing and relocation practices tend to fuel race to the bottom dynamics. If large textile and food and beverage retailers find a location where they can source the products they later market and sell cheaper, they will often go for it – notable cases of firms that are driven by strong reputational concerns or asset specific investments notwithstanding. The search for the cheapest production site is surely in line with arguments about a race to the bottom, as it puts pressure on countries, regulators and supplier firms to keep production costs low and, possibly, to downsize regulation and standards.

However, in particular in the automotive and mining industries – but also in some smaller parts of the food and beverage industry – we find evidence for just the opposite: firms fostering regulation. We have identified the drivers that motivate firms in this respect: the shadow of the market in the case of the automotive, food and beverage and textile industries and a mixture of the shadow of the market and the shadows of anarchy and hierarchy in the case of the mining industry.

Our analyses identify four mechanisms by which companies help raise regulatory standards in areas of limited statehood. Firstly, those companies that are motivated to contribute to governance often also seek to regulate their supply chain. In particular if firms have close relationships to suppliers, and so cannot easily substitute them, they make them adopt high social, health and environmental standards (this is a kind of asset specificity argument for buyer-supplier relationships; for a detailed empirical analysis see Héritier et al. 2009 and Thauer 2010). A case in point is a large supplier in the automotive industry developing brake systems for a multinational car company in South Africa. Given that brakes are a rather important component of a car, the multinational closely supervises and regulates the supplier. In the context of this close supervision, the multinational demands from this supplier to operate on similar health and environmental standards as its own operations. The automotive industry is a most likely case for such supply chain diffusion of standards. The industry is characterized by outstandingly high levels of asset specific investments, and generally close relationships between buyers and suppliers. However, the mechanism is also valid in the context of the textile industry, which is not

marked by high levels of asset specificity and is not a strong governance provider: in those (rare) instances in which textile firms are under such a strong shadow of the market that they actually become motivated to contribute to governance, they also regulate their suppliers if they have close relations with them. A case in point is Woolworths, a South African retailer with exceptional reputational concerns, which has made corporate social responsibility part of its brand identity. The retailer has close relations and long-term contracts with a (small) number of suppliers in South Africa. These suppliers have to meet some minimum environmental standards before supplying to Woolworths. Other suppliers, to which the retailer does not have such close relations, but from which it sources sporadically, do not have to meet such standards. Hence, the shadow of the market, in combination with close relationships to suppliers, brings about a diffusion of standards in the supply chain.

Secondly, multinational companies that are motivated to contribute to governance often transport their regulatory standards from their home market regulations abroad when they invest in foreign countries (Murphy 2004, Hall and Soskice 2001, Skjaerseth and Skodvin 2003, Xing and Kolstad 2002). Recent studies show, for example, that ISO 14001 diffuses through foreign direct investment and is thus now widespread even in emerging market contexts of limited statehood (Prakash and Potoski 2006, Prakash and Potoski 2007). Our analyses point to similar cross-country diffusion effects. Automotive firms originating from Germany, for example, apply the environmental regulation of the municipalities of Munich and Stuttgart, respectively, to their operations in East London and Midrand in South Africa. These German regulatory standards are way above any South African or international environmental standards (Thauer 2014). With these standards, the firms also import the respective know-how concerning environmental protection and planning to South Africa and generally raise the level of standards in the country.

Thirdly, firms that voluntarily adopt high standards to secure asset specific investments, to protect their reputation or avoid state regulation may seek to make other firms – especially competitors – adopt similar standards in order to level the playing field. Sans Fibre, the textile firm mentioned at the beginning of this chapter, illustrates this mechanism well. It exhausted the list of demands the local community had vis-à-vis the firm. Nevertheless, Sans Fibre continued to participate and to sponsor the community forum in which these demands were originally aired in order to make other firms – and especially competitors – engage in environmental pollution reduction, too (see Chapter 12; Bray and

Thauer 2013). In the mining sector, large brand name companies such as Anglo American Group or BHP report that they often get blamed for pollution in areas in which they operate, even though such pollution was caused by other companies. In the coal mining areas, for instance, companies are located next to each other so that the negative impacts of individual firms are difficult to assign to the respective polluter. Therefore, large companies, such as BHP, have sought to integrate smaller firms in environmental governance initiatives and multi-stakeholder dialogues in order to engage them in improved environmental governance (see Chapter 10).

Fourthly, companies that have been driven by one or more of the shadows to adopt high regulatory standards have an incentive to turn them into public regulation when faced with foreign competitors with low regulatory standards targeting the same market (see Börzel et al. 2011 and Chapter 9). By imposing strict regulation upon foreign competitors, the home firm will improve its commercial position in the home market, maintain its competitive advantage and even manage to force out its opponents (Garcia-Johnson 2000, Kolk et al. 1999, Porter and van der Linde 1995, Rugman et al. 1999). To negotiate such measures successfully, the established firm has to be able to threaten credibly its government, for example by menacing with exit. The National Association of Automobile Manufacturers of South Africa (NAAMSA) has actively lobbied the South African government to issue stricter emissions regulations for newly registered vehicles. These lobbying activities have been quite successful so far. In response to the pressure of NAAMSA, the South African government raised emissions standards to the EURO 3 norm emissions control level. In addition, it announced that it would raise the standard to the EURO 4 level within the next two years. These stricter regulatory requirements have the effect of keeping competitors from China, India and South America out of the South African market since their cars observe only lower emissions standards and cannot easily be up-graded (Börzel et al. 2011; Chapter 9). Likewise, in the mining sector, joining the Kimberley Certification System not only protects the reputation of companies producing, trading and selling diamonds. It is also a way of keeping new traders out of the market and regaining the companies' earlier dominant market position (cf. Kantz 2006, Paes 2005).

In sum, whether business activities contribute to a race to the top or a race to the bottom depends on certain scope conditions. This book identifies some of them. *Necessary conditions* for race to the top dynamics are the shadow of the market (i.e. asset specificity and reputational

concerns); in the mining industry, additional conditions are the shadow of anarchy and hierarchy. Our case studies yield some first indications for *sufficient conditions*. In the shadows, we are likely to see:

- *supply chain regulation and diffusion of standards* if firms have close relationships to suppliers and are dependent on them;
- *a transfer of standards from highly to weakly regulating countries* if firms originate from a highly regulating country;
- *sector-wide diffusion of standards* if firms gain the opportunity through collaboration with civil society organization or local communities to impose their high standards on competitors; and
- *lobbying for stricter regulation* if firms confront the threat of market entry from competitors of weakly regulating countries.

The quality of business contributions to governance

The edited volume has explored what drives business to contribute to governance. We have paid less attention to the quality of their contributions and of what effect they have (but see Chapters 5 and 10). However, examining how effective and inclusive business contributions are is an important aspect of governance (Börzel and Hönke 2012, Hönke and Thauer forthcoming, Hönke, with Thomas 2012).

Firstly, quality relates to how *effective* business contributions to governance are. A first question in this regard is to what extent companies have honored their commitments to governance. Company engagement is often criticized as 'cheap talk' or 'green wash' to avoid further regulation. Above, we have referred to motivating factors that account for variation in company contributions to governance, such as asset specificity and reputation. These also explain variation in the extent to which companies implement a governance commitment. However, another important question is how to explain variation in program implementation within the same company, or between companies with similar motivation to contribute to governance. The contributions to this book find such variance, which is largely explained by *task complexity*. Complex tasks require complex solutions that involve coordination with many other actors. Fighting HIV/AIDS is incredibly complex and it is difficult to bring together and coordinate all the actors necessary to respond effectively to the pandemic. This is particularly so in the context of limited statehood. The effectiveness of business contributions to the governance of complex issues is thus low. Governance in complex task areas is in fact generally associated with lower degrees

of effectiveness. This holds for all kinds of governance actors: governments, NGOs and companies (see Krasner and Risse 2012).

Secondly, quality refers to the inclusiveness of business contributions to governance (Hönke, with Thomas 2012). The focus on effectiveness usually ignores the question of how inclusive these contributions are with regard to their geographical and social scope (Börzel et al. 2012, Hönke 2012). As the chapters in this book have shown, companies often provide club rather than public goods. HIV/AIDS programs, for instance, are not always generally accessible but are confined to a particular group, for example employees and their families or the residents of the local community that hosts the production site. Moreover, companies may favor certain social groups within the local communities, for example the elders (Hönke, with Thomas 2012). Public or community pressure can help extent the inclusiveness of business contributions. Labor laws, for instance, have forced mining companies to guarantee the same pension and home-based care benefits to early retired HIV-positive workers and dependents of deceased workers as to everybody else. Community pressure can also result in a broadening of the scope of business contributions to governance. Mining operations are particularly vulnerable to (often violent) local protest, which may not only cause reputational costs, but also disrupts their operations since companies cannot simply leave for less troublesome investment environments (see Chapter 10; Hönke 2013).

Thirdly, even if business contributions are effective and inclusive, they might still have unintended consequences impairing the provision of other collective goods and services (Hönke, with Thomas 2012). For instance, raising environmental standards in an industry sector may keep competitors that do not meet these standards out of the market. A striking example in this respect is the South African association of automobile manufactures (NAAMSA), which successfully lobbied the South African government to issue stricter environmental regulation to keep low-regulating competitors from China, India and South America and their very cheap cars out of the South African market (see Chapter 9). In South Africa, mobility is a major social issue, and the lack thereof is a principal barrier to employment for people who live in remote townships far away from the industrial centers. Keeping cheap cars out of the market may be not only an impediment to free trade, but also an obstacle to enhanced mobility and inclusive labor markets. Business contributions to governance may involve trade-offs – in this case between enhanced environmental protection and enhanced mobility and free markets.

Fourthly, governance contributions of companies should not be assessed in isolation but need to be measured against the negative external effects of other business practices. Anglo American, for instance, sponsors conservation projects far away from its mining sites, and may well contribute to a better environment. However, such sponsorships do not compensate for the overall negative environmental externalities of Anglo American's business operations.

In sum, we find significant variation in the quality of business contribution to governance. In order to evaluate them, we need to take into account different types of actors: those benefiting from business contributions, those being indirectly affected by such governance attempts, and those being negatively affected by company activities. Hence, the interesting question is not only whether companies contribute to governance. We also need to ask to what extent and for whom they contribute to governance or rather undermine it (Hönke, with Thomas 2012; see also Avant et al. 2010: 365–66). This book has taken only first steps in this direction.[2]

How far do our findings travel?

To what extent are the arguments of this book relevant beyond the issues of HIV/AIDS and environmental protection, and beyond areas of limited statehood in South Africa? What is the potential for generalization? Our research conducted in various other projects allows us to explore how far our findings travel.

The environment and HIV/AIDS are often considered 'low' or 'soft' politics, and could, therefore, be most likely cases for business contributions to governance. However, they can also be found in the hard case of security. In South Africa, for instance, the business association Business Against Crime sponsors a support program for police stations that aims to improve public security provision (Hönke 2013). Notwithstanding this, business contributions to public security are less frequent than in the areas of environmental protection, health and social development (see ibid., Deitelhoff and Wolf 2010). However, the same drivers that we have identified in this book play an important role. The shadow of anarchy is a major motivation for mining companies to contribute to security governance. Theft and illegal mining are serious problems for gold and platinum mining companies in South Africa. To combat both not only within but also outside the mine, firms rely on state agents that have the capacity to support them. Since the 1990s, mining companies have in addition often been confronted with protests and

strikes. They have invested in the South African police because they rely on local police stations for public order policing. For instance, mining companies support a special detective unit dealing with organized crime and sponsor a support program for local police stations (Hönke 2013).[3] Reputation is another important factor that accounts for business contributions to security governance. Anglo Platinum has been criticized in the national and international media for repeated police violence in the areas in which the company operates in South Africa. Several times, the police the company called in to deal with protesting communities in Limpopo province responded violently to the point that people got injured and even died (e.g. Action Aid 2008). In response to the NGO campaign and public criticism, the company started to implement the Voluntary Principles on Security and Human Rights in its South African operations. This includes human rights training for state police (ibid., Hönke 2013).

Evidence from the field of security also corroborates our arguments about the quality of business governance contributions. In South Africa, the rise of commercial security has fostered a fragmented and selective distribution of security. Effective governance for and within certain ‘clubs’ (e.g. local communities) is detached from broader social and economic peace (Hönke 2013, Kempa and Singh 2008). The same is true for the scope of multinational mining companies’ contributions to public security in the DRC. The chasing of peasants and artisanal miners off the land and the bribing of local authorities in order to have them provide for ‘public order’ may well increase security for a few – including companies – but produces insecurity for the majority (Hönke 2010, Hönke and Geenen forthcoming). Some activities that might be (mis)taken as contributions to improved collective service provision from a state-centric perspective have the opposite effect in practice. Gold mining companies in Tanzania, for instance, have built state capacities in the security sector, yet instead of improving public security in the gold mining region, this has led to an increase in violent encounters between local populations and security forces (Hönke, with Thomas 2012).

The findings of this book also reach beyond the case of South Africa. The various shadows are equally relevant to motivating business contributions to governance in other areas where statehood is more or less limited in comparison to South Africa, as our empirical research in the Democratic Republic of Congo (DRC) and China demonstrates. The cases of AngloGold Ashanti (AGA) and Anvil Mining in the Democratic Republic of the Congo are illustrative for the effect public pressure has on companies who care about reputational concerns – even in areas

with very limited statehood. AngloGold Ashanti returned to a mining concession in the DRC in 2003 when the area was controlled by a militia group called the Front of National Integration (FNI). It entered talks with the armed group and agreed to provide financial and other support to the group in 2004 in return for allowing its exploration activities to resume in Mongbwalu. This gave rise to significant pressure by the human rights community which accused AGA of being complicit with human rights abuses that FNI had committed with the help of material support it received from the company (HRW 2005). This case fuelled the debate on the role of business in conflict and weak governance zones (Kapelus et al. 2008). In 2005, AGA publicly renounced its financial support of FNI in the DRC as a regrettable mistake and a breach of its principles and values, but pledged to continue its exploration program (Anglo American 2005). In response to the critique, however, AGA began to implement the VPs and became an official member in 2007 (Börzel and Hönke 2012).[4] Likewise, in 2004, Anvil Mining was involved in human rights abuses carried out by the Congolese army (FARDC) near its Dikulushi Mine in Katanga Province, DRC. During the attempt of FARDC to recapture the town of Kilwa, serious human rights violations occurred, such as summary executions of rebels. Congolese soldiers used Anvil's vehicles to transport looted goods and corpses. Anvil admitted that it had provided food, tents and pay to Congolese soldiers during the operation. In the military prosecution of war crimes, three of Anvil's employees were charged with aiding and abetting the FARDC in committing crimes in 2006 (Global Witness 2007). The Congolese military court found Anvil and its employees not guilty in 2007. Yet the case received considerable international attention and put Anvil under sustained pressure from human rights groups who did not accept the ruling due to the court's lack of independence. In reaction to massive public pressure, Anvil Mining turned into a role model for implementing the Voluntary Principles on Security and Human Rights. Problems with effective implementation notwithstanding, compared to other companies Anvil Mining has contributed to conflict prevention around its operations in the DRC. The company has also sought to share best practice with peers (Hönke 2013, Börzel and Hönke 2012).

In China, where statehood is less limited than in South Africa, textile firms are equally driven by the shadow of the market to contribute to governance in the areas of human rights and the environment. China is the biggest textile manufacturer in the world. At the same time, firms operate under an oppressive regime which weakens civil society and NGO activities. Hence China is a hard case for our argument that

reputational concerns drive governance contributions by business. The risk of corporate misconduct being detected by an NGO or Western consumers is rather limited. The country is too big and has too many firms that export to Western market to make systematic surveillance by NGOs possible. Most importantly, however, as an authoritarian regime, China does not allow for any such systematic surveillance by civil society organizations. Our argument about reputational concerns still seems to be valid. W[5] is a large US American mass-market firm that does not invest much in its brand reputation (Thauer 2010). The firm is therefore not very concerned about reputational losses when it sources textile products from China. One of W's suppliers is the Korean-owned firm D, in Shaoxing, Zhejiang province close to Shanghai. The supplier says that apart from quality standards and price demands, W does not require it to adhere to any other standards. Accordingly, the labor rights situation in the firm is precarious: workers often do not have a regular contract, overtime hours are generally not compensated and work time is not limited, making excessive overtime the rule rather than the exception. W does not ask the firm to implement any environmental standards either.[6] Unlike W, the large multinational, US American fashion brand G requires suppliers to adhere to minimum human rights, labor, health and safety, and environmental standards. G invests substantially in its brand name, and is very concerned about its reputation, as it has been targeted by NGOs for infringing on basic labor standards before (Thauer 2010). In 2006, D was in the process of becoming a supplier of G. The relation between G and D would have been based on a rather long-term contract, in which G guaranteed D business for six months, and in addition offered an automatic extension of the contract in case of contract fulfillment. In return, however, G demanded from D to become compliant with its global code of conduct, and thus significantly to improve labor, health and safety conditions and to set up an environmental policy. D failed to do so, and thus did not become an accredited supplier with G. While the actual governance attempt of G was therefore in this case unsuccessful, it is precisely this failure that illustrates the strictness and sincerity of G's willingness to contribute to governance. G walked away and did not do business with D rather than risk its reputation being damaged on account of improper business practices in supplier firms.

The examples from the DRC and China demonstrate that our theoretical framework is generally applicable to areas of limited statehood and is a good starting point for research on governance by business outside a shadow of hierarchy cast by the state. The relevance of some

of the causal arguments will naturally decrease or increase in other institutional contexts. In areas of more limited statehood than South Africa, such as the DRC, the shadow of the market is less pervasive. Only few upper-market and, in general, export-oriented manufacturers have productions sites in the country. This seems to be true for failing and failed states in general, which have very limited public infrastructure and high degrees of insecurity. The economies of these countries are less diversified and often do not even have a noteworthy manufacturing sector. In the DRC, those large MNCs that produce for external markets come generally from the extractive industries. Hence firms that make asset specific investments are rather rare, as are firms that are or supply to big Western brand name companies. In other words, in areas of weak statehood, the preconditions for the drivers we have identified as the shadow of the market are often simply lacking. The overall contribution to governance by companies is consequently lower. However, due to the long-term and 'site-specific' nature of mining investments, local contestation can be an important mechanism that incites business contributions to governance. Our evidence from South Africa highlights that it is not only NGOs that put public pressure on companies by targeting company reputation. Trade union or local community protest that threatens to interrupt operations is also important (see Chapters 5 and 10). Such protest might also raise reputational concerns. Most importantly, however, protest actions such as blockades impose direct operational costs on companies as they interrupt operations and may even damage equipment. Mining firms address such community pressure in order to avoid costs and to continue their operations (Hönke 2012, 2013). Simply leaving for less troublesome investment environments is rarely an option.

At the same time, the shadow of anarchy becomes more important in areas of more limited statehood. It weighs more heavily on companies where there is very little or no public infrastructure, such as in the DRC. On the one hand, this can provide some strong motivation for companies to become governance actors complementing or substituting for governance by the state. On the other hand, companies are rarely involved in comprehensive, inclusive governance provision. They rather avoid such public roles. They prefer to help state actors build the capacity to provide collective goods and services rather than doing it themselves (Deitelhoff and Wolf 2010).[7] In a similar vein, local communities expect businesses not only to clean up their act but also to make a contribution to communities' socio-economic development. However, this does not necessarily mean that they want the companies

themselves to deliver the collective goods and services, but rather to pay into a public fund (Hönke, with Thomas 2012). Since statehood is more limited, extensive business governance raises even more serious questions about the legitimacy of such private governance than in South Africa.

The arguments in this book also seem to hold in general for areas with less limited statehood than South Africa, such as China (Thauer 2010). However, as in the case of the DRC, the different institutional context enhances and diminishes the effects of some drivers. Like South Africa, China is an emerging economy. But at the same time, it is a strong authoritarian and socialist state, with a tradition of the state ruling and organizing the economy. In such a context, we cannot expect firms to fill governance gaps in policy areas that are contested. Yahoo's recent self-censorship in China is a good example in this respect. The firm, which usually claims to be a facilitator of the freedom of speech and civil rights, agreed to comply with the censorship of the political regime.[8] Hence, under strong authoritarian rule, our findings may find little bearings in contested issue areas and policy fields.

The strong role of the state affects our argument about reputational concerns: NGOs and local communities in China are, on account of its repressive political system, severely circumscribed in their political activities. Many NGOs, including those that originate from the 'Western' world, are strongly conformist and do not pursue any activities that may be in conflict with the government's policies. Unlike in South Africa, pressure from concerned citizens, protests from local communities, and the naming and shaming campaigns of NGOs that push companies to contribute to governance are therefore rather exceptional (Thauer 2010). Sans Fibre, the chemical company mentioned at the very beginning of this chapter, illustrates the point. The firm became the target of community protest only after the repressive apartheid regime was over. The new civil rights-oriented constitution of South Africa and its new democracy empowered the local communities in Cape Town to stand up against the polluting firm. Statehood in China is less restrained by the rule of law and democratic institutions, but is in general repressive. Authoritarian rule, as in so many emerging market countries which are only semi-democracies, is a context in which we should expect reputational concerns to be a much weaker driver than in South Africa – examples of some global brands, such as G in the example above, that have been attacked for their business practices in China before notwithstanding.

Putting our findings in a comparative perspective points to an important context condition for the role of statehood for governance in areas of limited statehood: institutional restraints on the monopoly over the use of force and the capacity of the state to set and enforce collectively binding rules. Unlike in areas of consolidated statehood, there is no linear relationship between central state power, on the one hand, and institutional restraints, such as the rule of law and democracy, on the other. While governance contributions by business may require a minimum of statehood, more statehood does not necessarily mean better governance (Börzel et al. 2012, Krasner and Risse 2012). We need to pay more attention to the interaction between statehood and regime type in driving governance contributions by business and other actors.[9]

How much statehood and what for?

While the shadow of anarchy is defined by the absence of statehood, the shadow of hierarchy and the shadow of the market still rely to some extent on consolidated statehood. The shadow of hierarchy is only weak or entirely absent in areas of limited statehood. However, it can be cast externally by consolidated states that host the headquarters of multinational companies or by international organizations whose capacity to enforce international standards depends on the cooperation of consolidated states. Thus, the international climate change negotiations on a follow-up agreement of the Kyoto Protocol have spurred expectations among business for stricter national regulation in the near future (see Chapter 10). Home-country regulation may not only cast an external shadow of hierarchy if it obliges companies to comply with social or environmental standards irrespective of where they invest or act. Multinational companies, such as Coca Cola, which are located in or produce for markets subject to high regulation have little incentive to use different production standards in areas of limited statehood (Börzel et al. 2011). Thus, the shadow of the market is often generated by norms and rules set by governments in areas of consolidated statehood at the national or international level (Börzel and Risse 2010). Likewise, reputational concerns may have induced diamond traders, such as De Beers, to join the Kimberley certification system. Yet the enforcement of international standards depends on consolidated statehood since the certificates are issued by national governments (cf. Kantz 2006, Paes 2005). Moreover, reputational concerns are particularly effective if NGOs campaign against violations and consumers in areas of consolidated statehood care about compliance. Many customers and

share holders of De Beers or Coca Cola live in high-regulating countries and cherish the image of the product they purchase. They are vulnerable to the public shaming campaigns of transnational NGOs that often operate out of their home countries.

The good news is that asset specificity is largely independent of statehood. It induces business to engage in self-regulation to curb the rent seeking behavior of their local subsidiaries and suppliers irrespective of the capacity of the host or home state to set and enforce public legislation (Thauer 2010, 2014). In the absence of asset specificity, external statehood may still be sufficient to provide incentives for business to engage in governance. The multi-level nature of governance, which links areas of consolidated and limited statehood, provides a functional equivalent to the shadow of hierarchy that areas of limited statehood are often unable to generate (Börzel 2010, 2012). However, there is more to statehood than generating incentives.

Governance contributions by business often need to be institutionally embedded in order to contribute to the provision of collective goods and services. In other words, once a company is motivated to contribute to governance, the effectiveness of such an attempt might depend on a functioning state structure providing some basic collective goods and services, such as political stability, security, roads or energy supply (see Börzel et al. 2012). This is particularly likely if complex tasks are involved that rely on the cooperation of – or fulfillment of functions by – other actors than business. Combating HIV/AIDS effectively requires a comprehensive health care system that reaches out to entire families and communities in order to prevent infection and care for infected people. It is also related to broader social, economic and cultural factors that need to be addressed (Schäferhoff 2011). Similarly, environmental standards must be set locally to be at all applicable for firms. If local state agencies do not issue any such regulation, companies face difficulties in asking their suppliers to adhere to the standards to which they have committed under their CSR engagement. Governance without government can be, and sometimes needs to be, strengthened by governance by government in the same area in order to be comprehensive and effective (Amengual 2010). Companies that make governance contributions that reach beyond their corporate purview often look to the state to provide the infrastructure to put in place such cross-functional governance, as well as for the provision of basic security or legal certainty. Thus, automotive companies have sought to engage systematically local public authorities in their attempts to raise the awareness of HIV/AIDS in the wider population, implement preventive measures

(e.g. use of condoms) and provide better health care services for those who have contracted the virus. Workplace programs are highly problematic if the state does not guarantee that employees are to be taken over by public health care institutions if they leave the company. This entails the risk of developing resistances toward antiretroviral medications for persons who contracted AIDS (see Chapter 4). ISO 14001 provides another example of statehood being important to making business contributions to governance work. While many firms have introduced an ISO 14001 management system, its certification requires compliance with rather complex national environmental standards. If these standards are lacking on, for example, the local level, firms fear that they may fail in the certification process; in any case, it makes things more complicated for business as it increases the uncertainty with respect to what is expected from them for successful certification (see Chapter 9).

Basic collective goods and services do not necessarily have to be provided by the host state. External actors might step in, particularly if they have of adequate funding and can rely on precise and binding rules and procedures to coordinate their actions (Krasner and Risse 2012). There is evidence that highly institutionalized governance configurations linking external and local actors are functionally equivalent to statehood in the host state. However, these governance configurations may still rely to some extent on the consolidated statehood of external actors (see above).

Finally, when firms are not much concerned about their reputation, pressure from consumers, peers, shareholders or NGOs may yield hardly any effects on companies. Under such circumstances, the state may become the addressee of advocacy networks and consumer campaigns in order to make it put pressure on firms to commit to CSR. We call this mechanism 'invoking state authority' (cf. Börzel et al. 2012). Local activist groups exert pressure on the state to put pressure on individual companies. This may sound contradictory to the notion of areas of limited statehood, where the state by definition is too weak to threaten companies with the implementation of strict regulation. However, while limited capacities of the state refer to the overall lack of capacity to regulate companies systematically, state actors still do have resources. The question is on which tasks are they spent. If state agencies are pressured to concentrate their activities and resources on one or a few particular companies, these companies will have to react and give in to the pressure that is exerted upon them in turn. Ultimately, such a concentration of state activities threatens the 'license to operate' of the

targeted company. Such mechanisms of 'invoked state authority' are also relevant for the external shadow of hierarchy (see above).

The dark side of statehood

While statehood may often be required for governance contributions by business, particularly if they relate to complex tasks, its presence can also have the opposite effect. This is, however, less related to a lack of capacities to cast a credible shadow of hierarchy, but to the unwillingness of state actors to encourage governance contributions by companies in the first place. On the one hand, governments in areas of limited statehood often have little autonomy from business. On the other hand, they may (ab)use their legal authority to impose some of their political and personal economic interests on firms. Companies rely on informal political networks to receive state contracts and licenses in many areas of limited statehood. They then owe members of these networks personal favors (Hönke 2013, Reno 2001).

State actors may also prevent companies from providing a particular collective good or service and obstruct their governance contributions if these contributions address issue areas in a way that is not supported by government or that empower groups that are in opposition to government. The South African government has long had an erratic stance toward HIV/AIDS and was openly hostile toward anyone raising the issue (see Chapter 3). It therefore obstructed business engagement in combating the pandemic by seeking to take control of public–private initiatives. Another way the state acts against governance contributions by firms is to use the law as a weapon against companies that pursue a politically sensitive agenda, as recently experienced by Google in China. Hence, governments in areas of limited states may be too weak to cast a 'shadow of hierarchy' over firms to make them engage in governance. But they can still undermine the provision of collective goods and services by business casting a 'reversed' shadow of hierarchy, 'throwing the book' at firms that undermine their political power or act against their economic interests.

Finally, state actors may refuse to provide companies with the necessary support for contributing to governance fearing 'agency loss' or 'agency capture' because of the inferiority of their financial resources, personnel and expertise (Börzel 2009, Hellmann et al. 2002, Stigler 1971). Collective goods and service provision by companies may in fact be perceived as negatively affecting the authority of the state in a particular functional field or region (Hönke, with Thomas 2012, Tsai 2011). Thus, the South African state has not only refused support for and tried

to take control of business initiatives to fight HIV/AIDS. Local government actors sought to capture business workplace programs to enroll their own public employees in return for taking over former business employees into the public health service (see Chapter 4).

With regard to the mining sector, the literature on rentier states directs attention to the indirect effects of companies on governance (Hönke 2013, Ross 1999). Governments often still serve as the main gatekeeper between the domestic and the international spheres (Reno 2001). In spite of states' overall weak capacities, governments maintain the monopoly over symbolic capital and the legal authority to decide over mining rights. Contrary to arguments that interpret the rise of private actors in contemporary governance as a sign of the weakening power of central state authorities, the extended role of companies in local governance can be seen a form of 'indirect discharge' (Hönke 2010, 2013). Governments of states with areas of limited statehood quasi-outsource local governance to companies and use corporate governance contributions to regain or strengthen control over regions and revenues from mining, thereby ensuring regime survival. Through strategic absence, host states indirectly discharge the management of local grievances and conflict to companies, such as in mining regions in Southern and Eastern DRC (ibid., Hönke and Geenen forthcoming). In fact, non-state governance may not complement governance by government but rather further reduce the provision of collective goods and services by the state (see also Cammett and MacLean 2011). Future research on governance needs to take into account such effects of non-state governance on domestic politics.

The dark sides of statehood can be reinforced by companies that actively seek to use political networks to gain access to markets or favorable contract conditions. Such 'neopatrimonial collusion' (Handley 2008, Hönke 2013) between business and state increases the likelihoood that business governance contributions will take on the form of club goods limited to a political network. In this case, the good provided is not accessible for the general public or a group of designated beneficiaries, but only benefits those who are already privileged. Companies may find such 'neopatrimonial collusion' acceptable or even economically beneficial (Hönke 2012, Reno 2001). Yet if they are reputation-driven, 'neopatrimonial collusion' constitutes a serious economic risk. NGOs or the media may pick up on such practices, with potentially severe consequences for the brand image of the firm.

To conclude, while a certain degree of statehood may be still necessary to make business contribute to governance, statehood can also discourage or undermine business efforts. This raises again the question

of scope conditions. Our findings indicate that the dark sides of statehood are less likely to occur if statehood is institutionally restrained (Börzel 2009, Börzel 2012). At the national level, such restraint can consist in an effective rule of law and institutional checks and balances on government, such as democratic elections. At the local level, social cohesion can hold local politicians accountable and make them strive for inclusive governance outcomes (Tsai 2007). This '*shadow of the community*' (Börzel 2010, Börzel and Risse 2010, Hönke, with Thomas 2012) is less likely to be effective where low social cohesion combines with weak accountability mechanisms, since local leaders are more likely to engage in exclusive governance arrangements.[10]

Toward varieties of statehood?

This book presents ample evidence for business making substantial contributions to governance in areas of limited statehood. Multinational companies have become governance actors, albeit selective ones, even if the shadow of hierarchy cast by the host state is largely absent. Yet governance by business is seldom governance without statehood. The capacity to set and enforce binding rules on the provision of collective goods and services or to deliver them directly is important to making the functional equivalents for the shadow of hierarchy work. While anarchy is defined by the absence of statehood, companies engaging in governance in its shadow often still rely on basic collective goods and services that are to be provided by the state. At the same time, unrestrained statehood may significantly impair governance contributions by business if state authorities fear a loss of control or have to forgo economic gains.

Governance in areas of limited statehood does not have to be provided by the state, but it does require statehood. This is not necessarily a contradiction. Firstly, areas of limited statehood are not the same as failed states, where statehood is completely absent. Secondly, the opposite of limited statehood is not exclusive but consolidated statehood. In areas of consolidated statehood, states possess the capacity to control the monopoly of violence, to set and enforce collectively binding rules and to deliver collective goods and services. Yet, they do not monopolize statehood but share it with or delegate it to international organizations and (trans)national non-state actors to provide governance (cf. Beisheim et al. 2011). In areas of limited statehood, by contrast, statehood is not shared but is contested or at least uncoordinated. The state is too weak to act as a 'governance-manager' (Genschel and Zangl

2008) coordinating the contributions of different governance actors and settling conflicts among them. Rather than providing such 'meta governance' (Peters 2010), state actors tend to employ the capacities they have left to compete with non-state actors, undermine their governance activities or seek to use them for their own benefit (Hönke 2010). If they are too weak, they are simply circumvented (Schäferhoff 2011) and contested (Köhler and Wilke 2011) by non-state actors, as companies did in South Africa in fighting HIV/AIDS.

The findings of this book demonstrate that the shadow of the market provides powerful incentives for firms to curb their negative externalities and to deliver certain collective goods and services directly – even in the absence of a credible shadow of hierarchy. To what extent asset specificity and reputational concerns, however, are sufficient to induce firms to act as governance managers in areas of limited statehood remains an open question. Beyond their own purview, firms are more likely to contribute to governance in cooperation with state authorities, building their (meta-)governance capacities rather than substituting for their weaknesses, at least in the long run (see also Deitelhoff and Wolf 2010). This might indicate that areas of limited statehood are likely to follow the trajectory of modern and shared statehood. At the same time, we also find evidence for business circumventing state actors or state authorities that seek to 'discharge' (Hönke 2010) rather than delegate the delivery of collective goods and services to firms, which could give rise to the emergence of a new variety of statehood. Finally, there may be instances in which neither state nor non-state actors are willing or able to take on the role of governance-managers, ensuring existing forms of limited statehood will probably prevail. In the end, we might see the emergence of varieties of statehood rather than the prevalence of a particular type.

Notes

1. Chemical fiber producer Sans Fibre 2007: Interviews with the Managing Director, a Union Representative, the Environmental Manager and several Floor Managers, Bellville (near Cape Town), 30 March 2007.
2. The quality of governance contributions is the focus of the SFB 700 research project 'Companies and Governance in Sub-Saharan Africa' (2010–13). Available from: http://www.sfb-governance.de/en/teilprojekte/projektbereich_d/d2/index.html [accessed 6 November 2012].
3. For a discussion of the limited inclusiveness of these programs see Hönke 2013.
4. It should be noted, however, that most transnational companies that operate in the DRC do not have a brand name and/or largely remain under the radar of public scrutiny. In these cases, the shadow of the market simply does not work.

5. For reasons of confidentiality, the name of the company cannot be revealed.
6. However, this aspect is less important in the context of D, as the firm's production process mainly consists of knitting and sewing, which has only a minor environmental impact.
7. For the unintended consequences of such capacity building see Hönke 2012, 2013, and Hönke and Thomas 2012.
8. See interview with Julien Pain, expert of 'Reporter ohne Grenzen' in *Der Spiegel* (3 May 2006). Available from: http://www.spiegel.de/netzwelt/web/zensur-im-internet-yahoo-ist-am-schlimmsten-a-413805.html [accessed 6 November 2012].
9. This is a focus of the SFB 700 research project 'Companies and Governance in Sub-Saharan Africa' (2010–13). Available from: http://www.sfb-governance.de/en/teilprojekte/projektbereich_d/d2/index.html [accessed 6 November 2012].
10. This is another focus of the SFB 700 research project 'Companies and Governance in Sub-Saharan Africa' (2010–13). Available from: http://www.sfb-governance.de/en/teilprojekte/projektbereich_d/d2/index.html [accessed 6 November 2012].