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How can MNEs stabilize rent-sharing games in (fragile) limited access orders? An ordonomic perspective

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Stefan Hielscher und Hussein S. Mamorry

How can MNEs stabilize rent-sharing games in
(fragile) limited access orders?
An ordonomic perspective

Diskussionspapier Nr. 2025-01

des Lehrstuhls für Wirtschaftsethik
an der Martin-Luther-Universität Halle-Wittenberg,
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Kurzfassung

Dieser Beitrag untersucht, wie multinationale Unternehmen (MNU) zur Stabilisierung sozialer Ordnungen beitragen können, die von North et al. (2013) als „fragile limited-access orders“ (FLAOs) bezeichnet werden. Auf Basis der Theorieperspektive der Ordonomik analysiert der Beitrag, wie MNUs Wahrnehmungen beeinflussen und Anreizstrukturen gestalten können, um kooperative Rentenverteilungsarrangements unter Eliten zu fördern, die dazu beitragen, die systembedingte Instabilität in Entwicklungsländern zu verringern. Die zentrale, kontraintuitive These lautet, dass die funktionale Partizipation dominanter Eliten an innovativen Governance-Prozessen zur Aushandlung einer fairen Verteilung von Monopolrenten das Problem der Rentenverteilung von einer Quelle sozialen Konflikts und institutioneller Fragilität in eine Quelle sozialer Stabilität, Frieden und wirtschaftlicher Entwicklung transformieren kann. Dieser ordonomische Beitrag liefert somit nicht nur einen Beitrag zur Entwicklungsforschung, sondern auch zur Managementforschung, indem er die bislang wenig untersuchte Schnittmenge von MNUs, der Stabilisierung von FLAOs und den sogenannten „non-market strategies“ adressiert.

Schlüsselbegriffe: Fragile Limited Access Orders (FLAOs), Multinationale Unternehmen (MNUs), Rentenverteilung, Social Orders, Ordonomik, Non-Market Strategies

Abstract

This paper examines the critical role multinational enterprises (MNEs) can play in stabilizing what North et al. (2013) describe as fragile limited access orders (FLAOs). It focuses on how MNEs can foster stable rent-sharing arrangements among elite coalitions. Drawing on the ordonomic theory perspective, the study analyzes how MNEs can influence perceptions and reshape incentive structures to encourage cooperative rent-sharing arrangements. These arrangements can help mitigate systemic instability in developing countries, where elites often restrict access to economic and political resources to maintain short-term stability. The paper introduces a counterintuitive proposition: by enabling the active and functional participation of dominant elites in innovative governance processes, monopoly rents can be distributed more fairly. Ideally, this transformation of rent sharing—from a source of social conflict and fragility into a stabilizing factor—enhances predictability, cooperation among elite coalitions, peace, and economic development. The ordonomic approach presented contributes to both development and management research by addressing the underexplored intersection of MNEs, FLAO stabilization, and non-market strategies. At its core, we illustrate how external actors can design innovative rules and structured bargaining mechanisms to reduce conflict, foster peace, and stimulate economic growth. By linking rent-sharing practices with elite coordination, MNEs operating in FLAOs can promote long-term stability and achieve mutually beneficial outcomes.

Keywords: Fragile Limited Access Orders (FLAOs), Multinational Enterprises (MNEs), Rent Sharing, Social Orders, Ordonomics, Non-Market Strategies

How can MNEs stabilize rent-sharing games in (fragile) limited access orders? An ordonomic perspective

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Introduction

In 2007, and then later in 2009 and 2013, Douglass C. North (with John Joseph Wallis and Barry R. Weingast) have developed the concept of limited access orders (LAOs) as a framework for understanding the political and economic organization of developing countries.¹ At its core, North et al.'s framework explains why many developing countries struggle to transition to stable, inclusive, and prosperous societies as elite actors struggle to manage the risks of instability peacefully. LAOs stand in stark contrast to what North et al. refer to as open access orders (OAOs) where access to resources, political power, and economic opportunities is more open and governed by impersonal rules (like the rule of law, open markets, and democratic institutions). These societies promote competition, innovation, and inclusivity, which are drivers of sustained growth and stability.

In LAOs, elites form coalitions to manage the threat of violence. To do so, elites restrict access to political and economic resources and, by doing so, elites create privileges and hence incentives for cooperation among powerful groups, which reduces the likelihood of open conflict significantly although not eliminating it. In their effort to restrict economic and political competition to all non-elites to create stability, elites also generate fundamental injustices in society by organizing power and decision-making based on personal relationships and favoritism rather than impersonal rules and fairness. North et al.'s counterintuitive and – for many observers somewhat discomforting – conclusion is that LAO countries, in particular fragile ones, while benefitting from strengthened elite cooperation will have to accommodate the concomitant policies that lead to entrenched privileges, stronger collusion, as well as nepotism and even corruption to the extent that these strategies support and stabilize the continued commitment among elites to refrain from violent conflict.

While the LAO concept provides powerful insights into the political reasons why elites inadvertently undermine the long-term prospects of development in their pursuit of short-term stability of commitments among a dominant coalition, an important question within the framework seems underexplored: How can outside actors, i.e., governments, development agencies and multi-national enterprises (MNEs), support the elites and their existing or non-existing coalition in their efforts to control violence to the benefit of fragile LAOs?

As North and colleagues describe, developing societies progress from a fragile limited access order to a more basic limited access order when elites face incentives to respect each other's rent-creation or rent-sharing privileges and stop fighting. North et al. (2013, p. 4) explain the logic of respecting rent-generating or rent-sharing among members of the dominant coalition in an LAO using a simple and archetypical example:

“We develop the underlying logic by starting with a simple example that focuses on two groups and two leaders. Real societies are much larger and more complicated. The story begins with self-organizing groups that are small and that have no way to develop trust between individuals beyond ongoing personal relationships. Members of one group trust others within their group but distrust members of

¹ Cf. North et al. (2009) and (2013).

the other groups. Because they recognize that disarming will lead the other group to destroy or enslave them, members of neither group will lay down their arms. To avoid an outcome with continual armed conflict, the leaders of the groups agree to divide the land, labor, capital, and opportunities in their world among themselves and agree to enforce each leader's privileged access to their resources. The privileges generate rents, and if the value of the rents the leaders earn from their privileges under conditions of peace exceeds that under violence, then each leader can credibly believe that the others will not fight. The leaders remain armed and dangerous and can credibly threaten the people around them to ensure each leader's privileges."

The key for stability in LAOs—which means the ability to avoid continual armed conflict—seems for the elite groups and their leaders to agree to divide resources (land, labor, capital) among them and “enforce each leader's privileged access to their resources” which creates economic rents.

The crucial balance of this equation is this: If the elites' peace-time rents are more valuable than their income under violence, there is an incentive created for both groups to maintain peace. But how can outside actors help tilt this balance toward more stability and peace? This question not only remains underexplored within the social orders framework but also on the broader non-market strategies literature within management research. In this paper, we venture into this new territory and ask, with a specific focus on international firms (MNEs) entering developing countries, the following question:

How can MNEs stabilize rent-sharing games among elites in (fragile) limited access orders?

In answering this question, we use the case of Ciba-Geigy Pharmaceuticals in Kenya, which we explain in Section 1. Then, in Section 2, we use an ordonomic perspective to reconstruct the situation for MNEs in LAOs more broadly, in particular fragile LAOs, and ask how MNEs might address the underlying problem by offering a service of self-commitment to a group of influential elites. In Section 3, we discuss how the ordonomic reconstruction relates to North et al.'s limited-access order concept, and how it can help support commitment strategies of elites in developing countries that also benefit the local population.

1. Fair access to local MNE-generated jobs? The case of Ciba-Geigy Pharmaceuticals in Kenya

In 2000s, the CEO of Ciba-Geigy Pharmaceuticals in East and Central Africa – a subsidiary of Novartis, Switzerland – who was located in Nairobi, faced a challenge with local tribes at the Kenyan subsidiary. In an interview in 2020², the CEO recalled the moment when a warehouse worker showed up in his office with a complaint about the warehouse manager:

“The warehouse manager, of the tribe of the Kikuyu, would hire only Kikuyus for every warehouse job that became available and, also, for the day laborers; other ethnic groups would have no chance to get hired. He is a member of the Luo and has unemployed sons, too, but never had a chance to get one of them into the company.”

When the CEO went back to the warehouse the next day, he learned that other workers, who belonged to other tribes, would face the same problem. When interrogated by the

² The following quotes are taken from an interview that one of the authors conducted with Ciba-Geigy Pharmaceuticals' CEO in 2020. Cf. Interview (2020).

CEO in a meeting a day later, the warehouse manager explained why he would consistently source from his own tribe. The CEO remembered the following details:

“The warehouse manager told me that it was true, he would only hire Kikuyu. He had no other choice, otherwise he would not be able to show his face at home anymore, because tribal loyalty is a high good and only he in his entire extended family could ensure that from time to time young people would get a job – the youth unemployment was overwhelmingly high. He added he would gladly be willing to give up his decision-making privilege. Then, I should decide whom to hire.”

Ciba-Geigy’s CEO, however, refused to call the shots by himself. Instead, he held a series of what is known in Africa as “palaver meetings” among the warehouse workers, with all local tribes being represented. The result was, as the CEO reported,

“to change the process: no longer should one individual be having the power to hire someone, but a committee of several warehouse workers should make proposals for how to decide. The warehouse manager would be bound to the vote, if no other comprehensible reasons would speak against it.”

The warehouse worker *committee*, representing all tribes, changed the perception of situation as well as its management. Not only would the committee create a secure and transparent process of how tribes would share in the labor benefits created by the firm. The new “order of recruitment”, as the CEO noted, also created a sense of relief among tribal representatives in relation to the demands of their own tribes:

“The solution was good for all parties involved: every Masai, Leo, Kikuyu or Somali had a say in the final decision – and everyone could say at home that they had stood up for the members of their own ethnicity or extended family but were simply defeated in the final vote. Over time, a well-controlled order of recruitment was established for the different ethnic groups, and when asked, everyone knew who and which ethnic group was “next” in line. What was most important to me was that there were no more collisions between traditional loyalties and business due-diligence issues.”

From this interview, the following aspects of the case stand out, as illustrated in Fig. 1:

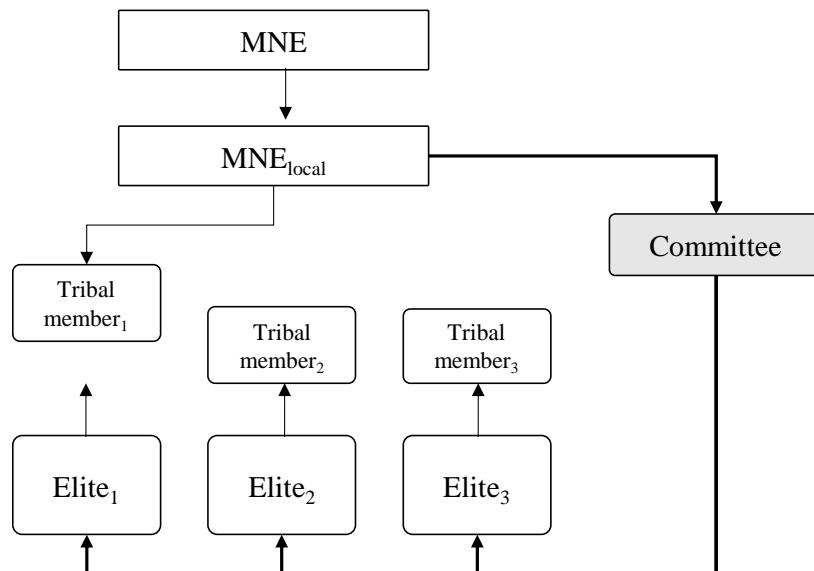


Fig. 1: MNE-tribe relationship in the Ciba-Geigy Pharmaceuticals Case (Kenya)

1. A local subsidiary of an internationally operating pharmaceutical company (MNE), a multinational enterprise (MNE_{local}), creates labor opportunities as an economic resource.

2. A diverse set of local tribes and ethnic groups request access to these job vacancies, as these are rare opportunities of tribal members to access a market income in the region.
3. In economic terms, we can assume that the MNE has monopsony power on the local labor market for warehouse work, while tribes are competing for job vacancies.
4. The MNE's local warehouse manager (tribal member₁) consistently sources from his own tribe (Elite₁) as a result of normative pressures within his home tribe. He creates a privileged access to the local labor market for one tribe at the expense of all others (Elite₂ and Elite₃). This creates dissatisfaction among other tribes.
5. Privileged access not only creates contested monopoly privileges for one tribe, the warehouse manager also feels uncomfortable in his position. He perceives a conflict of loyalties he would like to avoid, i.e., between the allegiance to his tribe and the loyalty to his company.
6. Instead of implementing a top-down solution, the CEO initiates an inclusive and participatory discourse process among tribal members and himself (committee), to initiate and facilitate a bottom-up process of rent sharing driven by the collective tribal interests to retain cooperation and peace. The goal is to arrive at a sustainable arrangement for sharing in the job benefits created by the MNE that is perceived as fair by all tribal representatives.
7. The arrangement established is a new order of recruitment, a constrained but well-structured pattern of access to jobs for all involved tribes. This can be interpreted as a rule innovation that leads to collective market power on the other market side: When a job opening in the company emerged, the tribal representatives would follow a regiment of taking turns in proposing job candidates, while keeping all job opportunities among themselves.
8. The new rule fulfils two functions: The rule innovation creates security in expectation (for when each tribe can access a job opportunity) and relieves tribal representatives from the burden of explanation (for when it is not the tribe's turn to access jobs).
9. Although not explicitly stated in the interview (but maybe hinted at with a reference to due diligence), we can assume with some level of confidence that the CEO did not compromise on the quality of applicants. This creates an important boundary condition for all rent-sharing arrangements: Tribal representatives would have to guarantee that the selected candidates are fit for the job at the MNE.
10. The regiment of taking turns combined with a quality standard for job applicants creates incentives for each tribe to select their best candidate, while all tribes in the committee have an interest to carefully monitor the quality of all proposed candidates making sure that, collectively, the lucrative stream of job openings emerging from the MNE will not cease to flow.

We use this paradigmatic representation of MNE-tribe relationships as a proxy for reconstructing and analyzing the incentives structure on the labor market for both sides of the market, and the commitments necessary to overcome the obstacles for establishing a peaceful rent-sharing mechanism, in the following ordonomic reconstruction.

2. An ordonomic reconstruction

When taking an ordonomic perspective, the following abstracted, archetypical picture of the situation and decisions taken emerges from the 10 steps above:

The CEO's decision to have tribes decide on a rule how to share in the benefits of a potential income stream generated by the MNE encouraged tribes – using representatives – to form a situational coalition that helps organize the distribution of economic benefits in a fair manner, as perceived by the tribes affected. Having tribes self-organize through their representatives allowed the MNE to account for power imbalances or varying degrees of perceived historical entitlement about which the MNE had little prior knowledge. The crucial point is this: Knowledge about power status, influence, relevant imbalances, traditions, etc. is tacit to local insiders and largely inaccessible for outside actors. One useful way for MNEs is thus to connect with local insiders with access to this tacit knowledge, creating a committee and demonstrating to locally influential actors that they are playing a game in which they can either successfully cooperate to secure economic rents and improve their position collectively or fail to cooperate and lose (parts of) these economic rents.

From an ordonomic perspective, thus, the following two insights can be derived from this case, one of which pertains to the semantics – the perception and views of the situation at hand – and the other to social structure – the rules and the incentive structure from it:³

1. *Semantics*: Setting up meetings and, finally, a committee (and using local tribal experts) provides the conditions for changing tribal perceptions about the role they play in the benefit-sharing situation at hand. Instead of viewing themselves as playing a zero-sum game, the MNE demonstrate to local tribes that a positive-sum game is possible and achievable. At the same time, the MNE, by urging tribes to arrive at a collectively fair arrangement, underscore that the outcome of the positive-sum game is precarious. The emerging rule is the result of dealing with the precariousness of the situation, an enforceable rule of cooperative benefit-sharing referred to the “taking-turns” regiment.
2. *Social structure*: Combining the setting up of the committee with a commitment of the MNE to only accept benefit-sharing proposals that are considered fair by all involved elites is a rule innovation—in ordonomic terms: a service for collective self-commitment as we will demonstrate below. This rule innovation has the potential to change the behavioral incentives elites face in the given rent sharing game. MNEs have good reason to address this problem. A failure of tribes to set up and maintain a credible benefit-sharing commitment constitutes a relevant threat for MNEs because each tribe, if politically powerful (and potentially with access to violence), will also have the power to disrupt operations in meaningful ways, and thus retain an ability to put pressure the company single-handedly.

³ For an ordonomic approach to business and society relations, including the role of interdependency between social structure and semantics, cf. Beckmann et al. (2014), Pies et al. (2009), (2010), and (2014).

A simple version of this game is illustrated in Fig. 2 as a 2-player game among two tribes (or their representatives).⁴ Each are confronted with a situation that prompts at least the following two questions with each having a strategy of action underlying it:

- Should we be accepting a fair distribution of economic benefits as agreed with other tribes? This is the strategy option “yes” illustrated below.
- Or should we be demanding and pressing for more favors single-handedly? This is the strategy option “no” illustrated below.

Following strategy option 1 means respecting the fair share of other relevant tribes. The fairness of the share will likely be determined by the relative political influence of each tribe in relation the influence and number of other tribes, the details of which will only be known by the tribes and experts with access to local knowledge. Doing so could translate into different forms of collective action, including following an agreed distribution regiment such as “taking turns”. Following strategy option 2 means that a tribe will disrespect the fair share as perceived by other relevant elites, with fairness again being subject to relative political influence. This option might translate into violating an explicitly or implicitly agreed upon distribution regiment by, for example, secretively nudging or blackmailing the MNE into accepting to distribute unilateral favors for an individual tribe. Each strategy option is associated with an overall Payoff that results from a cost-benefit consideration of each tribe, with Payoffs being ordinally ranked from 4 (highest Payoff) to 1 (lowest Payoff): $4 > 3 > 2 > 1$.

Based on the above-described case, we can differentiate two different situations or “worlds” in which local tribes might find themselves. When a MNE embarks on setting up operations in an area of tribal influence, and these MNE operations offer lucrative economic benefits that tribal elites have enough influence to access, tribes will face either of two situations:

- The first situation is illustrated in Figure 2. Here, the MNE operates, explicitly or implicitly, under a rule that tells them not to interfere with tribal strategies, which means, for example, they will not use local experts or fail to install a local tribal committee. Instead, the will MNE remain willing, when necessary or pressed, to respond to ad hoc tribal requests for favoritism, or they turn a blind eye to an obviously disproportional distribution of benefits to one or a select number of tribes, or they hope to fall back on national government support when needed. In the first situation (Fig. 2), hence, the MNE is likely to accept favoritism when the rubber hits the road.
- The second situation is illustrated in Figure 3. Here, the MNE will have consulted with local experts, installed a tribal committee, and committed to a “no selective favoritism” standard. In this world, the MNE returns all requests for unilateral favors back to the tribal committee, and have tribes decide how to arrive at a fair regiment of benefit distribution. The MNE will, however, respect the collective favoritism and preferential treatment inherent in favoring all of the tribes’ interests in accessing job vacancies.

⁴ An analogous historical problem is modelled in Hielscher et al. (2012; p. 785 et seq.) between two representative rulers (kings) in their striving for political dominance.

As will become clear in a moment, both games have a fundamentally different incentive structure and thus outcome. The outcome relates both to the ability to manage conflicts and cooperation among elites as well as the benefits created for the local population.

Question: Should we be accepting a fair distribution of economic rents?

		Tribe 2	
		no	yes
Tribe 1	yes	1,4	3,3
	no	2,2	4,1

Fig 2: The rent-sharing game when MNE accepts selective favoritism for single tribes

In Fig. 2, each tribe faces the incentive to request favors and preferential treatment (e.g., by secretly approaching the company, in other case, maybe even by blackmailing), for example tribe 1, that would put them ahead of other tribes in the benefit-sharing game. If tribe 2 is abiding by an implicitly or explicitly agreed fair distribution regiment, tribe 1 will be the only tribe to have access to the economic benefit which will be better than cooperating on a fair distribution regiment—in fact, it is tribe 1's best option with a Payoff of 4—since it can improve its position against its competitors in the local area ($4 > 3$). With tribe 1 being the only tribe receiving a share of the economic benefit generated by the MNE, a wealthier and more powerful tribe 1 might be perceived as a threat by tribe 2, which means that the lower right quadrant presents the worst outcome for tribe 2 (Pay-off 1). If tribe 2 engages in requesting favors (or maybe even blackmailing) as well, it will still be more rational for tribe 1 to follow suit with pressing for favors if only to compensate for a relative disadvantage in relation to tribe 2 ($2 > 1$). Since the incentive logic applies to both tribes symmetrically, the equilibrium result is the lower left quadrant (2,2).

The outcome of this benefit-sharing game is a Nash equilibrium with both tribes pressing ahead with lobbying (and potentially blackmailing) the MNE for favors. However, the outcome presents a dilemma to the tribes. Although both tribes have no incentive to deviate from their strategies, they run the risk of setting in motion an escalating spiral of excessive demands. This is likely to lead to conflict between the tribes, but also risks the MNEs taking steps to either involving other players (the national government or security forces), or withdrawing from their operations altogether, which is likely to reduce the local tribes' ability to easily access the economic rents. Therefore, the outcome of this social dilemma (the lower left quadrant) is Pareto-inferior to the situation in the upper right quadrant where tribes cooperate in a fair regiment of benefit distribution (3,3). Here, both tribes are collectively, peacefully and trustfully benefitting from the fairly shared benefits generated by the MNE, while not risk butchering the golden goose that lays the eggs. However, the incentive logic of this many-sided prisoners' dilemma prevents that the tribes can reach a Pareto-superior outcome (3,3) that both would prefer.

Question: Should we be accepting a fair distribution of economic rents?

		Tribe 2	
		no	yes
Tribe 1	yes	1,4-s	3,3
	no	2,2-s	4-s,1

Fig. 3: The rent-sharing game when MNE self-commits to a “fair rent distribution” standard with all relevant tribes

A potential solution to this challenge of tribal conflict (and looming conflict and even maybe violence) is illustrated in Fig. 3. Here, the MNE embarking on setting up shop in a local area of local elite group influence can decide to self-commit to a “fair distribution” standard that precludes selective favoritism. As explained, this self-commitment states to only accept benefit distribution or sharing proposals that are considered fair by all involved elites. To facilitate this commitment, the MNE might need to consult with local experts with tacit knowledge and, if non-existent, initiate creating a tribal committee where tribal representatives and representative of other politically influential actors can enter into discourses about their perception of the game, standards of fair treatment and benefit sharing, as well as about setting rules for rent sharing capable of increasing trust among elites, reducing conflict, and securing the benefit stream generated by the MNE.

Note: It is important to understand the function of the MNE’s self-commitment in this game, and how it can change the incentives for the elites’ strategic choices. The MNE’s commitment basically adds a cost premium to the strategy of each tribe to engage in unilateral negotiations with the MNE to achieve specific favors. The fact that MNE returns such requests to the committee means that these will become common knowledge among committee members, and since this will be perceived unfair by all other influential elites, the “convicted” tribe will risk their peers’ retribution. If these costs s are high enough, with $1 > 2-s$ and $3 > 4-3$, then tribes will face novel and changed incentives: Instead of searching for ever-more elegant ways to receive preferential treatment by the MNE, they will find it more useful to experiment with innovative rules that help all relevant and influential elites to share in the benefits reliably and peacefully. The upper right quadrant will then be considered a Nash equilibrium, meaning that no tribe will have an interest to deviate from the strategy combination. At the same time, this situation features Pareto optimality, meaning all available win-win improvements under the current rules have been realized.

3. Discussion and conclusion: Rent-sharing game(s) in limited-access order (LAO) societies

The ordonomic interpretation of Ciba-Geigy Pharmaceuticals in Kenya has important implications for our understanding of how rent-sharing games among local elites in LAOs can be stabilized. Our argument is this: The structure of the game in Fig. 2, as well as its outcome, describes in many ways the incentives present in what North et al. (2013) refer to as a limited access order (LAO). According to the limited access order logic, “developing societies limit violence through the manipulation of economic interests by the political system in order to create rents so that powerful groups and individuals find it in their interest to refrain from using violence.” (North et al. 2013, p. 3). In the case of

Kenya, tribes clearly constitute “powerful groups and individuals” with access to the means of violence. As a result, these should be considered elites.

The following aspects stand out in particular:

First, as North et al. (2013, p. 11) argue, in an FLAO political instability prevails—meaning that the dominant coalition can “barely maintain itself”—because elites find it difficult to credibly commit to respecting each other’s rent privileges absent credible third-party enforcement by government. North et al. (2013, p. 11) continue explaining the structure and incentives within a fragile limited access order:

“[I]n fragile LAOs, ... each faction in the dominant coalition has direct access to violence, and violence capacity is the principal determinant of the distribution of rents and resources. If the allocation of these rent flows is out of alignment with the balance of power, factions demand or fight for more. Because of their instability, fragile LAOs have simple institutional structures for the government. Individuals in fragile LAOs may perceive the potential benefits from better institutional structures, but the inability to maintain the coalition over long periods creates pervasive uncertainty about outcomes and prevents individuals and organizations from credibly committing to observe rules in many possible circumstances.”

Political instability in the sense of the dominant coalition finding it difficult of maintaining itself over longer periods might also constitute the situation for Ciba-Geigy Pharmaceuticals in Kenya, which suggests that some pockets in Kenya also need to be seen having an FLAO nature.

Second, in the case of Kenya, the economic benefits created by the MNEs can be considered privileges stemming from the investments in the economic production factor “capital” in the case of Ciba-Geigy Pharmaceuticals. The fact that the MNE have decided to provide preferential access to economic resources, i.e., job vacancies, to members of a select set of tribes deemed powerful and influential by experts in the region (which means they be considered part of a dominant coalition) but to no other groups suggests that these need to be considered as “privileges” to access economic resources and thus as rents in the sense of North et al. (2013).

Third, the social benefit of rents lies in their ability to make elite behavior more predictable and thus more credible. As the authors (p. 7) emphasize, rents in the LAO framework follow the broader, classical notion of rents found, e.g., in Adam Smith. More specifically, rents are socially beneficial in the FLAO context to the extent that economic benefits created through privileges “can limit violence within the coalition ... if rents are reduced when violence breaks out”. It is important to note that North et al. (2013) emphasize that not all economic rents created in an FLAO context are socially beneficial. The criterion is this: Economic rents act as a stabilizing political factor and are thus socially beneficial *if elites need to cooperate to maintain these rents while rents are reduced if elite coordination fails, and violence with rent-destroying effects is a real threat*.

Fourth, the presence of an MNE in a resource-rich developing country of an LAO or even FLAO nature has the potential to change the nature of these rents. As MNEs act as gatekeepers for the elites’ ability to access economic resources and generate rents, they may be able to couple the rent streams—job vacancies, infrastructure investments, etc.—with the elites’ coordination and cooperation. If our reading of the above cases is correct, this is what Ciba-Geigy Pharmaceuticals in Kenya were able to achieve. The MNE made the flow of rents to tribes conditional on their ability to achieve a cooperative rent-sharing mechanism agreed by all members of the dominant coalition. This is the rule innovation that changes the rent-distribution game for elites: While elites risk losing their rent stream if they do not cooperate, they can only improve their economic position collectively if

their commitment to respect each others' rent shares become more credible and thus the dominant coalition more stable.

Fifth, from an ordonomic perspective, the challenge underlying the elite's ability to coordinate their rent-sharing agreements can be reconstructed as a many-sided prisoners' dilemma. It is a social dilemma for two reasons, both of which are clearly described by North et al. (2013, p. 11): "Individuals in fragile LAOs may perceive the potential benefits from better institutional structures, but the inability to maintain the coalition ... prevents individuals and organizations from credibly committing to observe rules in many possible circumstances." What North et al. (2013) describe as the "benefits from better institutional structures" illustrates the cooperative strategy combination where the rent-sharing agreement is respected. This is the outcome (the upper right quadrant in Fig. 2) that is Pareto superior to the Nash equilibrium (the lower left quadrant in Fig. 2) where elites fail to do so because their incentives tell them to negotiate single-handedly. What changes incentives for elites is the MNE's strategy to make rent streams conditional upon elite cooperation within the dominant coalition, which is a service of collective self-commitment the MNE provides to tribes, and which leads to the cooperative outcome on the game in Fig. 3. As the MNE's strategy in Kenya included the forming of a tribal committee that included the representatives of all influential tribes, this can be seen as a way to identify the dominant coalition in the first place and then help forming the contours of a platform that help elites to establish a discussion forum for exchanging ideas about rent sharing rules, views and perceptions of threats and benefits, as well as their relation to the MNE. Whether the dominant coalition has had a forum before the MNE arrived seems of less relevance, since the rent streams generated are novel and thus require a new balancing act of elite interests.

Sixth, based on the case at hand, we can speculate what factors influence the ability of MNEs to do so empirically. The extent to which the MNE dominates the market, i.e., the extent to which the MNE is the monopsony gatekeeper of rents in the labor market, is surely one factor. As far as we are aware, Ciba-Geigy Pharmaceuticals was likely the only or one of the few sources of rent streams for the local tribes. Another factor is the level and strength of home-country commitments the MNE faces: One can surmise that a Western-based MNE with commitments to home-country rules to follow CSR and "good governance" practices including anti-corruption policies, might, counterintuitively, be less flexible in their engagement strategy with local elites so as to change the modality of preferential rent access for elites, while an LAO-based MNE might not face such restrictions. For Western MNEs, these restrictions might be reduced by involving a set of international developmental agencies, both local and international, that keep an eye on the local needs to coordinate with elites to achieve social benefits for the local population, as the other cases (such as Ondeo-Liban in Tripoli, Lebanon⁵).

Finally, based on the above analysis, we can specify further and illuminate what North et al. (2013, p. 8) view as a conundrum when they note that "Whether the new rents are good or bad for economic growth is not predictable." What we can specify, however, from an ordonomic theory perspective, are the necessary conditions under which rents will be productive in resource-rich developing countries. It seems that the social benefit of newly created rents in LAO/FLAOs will depend on the ability of MNEs to make rent streams conditional on dominant coalition coordination, which will be likely of MNEs face external incentives to do so or lack disincentives to avoid it, and elite groups will use

⁵ Cf. Allès (2010).

or be conditioned to use these rents to support their clients to access jobs and infrastructure projects that will boost stability and economic growth in the area.

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