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## Role of Multinational Corporations (MNCs) in Global Governance

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### **MIRS 's Academic Paper:**

## **Role of Multinational Corporations (MNCs) in Global Governance**



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## INTRODUCTION

Global governance is a dynamic occurrence in the current globe as it is changing in rules and legitimacy, increasing in the number of actors that participate in global governance (Finkelstein, 1995). Good global governance cuts beyond the borders of state. This is because the Westphalia state system has taken a form that is different from the interstate relations as such relations has limitation with regards to the growing number of non-state actors and non-state centered problems. This collective problem hence requires a more expanded solution that will involve governments and public as well as private sectors.

Hence, the private sector can create regulations among themselves in line with the solution provided by the state. Hence private and public are complimenting each other in the global governance terrain; the nation-state, the civil society, Multinational corporations are participants in global governance (Karns and Karen, 2004).

Over time, the focus has shifted from the nation-state to expansive area of non-state actors such as the international non-governmental organizations (NGO) and international institutions, multinational corporations and local NGOs. All these actors have become a significant participant in global governance (MNC) (Detomasi, 2007). The diversity of the actors also reflects that they will be playing several varying but integrated roles that contribute to global governance. Such as rules setting, advocacy, foreign direct investment with regards to capital and labor regulations and policy development.

All these point to a globalizing world that needs to be regulated. 'This is because the world has experience lots of economic crisis, humanitarian crisis and environmental crisis that goes beyond the control of national government. Therefore the MNCs have to synergize with national government to bring about good global governance. Although, the activities of MNCs that bring about problem which is to be address through global governance as enormous, their contributions cannot be overstated. Hence this study begin with the brief explanation negative impact of MNCs, brief discussion of the positives impacts of MNCs and concludes with the role of MNCs in the current global governance framework' (Haas, 2004).

## HOW MNCs OPERATE WITH GLOBAL GOVERNANCE

The economic crisis of 2008 reflects how the MNCs unethical conduct affects the investment of all investors in the mortgage sector. The individual managers of companies like Lehman brothers and insurance companies that cater for a wide range of MNCs including the American stock exchange place the global economy in a state of financial crisis. If the headquarters of these companies in America faces crisis, it affects the other branch around the world and ultimately the global economy reaches the brink of collapsing (Varghese, 2009).

Humanitarian crisis have also been identified as one of the problems that comes with globalization there by making the need for good global governance (Schwartz, 2011). The activities of MNCs that include escaping from locations of high labor standards and moving to locations with low labor standard has resulted in the humanitarian crisis such as the use on child labor and the violations of human rights in the production of certain goods. For example the supply cobalt that is used to make the battery of cell phones have is found to be exploited from an environment that does not have appropriate human protections.

MNCs also go to this kind of place to get supply because of the cheap cost and thereby violate the standards. Even in the supply of ammunition around the world, MNCs involve in producing these weapons do not see as a problem to supply rebels with guns that aid the continuity of many wars and crisis. Bringing it closer, Coca cola violates workers' rights in Columbia while oil and gas companies struggle to keep the environment unpolluted (Benner, Reinicke and Witte, 2004).

Environmental hazards are one of the problems that MNCs creates as they global. It could be argued that as they globalized, they create a global environmental problem that needs a global solution. The emission of carbon into the air is an area where the government and the MNCs try to address as it is creating the climate change problem. The activities of the MNCs are what also participate to these problems hence they have a role to play in bringing about good global governance (Ougaard, 2010).

Despite all these negative impacts, the Multinational Corporation (MNCs) is one of the major actors that are shaping a prosperous globalization. The MNCs through the foreign direct investment (FDI) bring about a lot of 'positive impact' around the world. First, it bring about development in the new locations or branch or franchise that is opened around the

world. This is a form of integrating a local economy into the global economy. The production taking place in host country and exported to another country is an example of such interconnectedness.

There is presence of infrastructural development that helps a developing countries to be competitive in the global economy when a MNCs moves into the country. The constructions of some railway lines were a product of the corporation's establishment in these countries. Also 'the FDI provides employment for the locals in the countries. Some developing countries create a policy that state a quota of local employment for MNCs thereby reducing the unemployment in those countries. Also the capital flow into the locations helps the host country's currency to boisterous. Amidst all of these are the charitable activities of the MNCs as a form of corporate social responsibility on a large scale'' (Globerman and Shapiro, 2002).

After laying the background of the positive and negative influence of MNCs, this article proceeds to explain the role of MNCs in participating in good global governance. The main role focus in this article is the way MNCs shape the global rules, norms and institutions as well as international regimes in bring out global governance.

## **HISTORICAL DEVELOPMENT OF ROLE OF MNCs**

Since the period of industrial revolution, there have several innovations that help to begin to recreate the international environment. The production process which increased made it possible for companies to seek markets beyond their territory and this has been helped by the state support or running of these companies. Examples of such companies are the East India companies. These companies are example of MNCs however hundred years ago. The English and Dutch supported the companies to fulfil their economic needs. Nevertheless there are some elements found in globalization that are found in the activities of such companies. 'The operation of these companies where beyond the one geographical areas; the labour is from the locals but foreign control or management. It reflects a form of roles that each geographical region plays, This serves as a model for today's MNCs as they are being used for the pursuance of both state and private interests'' (Williamson, 1991). As these corporations continues to pursue such interest beyond the geographical region where they have been established; they instigate interconnectedness which is linked to globalization

and requires a global governance measures. These elements can be used to trace the modern day forces of globalization which are linked to liberalization and privatization (Scherer, Palazzo and Matten, 2009).

In a contemporary sense, global economy transiting the borders of state makes every other company wants to engage in competitiveness. Unlike those older corporations that are well state propelled, the contemporary MNCs are privately owned. Hence there has been increase in the existing number of MNCs in the twenty-first century. They are expanding their markets and technological advance and spreading both political and ideological ideas. Therefore, the role of MNCs in political, economic, legal and society terms is continuing to increase (Li, 1995).

## **RULES CREATOR**

One of the roles MNCs play is that linked to the understanding of global governance. Global governance is perceived as the making and implementation of rule by state and other actors beyond the state ‘transnational actors, multinational actors and civil society’ regarding the management of varieties of aspect in the international society’ (Braithwaite and Drahos 2000). MNCs participate in the creation of rules and policies that affects their area of operation even in areas that were mainly the responsibilities of the state. For example the Montreal protocol on environment was mainly between states however it is the MNCs that are directly emitting the carbon but the implementation of the policy is mainly on the side of the MNCs.

The protocol is pushes the state making sure that their chemical, electrical and gas industries stop their greenhouse gas emissions in the course of their production. There have been emission cuts and control of air pollution at least to a monitoring level. This is taking place between the MNCs, Nation-States and United Nations. For example there is the United Nations framework on Convention on Climate Change which addresses the emissions in of State corporations.

In furthering the discussion of responsibility or role of MNCs, Habermas provides an argument that firms participated to the stable function of the society Habermas (Habermas, 1998). This can be referred to as that MNCs create a form of stable at the global level. This is carried out through the growing global company alliances.

So, Wars are evidently a situation where government involve in interventionist strategy to redirect the economy to fulfil the needs of the war. During the cold war, this was obvious on the two camps. Despite the challenges that emerged out of the American-Japanese relations, the MNCs managements in both countries still continue to build business alliances. This is a form of corporate state of interdependency and competitiveness. Through such alliances, the national tension is more eased therefore creating stability.

Such alliances are more common among the science field. The science and technology aspect have been favored with regards to the international alliance and collaboration. Although there are still constraints with regards to exchange of technology among engineers as a result of the national security and national economics. “Without any form of alliance the problems of world peace and security will not be full solved since the scientist are the ones involve in the creation of nukes and weapons of mass destruction. Hence humans will be at risk, therefore the relationship that takes place amongst MNCs that produces materials used for such production helps to regulate the production and use of such materials that threatens the life of humans” (Hale et al, 2011).

## **THEORISING AND INTERTWINING**

In general, Global governance such as international institution, IGO, INGO, MNCs coming to make opportunity, facilitate, and contributing to find resolves for problems that faced the international and regional arena. Right there are states, but also there are thousands of issues which created and obstacle in front of humanity and international community, such as: Poverty, terrorism, climate change, pollution, desertification, social and economic inequality and so on, which all these problem became an international topic that we need to naming and analysing in international politics. The simple inquiry is who resolve the problems, how?

During the end of the Cold War (1989) there were shifted worldwide into main directions, such as occurred the transformation European Economic Community to European Union, collapsed Soviet Union, and emerged neo-realists, it was caused to open the world and spread flow of companies, organization in all the world. In parallel there were establish more and more institutions, that’s why their emerged theories/theorists to explain all the phenomena. Here, realists believe that the state is the epicentre of things cannot be share

power between state and non-state actors. The liberal said that the key point is not state we need to share power between state and corporations in order to provide more opportunity and demonstrate the economic marketing. As well as structural realism defined international structure by 'its allocation of capabilities, ordering principle an anarchy'', structuralism within the frame of neorealist highlighted the role of state and activities as a logic to self-help (Brown, D. Mahler, R, Anne. Vetterlein, A, 2009: P 6-10) means states only seek to keep their own interests, states not being to promote and protect transnational companies.

### **NORM ENTREPRENEURS**

MNCs also are trying to survive independently of the country in which they operate as a result they bring out new norms that favors them in host countries. They do not only consider the interest of their state of origin but also tries to pursue their own means of surviving while fulfilling the role of being a good global citizen in the host country. Several scholars have argued that the MNCs are private sector who is setting standards of operation' (Hall and Biersteker 2002).

This include initiating and sponsoring global campaigns such as the UN global impact .This is a platform of interaction among MNCs and the United Nations with regards to the creation and implementation of global norms and values in the aspect of labor, human right and environment; these are found in the MNCs operational code. As well as, a means to fight against corruption, within the global reporting initiative, the MNCs are able to set up or be a part of the agencies that look into such matters that transcend beyond the borders of state. Within this framework, individual organizations such as Wolfsburg group are examples of the private regulatory innovators of the global reporting initiative. 'Their focus is on the regulatory system of global banking that help to curb the money laundering aspect. They provide guide and documentation that will reveal the tendencies or movement of illegal fund transfer within the global banking sector. This is an anticorruption strategy from the MNCs initiatives'. (Pieth and Aiolfi, 2003).

## DEMOCRACY AND CAPITALISM

The MNCs in the context of ideology is compatible with democracy because they are capitalist organization. Hence is global governance, it is key to state that they will be promoting not only capitalist ideologies but also democratic ideologies of global governance. It is key to recognize that democracy has spread wide enough but the legitimacy of its operations are still being questioned by some other parts of the world. Hence with the MNCs, democratic and capitalist global governance is being promoted to ensure smooth running of the MNCs in any environment they find themselves' (Cutler et al, 1999).

The democratic values will include freedom of speech, freedom from fear and other inalienable rights of human, as well as freedom of press in any environment of their operation. This will mean that any atmosphere with limitations and constraints on those rights will not attract MNCs. For instance we can look the case of 'Khashoggi', several MNCs and international business alliance discontinued their current negotiation with Saudi Arabia as a response to the undemocratic behavior towards the press (Basu, 2018). It does not only threaten the press but threaten the MNCs as well because if government can interfere and attack media, the MNCs are not safe. In the way the MNCs seek good global governance and accountability from governments that are even beyond their own original state.

An historical case is the 'Shell's case' in its area of operations. Shell basically engages in oil spillage in the localities where it operates. The environment is destroying and the inhabitants of those places are at risk of not only losing their livelihood such as fishing but also losing their lives from the burning of fuel. This case of Shell brought about the need for standardization with regards to the operations of MNCs of which shell adhere to in order to bring about good governance in the host country,' The problem is that host country, especially when it is developing countries in Africa; always focus on the profit or even bribery from MNCs like Shell. Some MNCs has operated under a military junta just like shell did in Nigeria. However the story has changed as globalization continues to increase and expand with transparency of the deeds of both government and MNCs. MNCs now ensure initiation and implementation of the standards of operations in these areas' (Kell and Levin, 2003).

Moreover, MNCs carries a huge responsibility in dealing with the case of reframing from bribery actions that have been previously perceived as acceptable with the norm of the environment where they run their businesses (Fuchs, 2007). As globalization continues, the standards of MNCs actions of state have been questions and reinvention of new standards have taken place however yet to be spread.

One of the roles of MNCs is to spread the standards and ensure compliance. Although there could have been other actors such as the civil society and non-governmental organization that have brought about certain norms that should be promoted in the international environments, MNCs have the capital to spread the norms compared to both state and civil society actors. This is because the ability to reach the globe through MNCs is far wider than that of state actors. Also the capital requirement of promotion of such norms barely could be catered for by state actors hence MNCs is able to bear the burden easily than state. Example at the United Nation global impact campaign earlier stated. So, state of international Non-governmental organization could initiate or talk about a norm, the MNCs sponsors the norm and becomes a policy entrepreneur (Reith and Zimmer, 2004).

## **EMERGING ROLES OF MNCS**

As considering the continuous globalization that is taking place, there are future challenges that that will require more roles of MNCs. This will be more observable in the technology aspect as people are depending more and more on the information technology to solve problem rather than state actor. For example of such areas a medicine where Pharmaceuticals that run across different countries need to supply drugs that are needed in the outbreak of diseases. These sort of MNCs are research oriented although the work with countries to be able to have legitimacy. As globalization continues to take place, there is possible of the outbreak of new diseases that will call for the attention of this kind of MNCs hence they serve as leverage for the future (Levy and Prakash, 2003).

One more aspect of the need of MNCs in the future is the aspect of environment. The depletion of the environment that continues and the climate change will need more actions from the MNCs because they economy of most States are tied to the manufacturing industries. However, global environmental challenges can also cause the lack of food and other resources that aid human to survive. Basically it would mean that state economy will

continue to prosper at the detriment not the environment and the human that exist in the state. MNCs need to develop technologies that will aid the management of waste and energy hence the science field and the political field overlaps. One could argue that it is through good global governance that these two fields interrelate more in the future. The development of new means of recycling that will keep the environment clean is also a role the MNCs is playing and should play in the future' (Schorlemer, 2003).

## CONCLUSION

In relations to global governance, MNCs continue to join the creating good global governance despite any negative or positive impact of their activities. MNCs existing over time show the significant role they have played to bring about globalization. But the need for good global governance is crucial. Hence they play the role of rules creator, norm entrepreneur in other to establish global standards of operation both in the economic aspect and the political aspect. The also promote democratic and capitalist ideologies as they operate solely in an environment that is perceived to be free and fair. The future role of MNCs in global governance will point towards the medical and environmental aspect which the nation-state cannot solely address. Irrespective of the nationalization of certain industry in some state, there is a great role the MNCs will play in address such issues because of the wider reach they are having when the invest in several countries.

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