Strengthening institutions to legitimise business continuity in weak institutional environments

Abstract
This paper investigates how weak institutional environments influence MNE decision making to be involved in creating public good facilities with the aim of reducing community risk, and to what extend these can be traced back to the MNE choose of a Head Quarter (HQ) or local embeddedness driven strategies. Institutions are important in relation to risk management as they reduce uncertainty about transactions costs. From norms, which guide the interaction and dealing between individuals, to societies legal systems where disputes can be settled by an objective court. However, in regions where formal institutions are either weak, by that unable to enforce its own rules, MNEs can encounter severe difficulties as they lack knowledge, especially about informal institutions, that determine 'the rules of the game' in the business environment. MNEs can apply two distinct generic risk management strategies in their dealings with local communities. One strategy is based on rules provide by the HQ, which focuses on provide guidelines in compliance with normative global institutions, while another strategy focuses on embedding the subsidiary in the local institutional environment. Both of these strategies aim at reducing or mitigating community risk by engaging in renovating institutions or by constructing them in local communities were the MNE is active. Three distinct categories of local institution building were investigated namely related to Education, Infrastructure as well as cultural or social institutions. The findings show that by prescribing to either an Embeddedness or HQ driven strategy the MNEs either gained or lost legitimacy with the local communities. Companies that gained legitimacy were following an Embeddedness strategy and that investments in institution building were made in close corporation with local community. Findings also show that local dependence on these intuitions grew stronger and community members became increasingly reliant on the benefits that came with these continuous investments. The alternative HQ driven strategy findings showed that these companies lost local legitimacy and thereby increased the community risk they were exposed to. These companies did not invest especially in institution building and the ones that did focus on more general types of activities such as sponsorships or scholarships, that were targeting a much wider stakeholder audience. It was found that engagement in institution building, not only had a direct operational impact, as in the case of infrastructure (gaining access to quality road, electricity, etc.) and educational (access to qualified labour, research, etc.), but also served a purpose as part of a risk mitigation strategy towards NGOs and the media. By gaining legitimacy and dependence from local communities the MNE reduced the risk that the community would contact and engage with these outside and possible powerful stakeholders. Institution building hence serves a dual purpose, firstly, making communities reliant on the MNE by providing public good facilities in the absence or at best weak institutional environment. Secondly, serving as an effective risk mitigation tool that keeps aggressive actors from partnering with local communities against the company thereby presenting a risk to its continued operations.

1.0 Introduction

This paper explores how mining multinational enterprises (MNEs) in Armenia are responding to operating in weak institutional environment by building or strengthening public good institutions in local communities, with the aim of reducing risk originating from local communities. Institutional theory is often used in order to study and understand how organisations adopt, defuse and change based on pressure from their internal and external environment (Meyer and Rowan, 1977; DiMaggio and Powel, 1983, Scott, 1995). Conventional thinking, within the International Business literature, suggests that MNEs are displaying a reactive behaviour to changes in their institutional environment in order to retain or remain legitimate in the eyes of salient stakeholders (DiMaggio and Powel, 1983; Ghoshal and Westney, 2004:47; Peng et al., 2008; Meyer et al., 2009; Boddewyn and Doh, 2011). This follows the rationale that institutions moderate corporate behaviour and mitigate effects that deemed undesirable by society. Organisations that are catering to institutional pressure are regarded as legitimate and can uphold their 'license to operate' (Prno and Slombe, 2014). This process is part of the raison d'etre in societies where the institutional environment is well developed and functioning and where there is a high degree of transparency related to the society and business relationship (Campbell, 2007; De Geer et al., 2009). In developing or emerging markets, where the institutional pressure can be arbitrary or lacking, there can be significant differences to what degree organisations are adapting to these pressures to conform (Khanna and Palepu, 2010:84). This can be in cases where there is a poorly functioning judiciary system, arbitrary enforcement of rules, a lack of best practice or that government agencies promote certain norms, which are contradicting or is incompatible with international standards (Khanna and Palepu, 2000; Hoskisson et al., 2000). While some organisations would look at this type of business environment as a blessing, it presents real challenges for MNEs that span multiple locations with varying levels of institutional efficiency and thereby pressure to conform (Kostova and Zaheer, 1999; Orr and Scott, 2008). For the MNE an unstructured business environment presents an uneven 'playing field' and increased uncertainty about the 'rules of the game' and thereby a potential increase in transaction cost (Ghoshal and Bartlett, 1988; Kostova and Roth, 2002; Peng, 2003). Through history there have been plenty examples where MNEs have behaved poorly and violated not only national but also international norms for good governance because the institutional environment made this kind of behaviour possible (Kirsch, 2014). This is true not only in mining, which is researched in this paper, but also for many other companies like Nike sweatshops in Vietnam or Apple phone assembling at Foxconn in China, just to name a few popular examples (DeTinne and Lewis, 2005; Guo et al., 2012). The significant media attention these cases receive highlight the need for MNEs to think differently about the local institutional environment and the practices that they implement when operating in foreign markets. However, little attention has been given by international business research, to MNEs that are active in constructing and supporting facilities in their local environment that under normal institutional settings would fall within the state. And how these institutional activities are affecting risk mitigation efficiency when it comes to handling uncertainty that could affect business continuity, with its roots in issues related to the weak institutional environment.

Using fieldwork data collected from MNEs operating in the Armenian mining sector, where MNEs operate in a weak institutional environment, it is sought to understand how institution building influence risk mitigation by answering the research question- How does a weak institutional environment influence MNE decision making to be involved in creating public good facilities in order to reduce community risk, and to what extent can these be traced back to the MNE to choose a Head Quarter or Local Embeddedness driven strategy?

2.0 Theory

2.1 Dealing with the institutional environment

Institutions constitute the 'rules of the game' in society or the constraints that shape the behaviour of both humans and other institutions (North, 1991:4). Organisations adopt the norms and rule of their environment in order to be regarded as legitimate and thereby becoming a reflection of social practise (Meyer and Rowan, 1977:343). They seek to adapt to their institutional environment because they gain legitimacy and thereby makes it easier for them to engage with their salient stakeholders. In advanced economies the relationship between business and society might reflect these legitimacy demands but in an emerging or developing market these institutions can either be weak or lacking (Khanna and Palepu, 1997; Kostova and Zaheer, 1999; Burki, 2012; Puffer et al., 2016). For MNEs that spans multiple institutional environments the need to adapt to sometime contradictory legitimacy demands, creates significant governance and managerial uncertainties that need to be overcome. This has laid the ground for research into how MNEs can act socially responsible in their interaction with their stakeholders, not only in their home country but across multiple locations (Campbell et al., 2012; Ionnou and Serafeim, 2012). However, in order to be regarded as socially responsible by a wider stakeholder constituency requires a strong and well-enforced institutional environment or that the MNE have institutionalised its governance in such a way thet it can be regarded as legitimate across locations regardless of the local institutions in place (Campbell, 2007).

MNEs have explored two different strategies when engaging in these weak institutional environments. Firstly, they can chose to give a high degree of autonomy to its subsidiaries and thereby embed itself in the local institutional context becoming similar to local firms operating in the market (Campbell et al., 2012; Surroca et al. 2013). Hereby it is possible for the Head Quarter (HQ) to distance itself from the legitimacy demands in the home country by transferring decision making power to the geographical more distant local management. A second option is for the MNE to adopt a strategy whereby the subsidiary adopts best practices and norms that prevails through the industry but keeps central control of important decisions (Feinberg and Gupta, 2009). Both strategies represent institutional pulls that aim at ensuring the organisation to be regarded as legitimate by salient stakeholders (DiMaggio and Powel, 1983). This convergence or isomorphic pull on the MNE towards a given practice, can take three different forms. Firstly, there can be coercive, but often arbitrary pressure to changes in behaviour that in some way will influence transaction-specific investments that the MNE is engaged in. For example through adaption to local legislation, that might not conform with international norms, when pursing a subsidiary focused strategy or by “overbidding” local laws by implementing even higher corporate standards than required. Secondly, mimetic isomorphism is witnessed when the MNE imitate others organisations behaviour based on an evaluation of how successful they are at certain activities, or use of certain technologies that are believed to give other organisations a competitive advantage. However, a weak institutional environment such mimicking behaviour often presents the organisation with ethical and moral dilemmas when confronted with, for example, corrupt behaviour or none-transparent practices. Thirdly, normative pressure prevails from the need for the MNE to be regarded as legitimate. It can stem from strong supplier relationships that favours certain systems where streamlining systems makes sense for the sake of efficiency or a lack of alternative technologies making one approach prevailing.

Operating in multiple institutional environments presents a challenge to MNEs strategic decision making, as it navigates between different locations where there can are considerable differences in institutional pressure. In a strong institutional environment, which is typically found in the home country, there can be strong isomorphic pulls for the MNE to behave in accordance with international norms and rules while in the weak institutional environment these isomorphic pulls will be less salient. This could engender the MNE to take advantage of the apparent opportunities that such an environment presents but also means that it risks losing legitimacy in other locations where it is active. This prompts some MNEs that operates in weak institutional to engage in not only social responsible behaviour or “overbidding” legislation but also engagement in creating or strengthening local public good facilities, which could help strengthen the institutional environment and thereby risk of losing local legitimacy and be subjected to community risk.

2.2. Community risk

The term ‘risk’ has many different connotations and there is no universally adopted definition of how the concept should be understood (Lupton, 1999). In an institutional and International business context, risk refers to how MNE managers react and subsequent takes decision in an uncertain business environment, as well as the lack of certainty in the outcome that these decisions will create (Kostova and Zaheer, 1998; Hagigi and Sivakumar, 2009; Figueira et al., 2011). This paper adopts the term as a reference to the unpredictability in corporate outcome variables and the uncertainty connected with managerial decision making (Miller, 1992). When related to community risk it is conceptualized as the relative chance that MNE activities are prompting local communities to regard it as illegitimate and prompting an response by the community that makes it impossible to continue operation. For the risk decision maker the task is to understand and formulate strategies that mitigate community risk by ensuring that the MNE can remain legitimate and by engaging with institutions that are perceived as legitimate by the community, thereby ensuring that the short- and long-term objectives of the firm can be reached.

2.3 Operating in a weak institutional environment

Emerging markets in general and local communities especially are very diverse and it would be hard to pinpoint one set of uniform institutional shortcomings (Meyer et al., 2009; Rottig, 2016). However there are certain characteristic, which is salient in most of these local contexts and thereby constitutes the boundaries of what can be considered a weak institutional environment. Firstly, there are issues related to infrastructure like access to good roads, constant supply of electricity and gas or even telephone coverage (Khanna and Palepu, 1997). The lack of or poorly maintained infrastructure can have a direct influence on the ability of the MNE to operate and in a given context create a need for additional investments, which are not directly related to the project, thereby increase transaction costs (Meyer, 2001). Secondly, access to qualified labour can be another issue that the MNE need to address. The education system and therefor the graduates that the MNE is looking for, might not be of a standard, in order to produce at the required quality. In some contexts the local government will forces MNEs to take on local employees in order to build labour capacity but if the quality is not at the required standard, it could mean increased costs that must be endured by the company. Thirdly, companies can be required to address local cultural and social issues, which are deeply engrained in a given country context. This can be religious or social artefacts that the MNE need to be aware of and which might not be obvious given the entry mode or is linked to cultural differences between home and host country.

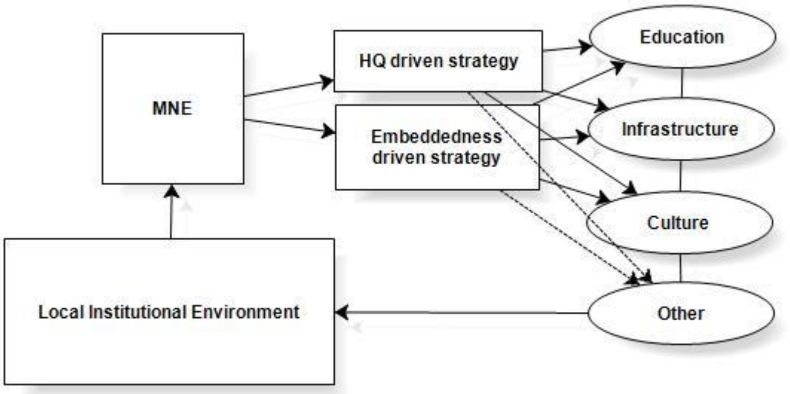
These characteristics are a result of the lack or shortcoming of institutions that should, at least formally, be caretakers of these public good facilities. However, in this weak institutional environment there is little or nothing that coerce the MNE to behave in ways that will ensure that it is regarded as legitimate if it is not actively seeking to engage with the local community and acquire this knowledge (Peng and Lou, 2000; Burki, 2012). This has prompted some MNEs to engage in stakeholder engagement or Corporate Social Responsibility (CSR) programs that could enable the knowledge transfer and thereby empower decision makers to engage in legitimacy building or preserving activities (Schwartz and Carrol, 2003). The MNE can achieve thus aim by either a top down strategy driven by the HQ or by embedding the subsidiary in the local context.

The choice between a subsidiary and HQ driven strategy is not straight forward as both approaches present real advantages and disadvantages, both in terms of operating in a weak institutional environment and community risk mitigation. The subsidiary managers can choose to adapt and conform to the weakly enforced local regulative conditions and institutionalised norms, indicating an embeddedness strategy as described by Feinberg and Gupta (2009). In high risk contexts, like the one in weak institutional environments, this prompts the MNEs to adopt a higher degree of operational integration indicating greater subsidiary autonomy. The aim of such a strategy would be to adapt to the local risk environment and be agile in relation to uncertainties that might arise. Such a strategy would then ensure that the MNE is regarded as more legitimate by local stakeholders, as there were coherence between the local institutional environment and actions of the company. The alternative is to follow a HQ driven strategy where the MNE conforms to industry and international standards for corporate behaviour. Such an approach also targets local stakeholders but at the general level of consultation and inclusion and in coordination with other salient stakeholders in other institutional environments where the MNE is active. Following such a strategy could be contradictory to these local norms or best practice followed by local businesses. However, such a strategy would ensure greater legitimacy with international stakeholders in other locations and that the company could be regarded as legitimate by a much greater constituency. The commonality between the two choices of strategy is that both have the purpose of making legitimacy claims towards salient stakeholders and thereby reduce risk. Here the embeddedness strategy prompts the MNE conform to the local norm, and thereby follow a normative pull that is identified in the local community. Or alternatively the MNE is driven by a mimicking strategy, where the use of international standards is used to bridge the legitimacy claims of stakeholders across entities.

2.4 MNE governance in weak institutional environments

For both of these strategies it is possible for the MNE to make use of an overarching governance system in order to manage its relations with local communities. And a significant proportion of the comprehensive literature on stakeholder engagement is focused on how the firm reacts and changes to outside forces in order to retain legitimacy (Schwartz and Carroll, 2003; De Bakker et. al, 2005; Campbell et al, 2012; Pavlovich et al., 2016). Prompting firms to identify and relate to stakeholders in a much broader context than customer, supplier and new and existing competitors (Freeman et al., 2010; Porter, 2008). At the same time acknowledging that the creation and enforcement of effective state regulations, at least to some degree, also rely on firms themselves and not exclusively on state governance (Campbell, 2007). And that organisations also need to engage in stakeholder relations with environmentalists, unions, consumers, communities and others groups in order to monitoring these regulatory processes and create a predictable institutional environment in order to gain or remain legitimate (Gao and Zhang, 2006; Adam and Shavit, 2008). Underlining that regulation is not exclusively placed within the domain of the state and that stakeholder engagement, in an institutional perspective, is regarded as a way for firms to manage legitimacy claims in a multifaceted business environment.

A model of the theoretical framework illustrates that it is possible for the MNE, in a weak regulatory environment, to be a significant organisational actor that can effectively influence formalised local institutional development. A weak institutional environment entails an element of uncertainty both in terms of facilities like infrastructure, education and culture but also on how companies can build legitimacy with the local communities they affect. The role of the risk decision maker is to identify the optimal strategy that will ensure that salient local stakeholders perceive the MNE as legitimate. This work is done by engaging in different forms of institution building through the construction of Educational, Infrastructure and Cultural facilities in the local community that will support these legitimacy claims. This either happen through an embeddedness strategy with strong subsidiary autonomy, where the MNE create facilities which are formed on the basis of the pressure from local informal institutional environment or alternatively a HQ driven strategy where institutions are constructed on the basis of their internal governance systems and on what international normative institutions prescribe as best practice.



3.0 Method and Analytical framework

This research was done as a multiple case study (Eisenhardt, 1989, Yin, 1994) that included all nine of the MNEs currently active in the Armenian mining sector (see table 1 for an overview of companies and operations). This approach provides a unique and in-depth insight into the sector, as well as how these companies operate and the strategies they employ in order to cope with a weak institutional environment. The nine MNEs represented companies with HQs in Canada, Cyprus, United Kingdom, United States, Russia, Germany and China. They include both large operations such as the two biggest copper and molybdenum production sites in the country as well as small sites focusing on small scale production. A couple of companies are still in the early stages of exploration and are therefore not producing ore and a number have been in production since before the fall of the Soviet Union in 1991. The sample is therefore representative of the MNEs in Armenia and can be used to generalize on how different strategies apply to the institutional environment compared to variables such as Home country origin, age of operation, type and stage of operation as well as utilization of CSR or stakeholder management systems. The approach was structured in the following way and in line with established approaches to investigation of organisational institutional legitimacy (Vergne, 2011). Firstly, data from the annual reports, stakeholder and governance reporting was collected from each mining MNE. The data was coded into themes, where the company reported that they have engaged in public good facility development activities in the form of education (kindergartens, schools, etc.), infrastructure (roads, gasification, etc.) and culture (culture houses, church renovation, etc.). A third category was labelled “other” in order to capture any data, which was not included in the three categories but could be related the MNEs effort to influence their institutional environment (see table 2 for an overview of findings). Secondly, the statements were cross-referenced with empirical evidence from on-site field observation as well as interviews with community members at 13 different villages close to MNE mining sites. This was done in order to validate the existence and efficiency of the institutions, that was claimed constructed, as well as to investigate to what degree these where regarded as legitimate. Thirdly, it was investigated if the MNE was following a HQ or embeddedness strategy. Three variables were investigated in order to capture embeddedness through interviews with subsidiary managers and local community members. Secondly the degree to which the subsidiary engaged with the community in developing localised solutions as well as how the subsidiary applied its competence to the local community in order to solve problems caused by the subsidiary activities. And thirdly, if the facilities that were constructed targeted the specific issue that the community had or could be regarded as a generic approach. This enabled the differentiation between companies that were catering to international institutional norms, that prompted them to invest in community facility development, and the ones that had pursued an embeddedness strategy, where the local subsidiary could act relatively independent. In order to capture if the MNEs strategy had led to loss or gain of legitimacy in the local community and hence influenced community risk, were the evidence compared with testimonials from interviews with Non-Governmental Organisations (NGOs), heads and mayors of local communities as well as articles from local newspapers that described the MNE-community relationship.

4.0 Analysis and findings

4.1 Armenian mining - MNEs operating in a weak institutional environment

In rural Armenian basic public good institutions like effective local political participation, healthcare, access to education or basic infrastructure does not exist, are worn down or very rudimental (IFC, 2013; IMF, 2015). There are many reasons why the country is unable to build effective local institutions like the dismantling of Soviet Union, which removed or degraded a lot of these basic institutions, the relative short history of democratic practices, a turbulent start of the nation with a war with Azerbaijan, issues of corruption, etc. (De Waal, 2010). While there have been some efforts to strengthen the institutional environment, there persists to be significant challenges that need to be addressed, especially in the rural parts of the country where informal practices are becoming the rule to uphold basic institutional functions.

Mining operations in Armenia dates back to the middle ages and have only increased as world demand for copper, iron, silver and gold have seen new heights. During the soviet period mining production was expanded vigorously in an effort to recover the union’s poor economy after World War II thereby becoming the largest contributor to the Armenian economy. As of 2011 the mining industry had more than 400 operating mines including 27 base metal mines, of these are 7 copper-molybdenum, 3 copper, 13 gold and gold-polymetalic, 2 polymetalic and 2 iron ore mines (Investment guide, 2011). Furthermore it is estimated that there are an additional 115 metal deposits that could be worth exploring in the future. Taking into account that a major contribution to the Armenian economy can be traced back to mining, there good reason to expect that the sector will continue to be important to the country for many years to come. The nine MNEs in the study includes all the multinationals that are engaging in mining activities ranging from small exploratory operations, at the early stages of development, to large scale production facilities that have been developed over several decades. An overview of the case companies can be found in table 1.

MNE	HQ Home country	Subsidiary operations Location	Type of exploration/Production	Stage of mining operation	Years of Production	CSR standard used
Croniment Mining	Germany	Kajaran	Copper/molybdenum	Production	+25 years	None
GeoProMining	Russian	Agarak/Zod/Ararat	Copper/molybdenum/Gold	Production	+25 years	Resources for Good
Vallex Group	Cyprus	Teghut	Copper/molybdenum	Production	+1 year	IFC
Lydian International	Canada	Amulsar	Gold	Exploration	0 years	IFC
Dundee Precious Metals	Canada	Shahumian/Kapa	Gold/Silver/Copper/Zinc	Production	+25 years	GRI
Fortune Oil Co	China	Abovian/Hrazdan/Svarants	Iron	Exploration	0 years	None
Orogon Gold	United Kingdom	Mutsk	Gold	Exploration	0 years	None
Global Gold Corporation	United States	Marjan/Toukhmanuk/	Gold	Exploration	0 years	None

		Getik				
Cantera Gold	Canada	Martiros	Gold/Silver/Copper/ Zinc/Bismuth/Selenium /Tellurium	Exploration	0 years	EITI

In January 2012 the government of Armenia, in corporation with the World Bank, updated its mining legislation, the Mining Code, in order to generate increased revenues from mining activities, reduce the cost related to the environmental impact of the industry as well as on the rich cultural heritage in the country. The Mining Code was furthermore aimed at improving the governance structures and engender transparency to the sector in general, thereby strengthen the institutional infrastructure around the industry (Mining code, 2011). While there are disagreements between government, industry, research institutes and different NGO groups on the quality of the legislation, it meant that the country has witnessed an increase in its tax revenues coming from the sector (World Bank, 2014).

Under The Mining Code are companies obliged to adhere to a set of environmental governance rules, requiring companies to document their social and environmental impact. They are also obliged to have effective systems for mitigation of their negative social and environmental impact on the local community, both in the exploration phase and after the mine is in production. Part of the Mining Code also includes a contribution to the Environmental Restoration Fund, which is to be used for reclaiming land where mining has ceased. The fund is financed by the companies themselves and is managed by the government that also has oversight over the restoration process. The same is true for cultural heritage sites, which companies are also charged with protecting and document their activities and if needed restore any sites that might be affected by production. The final objective of the code is to improve the governance structure connecting companies, government and civil society (CS) with the aim of facilitating increased transparency. As the World Bank consulted the Armenian government, when drafting the legislation, there is a strong correlation between the code and the World Bank approach to corporate governance.

The increased self-reporting has brought with it a substantial interest from media and other groups, who beforehand had very limited access to company records. This is especially true for MNEs that are typical engaged in larger operations and have a greater impact on society than local domestic mining firms. The reports typical follow international recognized guidelines like the Global Reporting Initiative (GRI) issued by the United Nations, The World Bank International Financial Corporation (IFC) standard for social responsibility or in one instance the newly formed EITI standard for transparency in extractive industry (GRI, 2013; IFC, 2012; EITI, 2013). One of the consequences of this increased transparency is that companies to a larger extend are being held accountable to their own reporting and subsequent tests of their claims by NGOs, the media or other CS groups interested in the impact of mining operations. However, until now there has not been any court decision against a mining company that could be connected to their impact on local communities. This and other instances have meant that individuals and NGO groups are becoming increasingly hesitant to pursue companies through the court system as trust in the legal system has decreased (CRRC, 2013). In 2008 35% of young people from the age of 18 to 35 said that they trusted or fully trusted the legal system a number that in 2013 had gone down to just 19 %. Among the group at the age of 56 years and above the same number had gone down from 27% to 11% showing a general lack of trust in the legal system by the general population. This makes the Armenians the least trusting in their legal governance system of the three southern Caucasus countries (Ibid.). The situation is further supported by claims by Transparency International (2015) the country ranks in the lower end of the corruption perception index together with indicators on the quality of rule of law.

While there are indications that the Armenian government is trying to strengthen its governance structures surrounding the country's dominant mining industry, there continues to be issues when it comes to actual enforcement. This means that MNCs, operating in this institutional environment, have to observe some basic legislative demands but can to a large extent choose the level of ambition regarding environmental and social issues they want to engage in. This represents businesses with significant institutional uncertainty where formal institutions such as court system, government agencies and local governance structures easily can be identified but in fact are lacking rigid enforcement capability or general legitimacy. The Armenian institutional environment is weak mainly due to this lack of enforcement, of existing rules and regulations, coupled with a general mistrust in government.

4.2 MNE investments in local institution

In this weak institutional environment the mining MNEs has increasingly been involved in institutional development in the local communities where they are active. These efforts fall within three main categories namely education, infrastructure or culture. A summary of the analysis of MNE activities in the local communities is listed in Table 2.

4.2.1 Investing in Education

Involvement in education related investments have been a priority for a number of MNEs engaged in local community development. Out of all the nine companies were five who had made commitments to either build or renovate educational facilities. This ranged from building kindergartens, financial support for education to financing a library and providing scholarships for higher education abroad. For example has the Russian MNE GeoProMining, who produce at several sites, committed resources to education described by the company as "[The company] pays special attention to educational programmes for children and teen-ages. Along with the opening of the interactive classes and the scholarship programme for students in universities of Russia and Armenia, we support projects aimed at pre-school children. We are involved in the construction of a kindergarten in the Ararat region and support this Children Development Centre in Vardenis in its educational programmes for children from low-income families living in the region of Gegharkunik." The Canadian company Dundee Precious Metals, also present at several sites, reported that "In Kapan, the community infrastructure spending is primarily focused on schools and kindergartens, since many require a significant amount of structural repair work." Smaller mining operations or mining projects that were in the initial phases of construction was less likely to invest, or openly report that they did, in education. One exception was Lydian international a Canadian MNE that that invested in a library as well as playground and kindergarten facilities starting already in the exploration phases of the project and before production commenced.

The community response to these activities was in general positive, when describing the impact of corporate commitment. The main focus was on how the mine would impact the community in the long-term and how education would help community members get employment, especially the young. Migration issues were a major concern for most of the communities, where people migrate primarily to Russia, in order to get employment. One villager from Teghut said that "the community had grown at some extent, because of the project there were vacant workplaces in the village, the villagers of Teghut wouldn't leave the country to work in Russia." The Russian GeoProMining commitment in Ararat village showed that long-term commitment is important stating that "The smartest youth of Ararat village should have been selected and sent to training and education in

Russia, finishing their education they would become the future employees of Zod factory, this project was successfully launched during first year and then it stopped.” Creating resentment and doubt about how committed the MNE was to the village.

4.2.2 Investing in Infrastructure

The second theme is related to the construction of infrastructure by the MNE. In most of the places, where there are mining projects, the infrastructure (e.g. roads, gas, electricity, telephone, etc.) is absent or poorly maintained. As the Armenian government cannot provide infrastructure funding for these often very small and remote communities, the investments from MNEs are often welcomed. For the companies the infrastructure is needed because it is linked to the efficient production, at the mine, and for transport of heavy equipment to and from the mining site. This has resulted in local communities getting access to gas, paved and maintained roads as well as to a constant supply of electricity. For example when a village head from Saravan stated that “Due to the joint efforts of Saravan village municipality and Geoteam CJSC [Lydian international subsidiary], the gas had been supplied to the village through newly built 8 km gas pipeline”, which connected Gndevaz and Saravan villages, and according to the village head in Teghut “roads had been renovated, the quality of electricity and telecommunication improved, due to financial support of Vallex Group.” all evidence of MNE commitment to the construction of these types of facilities.

It is difficult to differentiate between the operational requirements of the MNE and to what extend the infrastructure commitment were a result of a deliberate attempt to do public good. However, evidence suggests that it was a combination of both as building a gas pipeline, providing electricity etc. for the villages in the area, could be done at a significant reduced price compared to doing the same projects independently. The engagement in infrastructure is also the most described parts in the governance reporting, when for example GeoProMining states it’s “Involvement in the development of socio-economic infrastructure in the regions, where the company operates.”, as well describing the details of the commitment as “co-financing the construction of a gas pipeline in the village of Sotk in Gegharkunik region of Armenia”. For Crominent the level of commitment was very much up to the local subsidiary having an arms-length approach to its operation in Armenia. However, none of the two had implemented any formal governance system to handle stakeholder relations opting for independent projects or different forms of philanthropy and sponsorships, targeting the immediate needs of the community as they are described by the municipality. This also meant that the local community were heavily reliant on its relationship with subsidiary managers and their willingness to engage with the mayor for its future development.

For the community the infrastructure projects have been welcomed and have made improvements to community life. However, it has also meant that community members increasingly are becoming reliant on the goodwill of the MNE, rather than the services that can be provided by the state. Some communities have already felt what it entails when company commitment decreases and there is less willingness to engage with community members. For example, when interviewing the mayor of a local village near a GeoProMining site “when villagers asked about the promised bus, the company replied that they have already renovated the ceiling of Ararat village’s kindergarten and didn’t have sufficient financial resources to purchase the bus.” The excuse being that commodity prices were down and the company could no longer keep its commitment to the village. The reliance on the company to provide these types of public good services create significant resentment in the communities, both towards the company but also against the Armenian government, who was blamed for not providing these public good service to the community.

4.2.3 Investing in local Culture

The country has one of the oldest histories in the world dating back to the very beginning of civilisation some 5000 years BC and later-on the very origins of Christianity (De Waal, 2010). This means that the country is littered with cultural heritage sites of which many are unexcavated. The Mining Code (2012) prompts companies to engage in cultural heritage protection on the mining site as well as in area affected by mining operation. And all companies that are reporting on cultural heritage are engaged in preservation projects in one way or another. Most of the MNEs publically acknowledge this responsibility as for example Dundee Precious Metals "We also engaged an independent archaeology expert to work with our Kapan employees and local archaeologists to ensure that both Armenian law and best practices are consistently being applied". However, a large proportion of cultural heritage sites are situated outside the mining areas. As the Armenian government, in many instances, has been unable to fund proper archaeological exploration, are many of the sites left untouched or when discovered by chance, reburied. This has left several potential discoveries undocumented and unknown to the rest of the world, created a situation where private actors, like mining MNE, are regarded as a source of funding for preserving and to some extent communicating the Armenian history.

Armenia has a rich and properly the oldest Christian history in the world. And hundreds if not thousands churches are scattered all over the land of which many are in need of restoration. Some MNEs take on this extended responsibility and engage in project that aim at preserving old churches that can have a significant cultural meaning to the local population. But also new churches are being built. In Aleverdi, where Vallex is doing copper smelting, a new church was anointed with the support of the company and with the participation of high ranking officials and clergy of the Armenian Orthodox Church. It also gave an opportunity to place the church project in a wider cultural setting as communicated by the corporate president "[The] new church became a new spiritual-cultural axis for Alaverdi: rallying round it became easier for Alaverdi people to overcome internal contradictions and separations and united they could undertake new projects and new achievements in the fields of spiritual and material culture." This also indicates that the church could be seen as a way for the community and the company to come together, despite past and present differences.

Sports facilities have been a focus point for some of the MNEs who have seen the opportunity to communicate about their company in other cultural settings. The types of activities that the MNEs have engaged in has typical been related to popular sports, like chess, or sponsorship of smaller local events. As most villages are quite small, only consisting of up to 350 members, there are only a few local communities that can benefit from large sports facilities. This means that the typical sports facilities project is in the form of renovation of sports halls, connected to the local school or one off sport events. However, most of the MNE do not engage directly in sponsorships but rely on project funding that the local community can apply for and decide what kind of facilities should be improved and in some cases these are facilities for sports.

4.2.4 Other types of institutional development

Some activities fall outside the three main themes that were identified, either because they lack institutional rigour, in the form of a physical and tangible presence, or because they fall outside typical stakeholder governance structures. Some examples of activities that have institutional impact was when MNEs like Crominent created a charity that supported different projects that communities can apply for. As stated by the company "The Foundation is organized as a non-profit corporation exclusively for public welfare, community involvement and charitable purposes.", which reemphasis the institutional commitment the MNE has to the community but also its willingness to be involved in public good institutional development. Or when GeoProMining was "Co-sponsor of the International Sports Forum 'Russia – a Land of Sports' and the 5th annual international 2012 Children of Asia Games." thereby creating a link between subsidiary activities and HQ home country. These types of large-scale project are however rare and the general focus seem to be on a much smaller scale and to a larger extent is embedded in the community and its daily needs.

4.3 MNE Strategy and Community risk

The strategic decision to engage the construction of facilities and thereby strengthen public good institutional development can stem from two sources, the local subsidiary level or alternatively as part of the HQ commitment. The result that these strategies produce are translated into different community risk consequences depending on the legitimacy that the MNE either gains or losses.

Of the nine MNEs included in the survey there were three perusing a subsidiary focus strategy, where the local branch had relative autonomy to peruse a strategy independently of the HQ. The three Crominent, Vallex and Lydian have all focused on creating a diverse set of localised solutions with all three themes Education, Infrastructure and Culture. While both Vallex and Lydian used the IFC standard to govern the HQ/subsidiary relationship had Crominent no such standardized approach in place. Of the two first MNEs, one had only been in production for one year while the other was still in the exploration phase of the project. The last MNE had been producing ore for over 25 years and the site had switched hand several times before ending in the hands of the German owned Crominent. All three had the commonality that they were focusing their efforts on one specific site and could hence concentrate on a limited number of communities. The effect of this was also evident when talking to village heads and mayors. They claim that the contact with the subsidiary was more frequent and many of the initiatives that were implemented had originally come from the communities themselves. Such as the need for water, gasification, road maintenance but also in relation to cultural church renovation and the establishment of culture houses. This commitment also brought significant media publicity and attracted the attention of NGOs for example when talking to CEO of Lydian they stated that "The NGOs here are extremely aggressive they are more activist then anything else. The greatest example is that the day before yesterday we had a meeting organised by NGOs and one of them stood up and said that if I know that Lydian International was here I would not have come." While the MNE have made significant investments in the local communities, it was a difficult for them to get in dialogue with civil society "They do not want to engage. They have a very primitive view that activists can stop mining, which in my view is a total dream. They do not understand that the best way to improve mining is to engage with mining companies." When asking the same questions to the NGOs they claim that the investments and efforts are a front for "stealing" the resources of the country and though their investments seducing the local population so that they will not know what the real (Social, Economical and Cultural) impact would be, until they were powerless to do something about it. The NGOs had much the same perspective on the MNE just reverse, especially relating to the process of negotiations with the local community and the environmental impact of mining, specifically the consequences related to waste tailing dams and the possible long-term effects. As for example when talking about the site where Crominent is producing copper "What will happen if Kajaran close? Imaging if that would happen. Remember Artavik? Is the villages where the tailing dam is located they have since the 70ties literately have been complaining to the soviet and after that the Armenian government about the pollution and have talked about resettlement. The village does not exist anymore now." These two examples illustrate one of many description of relationship between mining MNEs and NGOs. However, municipality and local government officials were becoming increasingly reliant on the MNEs to provide them with a legitimacy base, because of the investments that the company brought to the communities. The reason being that the relationship provided them with a position where they could negotiate on behalf of the village and thereby ensure resources invested in popular or much needed institutions like the local church, sports facilities or infrastructure, that would improve the daily lives of community members. The pattern here was that the older the mine site the deeper the ties between community and MNE, making it difficult for NGOs to actively engage with communities. An indication that the relationship was strong was also evident as communities that were heavily affected by the negative consequences of mining did not want the close despite evidence to support such action. As one stated “I am sure that there was no company in the world, which would be able to fully eliminate risks, e.g. the car engine didn’t make any voice only in standing position.” Despite having earlier stated that the town had considerable more cases of lung deceases, cancer and children born with mental and physical handicaps.

For the HQ driven MNEs it was found that all had issues in relation being perceived as legitimate by the local communities, despite some of them having quite comprehensive CSR and stakeholder engagement programs. Few of the companies had invested in localised solutions and if so, it was mainly engagement that was benefitting the MNE such as infrastructure investments. Four of the six MNEs did not engage in any known type of public good activities and primarily communicated though their website to potential investors and mainly on geological data on ore yield. Two had implemented CSR systems (EITI and a self-develop system called “Resources for Good”) that were used for managing their stakeholder engagement initiatives. Most of the companies had not made any direct investment in the local communities and had primarily engaged in different forms of sponsorships or scholarships that were more widely available to different stakeholder groups. All MNEs had experienced a legitimacy loss with the local community. However, Dundee Precious Metals had been able to gain some legitimacy because of a church renovation project as well as funding small local enterprises but these initiatives had only been implemented at a later stage and possible due to outside pressure. The most active of the HQ driven MNEs, when it comes to investments in stakeholder activities, was GeoProMining. However, they had experienced a loss of legitimacy mainly due to its failure to live up to the expectations of the community, for example, when the company was accused of failing to continue its scholarship program for young promising engineers and not providing a promised bus service. This has created room for village heads as well as NGOs and newspapers to criticise the company, which has further escalated the loss of legitimacy.

Multinational Enterprise (MNE)	Local Institutions created or upgraded			Other Activities	HQ Driven or Subsidiary Driven strategy	Strategy led to gain or loss of legitimacy
	Educational facilities	Infrastructure	Cultural facilities			
Crominent Mining	Support of existing educational facilities local and regionally	Subsidising local municipality Healthcare facilities	Sport facilities	Charity established	Subsidiary	Legitimacy gain
GeoProMining	Scholarship (Education in Russia) Kindergarten	Water Gas pipeline Fire safety	Sponsorships (Focus on events, education and sports)		HQ	Legitimacy loss
Vallex Group	Kindergarten	Roads Repair of houses	Culture house Church	Scholarships Formal local grievance system	Subsidiary	Legitimacy gain
Lydian	Playground	Water	Local	Local hospital	Subsidiary	Legitimacy gain

International	Community library	distribution pipeline Garbage collection Roads Irrigation system Gas pipeline	administration building Culture house Sports facilities/ Competition	equipment upgrade Fixed local TV channels Donations and Scholarships Tree nursery project, which will create an additional 8-10 jobs Ambulance vehicle for hospital. Formal local grievance system		
Dundee Precious Metals	School Kindergarten	None	Church renovation Sports events	Scholarships SME funding	HQ	Legitimacy gain (Loss of legitimacy in early stages of development)
Fortune Oil Co	None	None	None		HQ	Legitimacy loss
Orogon Gold	None	None	None		HQ	No impact
Global Gold Corporation	None	None	None		HQ	Legitimacy loss
Centerra Gold	None	None	None		HQ	No impact

Conclusion

This paper investigated how a weak of institutional pressure has influenced corporate decisions to be involved in creating public good institutions and to what extent these activities have been instrumental in reducing community risk, as a loss of legitimacy. Two strategies were investigated one where the MNE used an embeddedness strategy, where the MNE subsidiary made efforts to respond to local institutional pressure and another strategy that focused on a HQ driven approach. It was found that MNEs were engaged in institutional development that could be considered under the domain of public good institutions. Firstly, MNE engaged in these kinds of activities in order to remedy the lack of infrastructure that was needed to conduct mining operations such as access to adequate roads, electricity and gas. The typically MNE extended the infrastructure development to include nearby villages as the costs associated with doing this was minimal compared with having to do the same activity at a later stage when labour and machinery could be unavailable. Secondly, support or development of educational institutions serve much of the same purpose but could be considered to be a two tracked strategy. One focused on competence building that would serve as a future recruitment base for the MNE, like for example investing in university scholarships. The second type of investments was focused on pre- or primary school institutions, which could not be directly translated into competency building at least not into the foreseeable future. Thirdly, and properly the activities which were most distant from the business of mining, were the involvement with cultural institutions. These activities were more philanthropic in nature and involved traditional sponsorships of sports or other forms of cultural activities but also larger projects like conservation or even construction of churches and culture houses. These types of activities were more distant from the capabilities of the MNE and did not serve any direct purpose in terms of business continuity.

By prescribing to either an Embeddedness or HQ driven strategy the MNEs could gain or lose legitimacy with the local communities they were affecting. Companies that gained legitimacy were all pursuing an embeddedness strategy and investments were made in close corporation with the local community. This approach helped the MNE to gain legitimacy as local dependence on the intuitions grew stronger and community members became increasingly reliant on the benefits that came with these continuous investments. The alternative HQ driven strategy showed that most companies did not invest and the ones that did, focused on more general types of activities such as sponsorships or scholarships that were targeting a much wider stakeholder audience. The company that did focus on the community, after a fall in legitimacy, seemed to recover their loss showing the focus on local institution building reduced community risk. It was found that engagement in institution building, not only had a direct operational requirement, as in the case of infrastructure and educational, but also served a purpose as part of a risk mitigation strategy towards NGOs and the media. By gaining legitimacy and dependence from local communities the MNE can reduce the risks that the community would engage with these outside and possible powerful stakeholders. Institution building hence serves a dual purpose, firstly, making communities reliant on the MNE by providing public good facilities in the absence of a fully functioning state, as we know it from the developed world. And secondly, as an effective risk mitigation tool that keeps possible threatening NGOs and other CS actors from partnering with local communities against the company thereby presenting a risk to its continued operations.

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