

**DUAL RESPONSIBILITIES OF NGOs:
MARKET AND INSTITUTIONAL RESPONSIBILITIES**

Tarek Ibrahim Eldomiaty*
United Arab Emirate University
College of Business and Economics
PO Box 17555 Al Ain, UAE
(tel: 9713-7051475; fax: 9713-7632383)
(e-mail: T.Eldomiaty@uaeu.ac.ae)

Chong Ju Choi
Australian National University
National Graduate School of Management
Sir Roland Wilson Building, McCoy Circuit
Canberra ACT 0200, Australia
Tel: 61-261259830, Fax: 61-261254895
E-mail: chong.choi@anu.edu.au

Jai-Beom Kim
SungKyunKwan University
Myongryun-Dong, Chongro-Gu,
Seoul, 110-745, Korea
(e-mail: dreamie@empal.com)

Philip Cheng
Australian National University
National Graduate School of Management
Sir Roland Wilson Building, McCoy Circuit
Canberra, ACT 0200, Australia
(e-mail: philip.cheng@anu.edu.au)

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** Author for all correspondence*

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ABSTRACT

The global business environment is creating greater potentials between the public and private sector organizations. This also applies to potential partnership between NGOs and Multinational enterprises. We believe that Non-Governmental Organizations (NGOs) have a dual responsibility. NGOs' dual responsibilities are their market and institutional responsibilities. NGOs' unique connection to both social and market capital provide them the opportunities and responsibilities of both market and institutional responsibilities.

INTRODUCTION

Non-Governmental Organizations (NGOs) are facing an economic reality of cutbacks in funding. In this sense, their changing role is to create partnerships and strategic alliances with governments as well as with multinational enterprises (MNEs). Literally, NGOs have to enter the global membership of governments and MNEs. However, such value can be enhanced when MNEs take into account the non-market advantages of partnering with NGOs such as the social capital (Putnam, 1993) and institutional linkages of NGOs. The analysis is thus similar to that of two-level game (Putnam, 1988) analysis that needs to be used in understanding such partnerships. In this sense, MNEs and NGOs need to take into account the two key areas of economic/market versus social/cultural and institutional criteria. At the same time, the linkage to both institutions and markets leads to a greater responsibility for NGOs. From a pure market or economic perspective, MNEs may be relatively unwilling to undertake partnerships with NGOs.

However, due to globalization and the increase in public-private partnerships, some MNEs have begun to undertake such partnerships with NGOs. Ford Motor company in South Africa is proactively dealing with HIV/AIDS; Bank of America's partnership with Natural Step, a Swedish environmental organization (Bartunek, Bies, Fort & Zald, 2003). This paper provides a conceptual and analytical framework that justifies the increased number of such partnership between MNEs and NGOs throughout the global business environment. We analyse NGOs in terms of potential partnership with governments and MNEs. WE further clarify why such partnerships will accelerate in the future.

NGO PARTNERSHIPS: MULTIDISCIPLINARY ANALYSIS

In contrast to the transaction cost- and economics- oriented scholars, the more behaviourally-oriented institutional and social science researchers believe that cooperative exchange may not necessarily need be driven solely by opportunistic motives (Boisot and Child, 1988; Burt, 1992; Choi, 1994; Granovetter, 1973,1985; Frank, 1988; Ouchi, 1980). These researchers who include sociologists, psychologists, and anthropologists, show that exchange relationships may be maintained even without invoking legal and contractual governance mechanisms. In this strand of research, factors such as culture, history, shared values, social norms play an important role in enforcing trust-based exchange. This orientation is similar to parallel research in international relations and international political economy that focus on the nature of path dependent historical criteria in successful collective action (Grieco, 1990; Haas, 1992; Keohane, 1988; Krasner, 1991; Martin, 1992, 1993; Mayer, 1992; Ostrom, et al., 1992; Putnam, 1988). A pure economic value analysis of partnerships between NGOs and MNEs is shown in the figure below:

Figure 1 about here

The problems, complexities and difficulties of global partnerships of any kind are well known. For example, the majority of global strategic alliances failed in a few years (Beamish and Killing, 1997; Bleeke and Ernst, 1993; Harrigan, 1988; Gulati 1998). Although selecting a “wrong” partner is supposedly one of the major causes for these failures, previous research has not paid sufficient attention to that issue. Beamish and Killing (1997), Gulati (1998) and Spekman et al. (1998) provide a recent comprehensive review of the literature on strategic alliances. The majority of the

existing research has focused on market performance rather than partner selection. Among the studies that investigate this issue (Bronder and Pritzl, 1992; Dwyer and Oh, 1988; Geringer, 1991; Lorange and Roos, 1991a,b). These studies have devoted scant attention to the non-economic aspect of a partner's qualification with few exceptions (Bronder and Pritzl, 1992; Geringer, 1991).

Research in international relations, politics and psychology on collective action (Olson, 1965) and co-operation all indicate the importance of non-market-driven criteria when an agent is to establish a cooperative relationship with others. Putnam (1988) developed the earlier works of Gourevtich (1978), Rosenau (1969), has analyzed the importance of two levels of analysis in terms of domestic and international interactions in international co-operation. His analysis shows that such co-operative negotiations are neither purely domestic nor purely international, and need to take into account such dual causes and constraints that include domestic welfare concerns and international economic laws.

Likewise, in psychology, research demonstrates that in any collective decision making situation, decisions about partnerships within organizations are rarely done through single and clear criteria such as business or financial factors (Keohane, 1988; Olson, 1965, 1982; Ostrom, 1993; Putnam, 1988). Coalition research, which has similarities to the works on collective action (Olson, 1965, 1982) in political science and international relations (Keohane and Ostrom, 1995) shows that once coalitions are formed, cognitive processes of social interaction lead to amplify certain salient aspects and characteristics of group members (Tajfel and Turner, 1986). These boundaries and points of salience are the focal points made famous by Schelling (1960) who showed that shared values and beliefs can allow co-operation and co-ordination through such focal points.

The dual criteria is related to the notion of “cultural compatibility or fit” that is discussed by a few studies on partner selection. Bronder and Pritzl (1992) acknowledge the importance of a cultural fit in selecting an allied partner. Spekman (1988) emphasizes that selection of a good partner depends heavily on “goal congruence” between partners. Wilson (1995) points out to the importance of social bonds and the role they play in alliance development and continuity. Industry practitioners also indicate that many alliances’ failures can be attributed to their ignorance of cultural compatibility among the allied partners and a third to half of all failures attributed to the human dimension (Fedor and Werther, 1995).

ASSESSMENT OF NGO’S INSTITUTIONAL IDENTITY

Assessing the economic or market-based qualifications of a NGO, relative to a MNE, is relatively easy because financial data and other performance measures may be clearer to determine, although accounting conventions and corporate transparency may vary across cultures and countries. However, it is a difficult task to assess the institutional, cultural and social qualifications of a NGO. With difficulties to measure assets such as cultural and social fit, we believe that existing members tend to further depend on external cues and indicators of social/cultural or institutional identity that are embedded in the social structure of member firms (Mayer, 1992; Moravcsik, 1991; Putnam, et al., 1993). This point means that such external cues or certification when identified, are more highly trusted and more accurate indicators of the criteria used for partnerships between MNEs and NGOs.

As defined by Burt (1992), actors in the market and within social structures are a synthesis of two networks:

“...the foundation is a network of constraint generating relationships - some mixture of kinship, authority, and intimacy relations. Built on top of

the foundation is a network of real and imagined embedding relationships.” (Burt, 1992, p. 268)

We believe that this dual nature which helps determine an actor’s social or institutional identity is also linked to the idea of market signals (Schelling, 1969; Spence, 1973) that help communication and identification under uncertainty. The concept and importance of signals have been analyzed in depth in the context of international co-operation and partnerships in such works as Jervis (1985, 1988). A distinction now needs to be made between signals and indices. “Indices”, as defined by Jervis (1985), are:

“...statements or actions that carry some inherent evidence that the image projected is correct because they are believed to be inextricably linked to the actor’s capabilities or intentions.”
(Jervis, 1985, p. 276)

Indices, unlike signals, cannot be easily manipulated. In some sense, an indice is an external institutional type of signal that cannot be manipulated (Choi and Lee, 1997; Jervis, 1985; Kreps, 1990). Thus, indices can be fundamental to successful partnerships between NGOs and MNEs.

FACTORS DRIVING INSTITUTIONAL IDENTITY

International negotiations for the consideration of new GSA firms by existing member firms, thus include the more tangible and measurable business, financial and market criteria, along with the more intangible social, psychological and institutional identity factors. The factors driving social or institutional identity have been analyzed by researchers such as Burt (1992), Podolny (1993), Choi and Lee (1997). The key intuition is that there are certain drivers of identity, which help certify or “legitimize” the overall, value content and potentials of a NGO when forming a partnership with a MNE (Garrett, 1993; Keohane and Ostrom, 1995; Martin, 1993; Moravcsik 1991).

We believe there are four major indices or drivers of institutional identity which can help determine whether a NGO can form a successful partnership with a MNE. First, a NGO's local knowledge, since NGOs tend to work closely with grassroots movements. Second, a NGO's local network and partnership within a local community. Third, the social capital (Putnam, et al. 1993) that a NGO has developed over time in a country. Fourth, the NGO's past partnerships with governments.

Proposition 1: A NGO's driver of social and institutional identity to a potential partnership with MNEs, is determined by the following four indices: local knowledge; local networks; social capital; government partnerships

These four indices and drivers of institutional identity facilitate the nature of evaluation of criteria for partnerships between NGOs and MNEs. This helps illustrate Coleman's (1990), Burt's (1992) and Granovetter's (1985) research on the importance of relationships within the social structure and how it influences market and business competition as well as the related collective action literature on international co-operation (Keohane, 1988; Olson, 1965, 1982, 1992; Putnam, 1988; Schelling, 1966). This dual criteria framework, or institutions and market value, is shown in the figure below.

Figure 2 about here

CONCLUSIONS

Today's global environment is providing opportunities for partnerships and responsibilities between public and private sector organizations. Literally, NGOs have to enter the global membership of governments and MNEs. From a pure market or economic perspective, MNEs may be relatively unwilling to undertake partnerships with NGOs. However, such value can be enhanced when MNEs take into account the non-market advantages of partnering with NGOs such as the social capital (Putnam, 1993) and institutional linkages of NGOs. The analysis is thus similar to that of two-level game (Putnam, 1988) analysis that needs to be used in understanding that such partnerships.

This paper provides a framework for integrating institutional and market value and responsibilities. Such a dual approach can facilitate successful partnerships between MNEs and NGOs. At the same time, the linkage to both institutions and markets leads to a greater responsibility for NGOs.

Further research is warranted on the following issues. First, we believe that there is a need to analyze in more depth the ways in which a NGO's institutional identity can be measured and recorded. Potential trade offs between market (business or financial) valuation and institutional identity and legitimacy would be an especially important topic of research. Second, it will be interesting to empirically examine how NGOs can more effectively develop their signals and indices in order to successfully form partnerships with MNEs.

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FIGURE 1:
MNEs – valuing NGOs only through market criteria

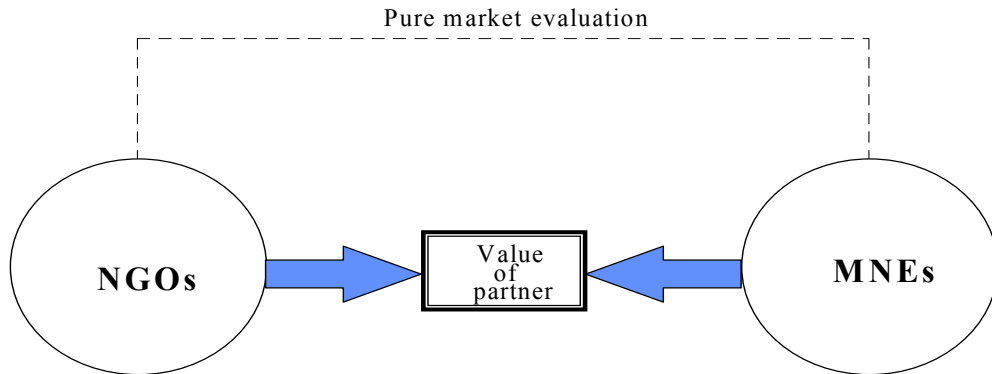


Figure 2:
MNE's partnering with NGOs: Two-level Analysis

