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MNE/NGO partnerships and the legitimacy of the firm

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ABSTRACT

This manuscript investigates the legitimating function of Multinational Enterprise (MNE)/Non-Governmental Organization (NGO) partnerships. First, it reviews the complexities inherent in the MNE's quest for social legitimacy. Then, it discusses the characteristics of MNE/NGO partnerships, and the growing anecdotal evidence about their applications for managing corporate social legitimacy. Next, propositions are advanced to suggest how the complexities in the legitimating environment of the MNE may drive its decision to partner with an NGO. Partnership governance and outcomes are also discussed and several examples of MNE/NGO partnerships are presented to illustrate how firms use them to manage their social legitimacy.

1. Introduction

Multinational Enterprise/Nongovernmental Organization (MNE/NGO) partnerships are quickly becoming common in the global business arena, as more and more MNEs realize the benefits that can accrue from them. These partnerships have helped MNEs access unique resources and capabilities by serving as knowledgeable intermediaries when they face liabilities of foreignness (Oetzel & Doh, 2009). NGO partners have also served as "distribution channel partners, aggregators of demand and market information providers" (Yaziji & Doh, 2009, p. 151) Furthermore, NGO partners' localized knowledge and social embeddedness with multiple informal social networks have strengthened MNE ventures in base of the pyramid markets (Webb, Kistruck, Ireland, & Ketchen, 2009). Finally, collaborations involving MNEs and NGOs have resulted in numerous voluntary self-regulation programs that are now key features of global governance (Teegen, Doh, & Vachani, 2004).

Interest among scholars in these partnerships is increasing commensurately, especially with respect to their strategic value for the MNE and their role in establishing global governance (Brugmann & Prahalad, 2007; Vachani, Doh, & Teegen, 2009; Yaziji & Doh, 2009). Still, little attention has been paid to the social legitimating function that they can play, even though there is rich anecdotal evidence that they help MNEs address this critical task in their global operations (Oetzel & Doh, 2009). Social legitimacy refers to the appropriateness and desirability of a firm's existence and behavior to local and international stakeholders, including communities and their advocacy groups, consumers, intergovernmental organizations, labor, NGOs, and the media (Dacin, Oliver, & Roy, 2007). It embodies not only the degree to which a firm's actions are economically and legally appropriate to these stakeholders, but also whether they fit with tacit macro-cognitive and normative systems that comprise their culture (Scott, 2008). Social legitimacy is also an essential resource, since it enables access to important resources and stakeholder relationships (Aldrich & Fiol, 1994; Dowling & Pfeffer, 1975). Many MNEs find it difficult to establish and/or maintain social legitimacy because they operate across diverse countries with different institutional environments and views of what is socially legitimate corporate behavior (Kostova & Zaheer, 1999).

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Partnerships with NGOs can help MNEs overcome these challenges because they can help MNEs and stakeholders make sense of each other, channel tacit institutional knowledge to the firm, and use their standing in civil society to confer social legitimacy to firms (Oetzel & Doh, 2009).

This paper attempts to address this gap in the literature by examining the legitimating aspects of MNE/NGO partnerships for the firm. This approach is consistent with institutional theory, which argues that organizations are motivated not only by economic rationality but also by their desire to be legitimate in the environments where they operate (Dacin, 1997; Deephouse, 1996; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 2008). Specifically we will argue that one of the reasons that MNEs seek out these partnerships is to become more socially legitimate, especially since managing legitimacy is uniquely difficult for MNEs operating across diverse institutional environments (Kostova & Zaheer, 1999). To support this claim, we develop a conceptual model that identifies two legitimacy challenges faced by MNEs (institutional complexity and legitimation process complexity) that increase their likelihood to partner with NGOs, influence partnership selection criteria and drive partnership performance. We should note that we are not attempting to replace the view that interorganizational alliances provide technical strategic benefits to the firm; rather we believe that their legitimating function can complement, drive, or result from these technical benefits (Dacin et al., 2007).

We also aim to contribute to the nascent literature describing MNE legitimating strategies in the aggregate. While scholars have investigated the challenges to MNE social legitimation resulting from scrutiny of corporations' social and environmental records (e.g., Cutler, 2006; Goodwin, 2005; Levy & Newell, 2005; Winston, 2002), negative perceptions of MNEs resulting from their roles as vehicles of the globalization process (e.g., Kaplinsky, 2005; Levy & Kaplan, 2008), and the inherent difficulties associated with institutional and legitimation process complexity (Kostova & Zaheer, 1999), few have examined how MNEs actually respond to these challenges strategically. We contend that MNE/NGO partnerships have become a prominent means of doing so, because NGOs have increasingly pervasive and legitimate positions in the global governance arena, higher levels of trust within society, greater awareness of local and global social forces, and stronger network connections with non-market stakeholders (Teegen et al., 2004). For these reasons, these partnerships help the MNE to address social legitimation in a manner that firm-to-firm strategic alliances cannot. In contrast, firm-to-firm alliances help address challenges to market and investment legitimacy that MNE/NGO partnerships cannot (Dacin et al., 2007).

Finally, we aim to support the growing evidence that MNE's cannot simply conform to isomorphic pressures while seeking legitimacy in the manner that domestic firms do. Most international business scholars have characterized MNE legitimacy as resulting from conformity to these pressures. However, MNEs are pluralistic organizations spanning multiple organizational fields across different national institutional environments. By extension, they can face diverse, conflicting, and/or irreconcilable institutional pressures. In these cases, strict isomorphism may be impossible, and MNE managers may find it unavoidable to consciously participate in the "social construction" of their own legitimacy (Ahlstrom, Bruton, & Yeh, 2008; Aldrich & Fiol, 1994; Kostova, Roth, & Dacin, 2008; Kostova & Zaheer, 1999; Kraatz & Block, 2008). As a result, partnerships with NGOs may not make MNEs more similar to other organizations in their local and/or global business arenas.

The paper proceeds as follows. First it reviews the complexities inherent in the MNE's social legitimacy requirements. It then discusses the characteristics of these partnerships, along with their growing importance. Next, it advances propositions to suggest how existing challenges to a firm's social legitimacy influence its partner preferences and partnership governance structure, which are in turn likely to affect its performance. Several examples of MNE/NGO partnerships are presented to illustrate their legitimation potential for the firm. The paper concludes with a summary and implications of a legitimacy-view of MNE/NGO partnerships.

2. The complexities of MNE legitimacy

Suchman (1995, p. 574) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." Legitimacy has been labeled as the "anchor-point" of the institutional perspective in organizational theory (Suchman, 1995, p. 571), which focuses on the mechanisms through which organizations' social embeddedness shapes their behaviors and structures (Dacin, 1997; Deephouse, 1996; DiMaggio & Powell, 1983). From this point of view, firms are not only motivated by economic rationality but also by their desire to be socially legitimate, and thus increase their chances of survival and success (Meyer & Rowan, 1977). Legitimacy encompasses the ability of a firm to meet social expectations for environmental protection, public welfare, economic development, and the protection of civil, political and human rights (Dacin et al., 2007). Firms engaging in illegitimate social behaviors risk alienating stakeholders who are critical to their performance and survival, if they contribute essential capabilities and/or resources and have the power to abandon their relationship with the firm (Mitchell, Agle, & Wood, 1997). For example, socially responsible investors can sell their investments, banks can withdraw credit, employees can quit, customers can choose products and services from other businesses, and communities can withhold business licenses. Thus, a critical component of strategic management is to ensure that various stakeholder groups view the firm's behaviors and social impacts as legitimate. This can be an especially difficult task when different stakeholders within the same organizational field present different legitimacy requirements to the firm.

Social legitimacy is multifaceted. It is simultaneously the tacit social endorsement of firms' behaviors by its salient stakeholders and an organizational resource that firms need to manage strategically. Pressure to be more socially legitimate can either motivate passive conformity to these expectations or strategies to positively influence society's endorsement of the organization (Ahlstrom et al., 2008; Aldrich & Fiol, 1994; Kostova et al., 2008; Lamin & Zaheer, in press). Legitimation