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Overcoming the dual liability of foreignness and privateness in international corporate citizenship partnerships

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Abstract

Responding to increased demands from stakeholder groups, many companies have instituted corporate citizenship programs in recent years, leveraging their specialized resources to create public goods and services at home and abroad. Significant suspicion nonetheless remains about the motives and impact of corporations acting in domains traditionally served by government and "third-sector" organizations. We argue that such ambivalence undermines the perceived legitimacy of private investments in public goods, and that this fundamental *liability of privateness* (LOP) constitutes a significant obstacle to corporations acting in the public domain through corporate citizenship initiatives. For multinational corporations (MNCs), the challenges stemming from the LOP are further amplified by the *liability of foreignness* (LOF) commonly associated with international business operations. We discuss the origins of the LOP and derive implications of the "dual liability" of LOP and LOF for partnering choices in MNCs' corporate citizenship programs. We highlight limitations on the set of credible governance mechanisms available to participants in these partnerships, describe a set of alternative governance arrangements that serve to realign incentives among alliance partners, and link these to the severity of the LOP in a particular setting. We illustrate our arguments with a case description of Microsoft's Partners in Learning program.
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INTRODUCTION

In recent decades, corporations have faced increasing demands from a variety of stakeholders to contribute to social and economic development beyond the bounds of their immediate business activities. This is particularly true for multinational corporations (MNCs) active in developing countries, where the magnitude of public challenges is often greater than the capacity of local stakeholders to address them effectively (Boddewyn & Doh, 2011; Margolis & Walsh, 2003; Teegen, Doh, & Vachani, 2004). Responding to these demands, many companies have instituted corporate citizenship programs, leveraging their expertise and specialized resources to create public goods both at home and abroad (Gardberg & Fombrun, 2006).[1] Prominent examples of such programs include information technology (IT) and media

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companies' contributions to public education, pharmaceutical companies' public health initiatives, and consumer product companies' investments in nutrition programs, clean water, and sanitation projects.

Ironically, even as stakeholders call for increased corporate investment in public goods, many of these same stakeholder groups remain suspicious about the motives and net impact of corporations acting in domains traditionally served by government and "third-sector" organizations, that is, non-governmental organizations (NGOs) or non-profits (Ball, 2007; Meng, 2007). In this paper we argue that such ambivalence results in a fundamental *liability of privateness* (LOP), whereby corporations investing in the provision of public goods and services lack legitimacy, and that this represents a significant obstacle to the design and implementation of effective corporate citizenship programs. We further argue that the LOP applies to both domestic and multinational firms, and that it has firm-specific, sector-specific, and country-specific components.

For MNCs, we suggest that the challenges stemming from the LOP are further amplified by the existence of the *liability of foreignness* (LOF) commonly associated with international business operations. For MNCs it thus becomes particularly important to understand how their *dual liability* – of foreignness and privateness – is conditioned by the institutional environments in the different sectors and countries in which they operate. Our analysis suggests that institutional underpinnings of the two liabilities are related but distinct from each other, and that they have different implications for the design and implementation of corporate citizenship programs and partnerships.

One notable feature of many corporate citizenship programs, which we link in particular to the LOP, is the use of cross-sector partnerships to facilitate program implementation (Peloza & Falkenberg, 2009). Interestingly, despite a rich body of scholarly research on corporate citizenship and other corporate social responsibility initiatives, we still have relatively little understanding of how firms choose *which* organizations to partner with, or *how* corporate citizenship partnerships are governed. This is an important gap, as partnering choices could have a large impact on the efficiency and credibility of corporate citizenship investments, and on their net impact on economic and social development in different countries (Boddewyn & Doh, 2011).

In order to address these important issues, we apply and extend insights from prior research in international business, transaction cost economics (TCE) and institutional theory to develop arguments regarding the origins and implications of the dual liability of foreignness and privateness for MNCs' corporate citizenship programs. We draw out implications of our analysis for partnering choices in corporate citizenship programs, and highlight some important limitations on the set of credible governance mechanisms available to participants in corporate citizenship partnerships.

Our analysis suggests that NGO or other third-sector partners will be preferred by MNCs for corporate citizenship initiatives in settings where there is an elevated LOP, even though the alliance hazards associated with such cross-sector partnerships are inherently high; where the LOP is less severe, partnerships with local firms will be preferred, all else equal. We also argue that the allocation of control rights in corporate citizenship partnerships will vary, depending on the identity of the local partner: MNCs will tend to retain greater control rights over intellectual property (IP) in partnerships with NGOs,[2] but will grant greater control of program delivery or other stakeholder-facing resources to an NGO partner than to a local firm. Moreover, the extent of control reallocations in corporate citizenship partnerships will in part be a function of the severity of the dual liability facing the MNC in a particular setting.

We illustrate our theoretical analysis with a case example of one high-profile corporate citizenship program in the education sector, Microsoft Corporation's Partners in Learning (PiL) program. This example illustrates some of the tensions and legitimacy gaps that we believe are inherent to the corporate citizenship context, and which lead to significant challenges associated with the LOP. By comparing the organization of Microsoft's curriculum development efforts associated with the PiL program in two countries – South Africa and Jordan – we are able to trace some of the key historical and institutional underpinnings of the LOP in this sector, and relate these to the partnering choices that the company has made in the two countries.

THE LIABILITY OF PRIVATENESS IN CORPORATE CITIZENSHIP INITIATIVES

The role of business in society has long been the subject of scholarly and popular debate, and this debate has taken on greater urgency in recent years

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as awareness of the magnitude and seeming intractability of economic, environmental, and social problems in many countries has increased (Margolis & Walsh, 2003). The continuing debate highlights an apparent paradox surrounding corporate citizenship: on the one hand, corporations feel pressure to respond to increasingly vocal calls for contributions of resources and expertise to the creation of public goods and services; on the other hand, writers commonly observe that corporate investments with the stated aim of contributing to social welfare are rightly regarded with some degree of suspicion. Valente and Crane (2010: 60), for example, describe the suspicion that firms often face when attempting to contribute to public service provision as follows:

> The first main challenge … is public resistance to the firm's quasi-political role. Well-meaning programs may be derailed when activists question why companies are acting like governments with little, if any, democratic measures in place to ensure accountability. In supplementing government provision, companies are inevitably making public welfare choices on the basis of their own strategic orientation, and financial and operational constraints, rather than necessarily on the needs of the community. … This typically results in understandable skepticism on the part of the public and social activist groups.

Corporate motives come under particular scrutiny when investments are made in sensitive sectors such as education and public health, where many view the government and civil society as the only legitimate sources of authority (Ball, 2007). For example, in reference to one major pharmaceutical company's drug donation program, Meng (2007) noted that stakeholders criticized the program heavily, arguing that it diverted attention away from the company's underlying (unfair) pricing policies, and the need for other, more comprehensive reforms. Similarly, in education, critics assert that if governments become dependent on corporations for significant investments in public education, they risk a substantial loss of authority over education policy, which may be manipulated to serve corporate interests (Dale, 1999).

Prior research on corporate citizenship and other corporate social responsibility programs acknowledges public skepticism, and indeed reinforces the understanding that corporations have mixed motives when acting in the public domain. Early work often pitted altruism against more strategic motivations (Griffin & Mahon, 1997); more recent work embraces the notion that firms seek a variety of benefits through citizenship investments in public goods, including intrinsic benefits derived from managers' and employees' altruism, as well as political and pecuniary benefits related to reputational enhancement, political access, and new market development (Margolis & Walsh, 2003; see also Baron, 2009; Porter & Kramer, 2006). Thus it is now generally acknowledged that most citizenship investments have the properties of "impure public goods," that is, goods that generate both public and private benefits (Cornes & Sandler, 1996; Kotchen, 2006).[3]

Taken together, these observations paint a convincing picture of skepticism and doubt regarding the legitimacy of private corporations when acting in the public domain, that is, when they are making investments with the stated objective of contributing to the public good. Suchman (1995) identifies three different types of legitimacy (or illegitimacy) that are relevant here – pragmatic or exchange legitimacy, moral legitimacy, and cognitive legitimacy. Among these, public investments by corporations may have a degree of pragmatic or exchange legitimacy, which "rests on the self-interested calculations of an organization's most immediate audiences," and where "support for an organizational policy [is] based on that policy's expected value to a particular set of constituents" (Suchman, 1995: 578). The deep pockets and technical capabilities of large corporations mean that governments and other important "audiences" or beneficiaries of corporate largesse often see significant potential for positive value generation, enhancing the pragmatic legitimacy ascribed to these programs (e.g., Genevois, 2008).

What the private sector frequently lacks when investing in the public domain, however, is moral legitimacy. This type of legitimacy rests "not on judgments about whether a given activity benefits the evaluator, but rather on judgments about whether the activity is 'the right thing to do.' These judgments, in turn, usually reflect beliefs about whether the activity effectively promotes social welfare, as defined by the audience's socially constructed value system" (Suchman, 1995: 579). The ambivalence expressed by stakeholders about corporations' encroachment into domains previously served by governments and third-sector organizations resonates strongly with such concerns about moral legitimacy; even though stakeholders see value in the resource and managerial contributions that large corporations can make to public goods, they nonetheless question the ultimate impact on social welfare, given their beliefs

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about the fundamental motivations and incentives of for-profit firms. This observation further suggests that corporate citizenship programs almost always lack cognitive legitimacy, wherein an activity takes on the status of "taken-for-grantedness," such that "for things to be otherwise is simply unthinkable" (Suchman, 1995: 583). Indeed, Suchman argues that while this last form of legitimacy "represents both the most subtle and most powerful source of legitimacy," in general it "lies beyond the reach of all but the most fortunate managers."

We posit that the lack of moral and cognitive legitimacy constitutes a significant obstacle to corporations acting in the public domain through corporate citizenship initiatives. Moreover, we believe that otherwise comparable public goods investments by third-sector organizations (non-profits, NGOs) generally enjoy a greater level of legitimacy. Prior research reinforces this belief, as Teegen et al. (2004: 468) note, for example, that "NGOs … tend to enjoy greater public trust than their firm or government counterparts thanks to their social welfare ideals and relative immunity from pressures to 'sell out'."[4]

To capture the relative disadvantage of private corporations acting in the public domain, we introduce the concept of the *liability of privateness*, defined as *the additional costs that a corporation investing in public goods and services incurs that a (comparable) third-sector organization would not incur.*[5] Moreover, while we believe that any firm seeking to invest in public goods and services will face a LOP to some degree, we expect the LOP to have firm-, sector-, and country-level components, such that the severity of the liability will differ across individual cases.

At the most general level, the severity of the LOP faced by private firms in a particular country depends on expectations about the respective roles of government, business, and civil society. Gardberg and Fombrun (2006: 338) note significant cross-national variance in this respect, suggesting, for example, that "governments are expected to supply social services and provide for the general welfare in many countries. In Italy, either the government or the Catholic Church provides these services. In Japan, firms have traditionally provided for their employees' welfare." Since the scope of responsibilities accorded to different sectors is likely reflected in their relative size, one natural set of proxies for the extant level of LOP in a country therefore includes the relative size of government spending, as well as the size and number of third-sector organizations such as NGOs and non-profits: larger government and civil sectors indicate higher overall LOP, *all else equal*.

On a deeper level, we would suggest that variations in expectations concerning public vs private responsibilities are closely related to the deference granted to communitarian concerns relative to private property rights and commercial interests, and that this in turn is rooted in a country's social, political, and economic history.[6] Thus another set of plausible indicators of the LOP in a given country relate to legal rules and social norms surrounding IP or other private property rights. Countries with weak IP regimes tend to place higher value on collective vs individual rights, and generally may have a more negative attitude toward the contribution of commercial activity to the public good (Ginarte & Park, 1997).

It is reasonable to expect that the LOP also varies by sector, with some domains being more "naturally" associated with government and NGO investment than others. As our discussion so far implies, we associate some of these differences with inherent cross-sectoral variance in economic fundamentals and, in particular, with the extent to which goods and services produced in the sector have the nature of a public good. We would further argue that there are important social and political aspects of the LOP that also have their roots in national institutions and culture, since differences in political and social development can mean that stakeholders have very different perspectives on the legitimacy of private investment in a given sector in different countries.

At the firm level, we should expect that experience matters, and that corporations that have built up a track record of positive contributions to public goods, and/or of otherwise acting in the public interest, will enjoy enhanced legitimacy (Margolis & Walsh, 2003), and hence lower LOP. To the extent that institutions and norms governing public investments differ from those in a firm's regular commercial activities, experience will also be important in reducing the potential knowledge gaps, elevated costs, and implementation difficulties that firms may at first encounter in their corporate citizenship activities.

Taken together, these multilevel determinants of the LOP imply that an accurate assessment of the LOP that a particular firm will encounter in a given context requires in-depth understanding of the rules and norms governing private participation in the particular country and sector in question,

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as well as of the experience and reputation of the company involved.

MNCs and the Dual Liability of Foreignness and Privateness

For MNCs the idea that investments in a host country may be viewed with suspicion by local stakeholders is hardly a new or radical idea, regardless of whether the investment is in the public or private domain. In international business research, the idea that MNCs face a liability of foreignness in their local operations is a "fundamental assumption driving theories of multinational enterprise" (Zaheer, 1995: 341; see also Hymer, 1976).[7] Prior research suggests that foreign subsidiaries are disadvantaged relative to local competitors in a variety of ways: local buyers may be unfamiliar with the foreign firm's brand and products; cultural differences in management practices and lack of knowledge of the local operating environment can result in higher operating costs; and an MNC's foreign status may make it more vulnerable to government expropriation, whether through direct seizure of assets, or through indirect expropriation, for example, through capricious taxation or regulatory changes (Austin, 1990).

Reflecting these multiple sources of disadvantage – most of which are equally relevant in the corporate citizenship domain[8] – Zaheer (1995: 343) defines the LOF as including all "additional costs a firm operating in a market overseas incurs that a local firm would not." The cumulative empirical evidence indicates that the costs associated with foreign status are indeed significant, and together result in foreign-owned firms having lower performance than local firms, *ceteris paribus* (see, e.g., Hennart, Roehl, & Zeng, 2002; Miller & Parkhe, 2002).

Prior research assessing the magnitude of the obstacles facing MNCs in different investment contexts suggests that, like LOP, the LOF has firm-, sector-, and country-level components. Factors shown to be most robustly related to the level of LOF in a particular context include firm-level experience in the country or region (Zaheer, 2002), and "institutional distance" between the home and host countries (Eden & Miller, 2004; see also Kostova & Zaheer, 1999).[9] Specific aspects of the host-country institutional environment that have also come under scrutiny include political stability and commitment (Henisz, 2000; Kobrin, 1979), ethnocentrism (Eden & Miller, 2004), and corruption (Rodriguez, Uhlenbruck, & Eden, 2005).

One important implication of the above discussion is that MNCs will typically face greater legitimacy and related knowledge gaps in their corporate citizenship activities than will their local counterparts (*ceteris paribus*). At the simplest level, this is a straightforward additive effect – MNCs and otherwise-similar local companies are equally exposed to the LOP in their corporate citizenship activities, but MNCs are additionally exposed to the LOF, which, by definition, does not affect local firms. Beyond this, there may be a more subtle interaction that amplifies the combined effect of the dual liability of foreignness and privateness for MNCs: Kostova and Zaheer (1999: 74) suggest that host-country stakeholders are more likely to apply stereotypes to MNCs, given their lack of information regarding the MNC's intentions and capabilities, and that, as a result, MNCs will face a greater barrier than their domestic counterparts when it comes to "building their reputation and goodwill, in supporting local communities, and so on." This then reinforces the double bind that MNCs find themselves in – they are expected to contribute most to the public domain, but are viewed with the highest level of suspicion when doing so.

Table 1 summarizes the salient features of the liabilities of foreignness and privateness as they apply to corporate citizenship investments, highlighting both the relatedness and the distinctiveness of the two constructs. In the remainder of the paper we explore the organizational implications of the LOP for MNCs seeking to design and implement effective corporate citizenship programs, focusing in particular on the role of partnerships in mitigating the dual liability of foreignness and privateness.

Reducing the Dual Liability of Foreignness and Privateness through Partnering

As noted in the introduction, a key organizational feature of many MNCs' corporate citizenship programs that we believe can be explained by the dual liability discussed above is the ubiquity of cross-sector partnerships in the corporate citizenship domain. Prior international business research provides ample evidence that partnerships with local firms can help to ameliorate the LOF in many operational contexts (Eden & Miller, 2004).[10] Similarly, in the corporate citizenship domain, it is reasonable to expect that a local partner will be beneficial, since they have better information about local development goals, as well as a better

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Table 1 Key features of the dual liability of foreignness and privateness as applied to corporate citizenship activities

	Liability of foreignness[a]	Liability of privateness
Definition	"Additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer, 1995)	Additional costs a corporation providing public goods and services incurs that a third-sector organization would not incur
Organizations impacted	Foreign firms (MNCs)	Foreign and local firms
Sources of liability	Lower legitimacy granted to foreign firms MNCs lack knowledge of local market	Lower legitimacy granted to corporations operating in public domain Corporations lack knowledge of institutions and norms governing public investments
Institutional underpinnings/ indicators	Institutional distance between home and host countries Economic nationalism/ethnocentrism Political stability Corruption	Deference granted to communitarian concerns relative to individual and property rights in the local (host) country Relative size of government and civil sectors Property rights protection
Appropriate partner	Local organization (firm or NGO)	Third-sector organization (local or international NGO)

[a]See text for further information on source material.

understanding of how to access relevant local systems (Husted, 2003).

Prior research in institutional theory also provides a theoretical basis for our intuition that partnerships can be a useful vehicle for private companies to bridge the legitimacy gap associated with the LOP. However, in this case we posit that a partnership with a *third-sector organization* such as an NGO will be more effective in bridging the legitimacy gap in contexts where the LOP is high; whether the partner is a local or international organization is then a secondary (and separate) concern. As Baum and Oliver (1992: 541) note:

> When organizations establish ties to [legitimized organizations], they signal their adherence to institutional prescriptions of appropriate conduct and thus obtain rewards that contribute to their survival. These rewards include greater legitimacy and status … and enhanced access to resources. … For example, social service organizations that develop relationships with community organizations such as the United Way increase their stability, public visibility and community status.

In his discussion of citizenship-related partnerships in the US educational sector, Austin (2000: 2) echoes this point, noting that the National Science Resources Center (a non-profit organization created by the Smithsonian Institute and the National Academy of Sciences) "brought to a collaboration with Hewlett Packard (HP) high credibility and access to key curriculum decision-makers in the public education system. … Through this alliance HP has enhanced its reputation in the educational community. …"

This example, of an American firm's corporate citizenship activities in the domestic US context, reinforces our contention that the LOP applies to local and foreign corporations alike. The argument further implies that for MNCs operating overseas, although a partnership with a local firm may be quite effective in overcoming the LOF, such a strategy is likely to be *ineffective* in situations where the LOP is also high. In this case an MNC will be motivated to partner with a local NGO (or other third-sector organization), rather than with a private firm, to ameliorate the dual liability.

Partnering with an NGO nonetheless raises its own hazards, as a nascent literature on cross-sector partnerships is bringing to the fore. The mission orientation of NGOs leads to greater involvement of stakeholders such as major donors or government, as well as a "greater emphasis on the process by which decisions are reached, and on overall procedural fairness" (Rivera-Santos & Rufin, 2010). One commentator (Cowe, 2004: 1) describes the challenges of business–NGO alliances thus:

> The attractions are obvious, but so are the dangers. Most significant perhaps, is the danger that the concept [of business–NGO partnerships] is used simply to get business to stump up money, which is more like taxation than partnership. Even within a more meaningful relationship, companies risk wasting time and money, and possibly divulging sensitive information that could be misused. NGOs risk reputation damage if a partnership goes wrong, and wasting scarce resources if the desired outcomes are not achieved.

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Issues that arise in partnerships with local firms are closer to "business as usual" for MNCs when compared with cross-sector alliances with NGO partners, and, as such, typically pose less severe managerial challenges, all else equal (Rivera-Santos & Rufin, 2010). To be sure, alliance hazards in corporate citizenship partnerships with local business firms can be significant, given the local partner's incentives (and ability) to leverage access to the MNC's resources and expertise to enhance its own private returns (Henisz, 2000). Nonetheless, as discussed in more detail below, MNCs typically have greater familiarity with the governance challenges associated with such business-to-business alliances, and also have a wider range of governance structures and safeguards at their disposal. As a result, we propose that in international contexts where the LOP is relatively *low*, a partnership with a local firm will be the default option. This preference may be further reinforced by the fact that a private-sector firm can be expected to have greater knowledge of local commercial opportunities than an equivalent NGO, something that the MNC may find particularly useful, in light of the mixed motives associated with corporate citizenship programs. Taken together, these arguments lead us to our first proposition, linking the LOP to an MNC's choice of partner for its corporate citizenship activities:

> **Proposition 1**: The higher the liability of privateness in a host country, the higher the likelihood that an MNC will partner with an NGO for implementation of its corporate citizenship activities; when the liability of privateness is low, an alliance with a business firm will be preferred, *ceteris paribus*.

GOVERNING CORPORATE CITIZENSHIP PARTNERSHIPS

Over the past two decades, international business researchers have applied and extended TCE to examine how different alliance governance structures can create appropriate incentives and safeguards in different national contexts (see, e.g., Chi & Roehl, 1997; Oxley, 1999). This research provides robust evidence consistent with Williamson's (1985) "discriminating alignment hypothesis," demonstrating that MNCs tend to adopt more hierarchical structures such as equity joint ventures (JVs) in situations where alliance hazards are particularly high, but tend to use more informal arrangements supported by contractual agreements when hazards are less severe.[11]

Although research to date has focused primarily on partnerships between MNCs and local firms in support of commercial operations, the basic logic is equally applicable to corporate citizenship alliances. Indeed, most recently, researchers have begun to apply the TCE framework to cross-sector partnerships bringing together business firms and NGOs, including partnerships formed in support of corporate citizenship activities (Boddewyn & Doh, 2011; King, 2007; Rivera-Santos & Rufin, 2010). One of the insights highlighted in these recent contributions is that the most common organizational remedy for elevated alliance hazards in business-to-business alliances – the creation of an equity JV – is generally infeasible in business–NGO alliances. For NGOs, which rely to a large extent on donations from stakeholders for their survival, perceptions of the organization's independence from corporate interests is key, and forming an equity JV with a business firm could seriously undermine NGO legitimacy – the very thing that motivates the firm to form the alliance in the first place (King, 2007; Rivera-Santos & Rufin, 2010).

Building on these arguments, we suggest that the equity JV structure is of little use in *any* corporate citizenship partnership, even ones joining an MNC and a local business firm. By definition, citizenship programs do not directly generate profits, and so the pooling of resource contributions and returns – one of the central incentive-alignment features of the JV structure – is rendered moot.[12] This suggests the need to explore alternative governance arrangements that do not compromise the independence of local partners and which, at the same time, address salient alliance hazards. In the following we do just this, focusing first on the importance of reputation as a general safeguard for corporate citizenship partnerships, and then examining how the effectiveness of other governance solutions may differ between partnerships with NGOs and partnerships with local firms. In each case we tie our analysis to the presence and severity of the LOP as the novel contextual feature of corporate citizenship initiatives.

The Role of Reputation in Alleviating LOP-Related Alliance Hazards

As many commentators observe, a focal concern for MNCs in corporate citizenship partnerships with NGOs is the MNC's vulnerability to holdup on the part of an NGO seeking to increase the amount of

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investment in its mission domain (Cowe, 2004; Rivera-Santos & Rufin, 2010). Once an MNC has publicly aligned itself with a particular NGO, the NGO may manipulate its relationships with key policymakers and/or use the (implicit or explicit) threat of tarnishing the MNC's reputation with stakeholders to "ratchet up" the resource demands made on the MNC. Prior research on market entry alliances similarly suggests that when a local *firm* has close relationships with key policymakers and other stakeholders, this can be a double-edged sword. Absent the threat of holdup, such relationships generate significant value by enhancing access to key decision-makers and conferring legitimacy on the venture, but close ties also mean that a local firm can more effectively manipulate its relationships to its own ends, thereby appropriating a disproportionate share of value created (Henisz & Williamson, 1999).

One important factor that can temper the threat of opportunism by a local partner (be it an NGO or a for-profit firm) is potential damage to its reputation, which may reduce future alliance opportunities. NGOs, for example, increasingly rely on MNCs as a crucial source of funds in an environment where there is increased competition for limited funding (Jamali & Keshishian, 2009). Competition for funding effectively increases the incentives for NGOs to cultivate a reputation for "fair dealing" with MNC partners, and for greater independence from local politicians or government agencies. King (2007) argues that such a reputation can act as a valuable "bond" or hostage in alliances between corporations and NGOs, reducing the NGO's incentives to engage in *ex post* holdup, and thus making the organization a more attractive partner for corporations:

> For example, the corporation might decide to work only with stakeholder groups that have posted a large bond that would lose its value if they reneged on agreements. … Most commonly, a firm or stakeholder organization's reputation can provide such a bond. (King, 2007: 895)

Thus, in contexts where there is already some history of private corporate citizenship activity, an MNC can partially mitigate alliance hazards by selecting NGOs with an established reputation for independence and fair dealing. Reputation can play a similar role in reducing hazards in citizenship alliances with local firms, as a local firm has the incentive to develop and protect a reputation for commitment and fair dealing to preserve opportunities for future partnerships with other MNCs (as well as possible future business with its current partner).

Of course, reputation is not the sole criterion in an MNC's choice of local corporate citizenship partner. As with any alliance, another first-order consideration is the value of the resources that the partner can bring to the alliance. The question then becomes: What determines the weight that an MNC will (or should) attach to reputation *relative to* other resource contributions that the partner can deliver? TCE theory implies that more weight will be attached to reputation when the risk of holdup by the local partner is more severe, since high holdup risk effectively reduces the realized value of *all* resource contributions to the corporate citizenship initiative (from the point of view of the MNC). As suggested above, the level of holdup risk is, in turn, related to the value and closeness of the local partner's ties to policymakers and other key stakeholders.

For partnerships with NGOs, our discussion thus far implies that the value – and the danger – of close ties is increasing in the severity of the LOP in a particular country. When the LOP is high, NGOs are crucial gatekeepers in accessing key stakeholders, but the government and other stakeholders are also more likely to "side" with the NGO in a dispute. NGO reputation will therefore be more important in ameliorating alliance hazards (and increasing the odds of a successful venture) in this context. This reasoning supports the following proposition:

> **Proposition 2a**: As the liability of privateness increases, so too does the weight assigned to an NGO's reputation for independence and fair dealing in the MNC's partner choice decision.

A secondary implication of this argument is that, in contexts where LOP is high *and* there are few or no potential NGO partners available with a reputation for independence and fair dealing, this may dissuade an MNC from initiating corporate citizenship activities in that location altogether.

For partnerships with local firms, this relationship between reputation and LOP does not hold: Since a local firm has no inherent greater legitimacy than the MNC in corporate citizenship activities, higher LOP will, if anything, tend to *undermine* the ability of the local firm to use its close ties with local stakeholders to extract rents from

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an MNC partner. And indeed, it is precisely this potential lack of legitimacy that detracts from local firms' suitability as partners in corporate citizenship initiatives in contexts with high LOP (Proposition 1 above). Of course, this does not imply that reputation is unimportant in alliances with local firms; rather, we posit that, contingent on the decision to engage a local firm (vs an NGO), the weight attached to reputation in the MNC's partner choice will be invariant to the level of LOP. Thus we have:

Proposition 2b: The weight assigned to a local firm's reputation for fair dealing in MNCs' corporate citizenship partner choice decision is unrelated to the liability of privateness.

Allocation of Control Rights

Prior research suggests that, in the absence of an equity solution, the allocation of control rights is one of the most important mechanisms for aligning incentives in an alliance (Chi & Roehl, 1997; King, 2007). In the context of corporate citizenship alliances, key resources and activities for which control rights must be allocated are: (1) technology and other IP or knowledge assets brought by the MNC to an alliance (or generated within the alliance); and (2) distribution of the goods and services produced in the context of the alliance. Below we argue that the likely pattern of control rights allocations in corporate citizenship partnerships will be systematically different for NGO and local business partners, and will also be a function of the dual liability, particularly the LOP. The fundamental logic driving these control allocations is nonetheless the same in each case: to ensure that there is a reasonable "balance" in the dependence of each partner on the other, so that incentives for opportunistic action by either party are reduced (Williamson, 1983).

In addition to the risk of holdup, Cowe's (2004) description of the dangers of business–NGO partnerships, above, raises a concern about NGOs "divulging sensitive information that may be misused." This speaks to the possibility that an NGO may acquire access to an MNC's IP, and misuse it in a manner that undermines the profitability of the corporation's commercial operations – in other words, that there may be a significant appropriability hazard associated with the partnership (Oxley, 1997). King (2007) also discusses this concern in the context of corporate–environmental stakeholder alliances, contrasting this hazard with that posed in partnerships with private firms:

> Unlike for-profit exchange partners, which usually have an incentive to keep intellectual property for their own use, stakeholder groups often have an incentive to expropriate and disseminate intellectual property capabilities … Because stakeholder groups are usually interested in the spillover social effects of intellectual property (and not the private return), they have an incentive to make sure that valued intellectual property is publicly available. (King, 2007: 895)

In the context of corporate citizenship alliances, wide dissemination of IP may significantly undermine the competitive advantage of the firm, since in many cases citizenship activities engage the core technology of the firm. Indeed, the ability to leverage such resources is a key source of the public benefit that comes from MNCs' citizenship investments.[13] King (2007) cites the example of an alliance between the German company Foron and Greenpeace to create a Freon-free refrigerator using hydrocarbon-based technology, thereby lessening environmental damage. Greenpeace reportedly "transferred some of Foron's other technology when it aggressively encouraged other producers to switch to the hydrocarbon-based foam-blowing technologies. … As a result, Foron's advantage in both hydrocarbon blowing and refrigeration technology was quickly eliminated" (King, 2007:895). In anticipation of this possibility, we would expect MNCs to retain control of the technology used in their corporate citizenship partnerships with NGOs as much as possible, to reduce "leakage" of valuable IP.

Allowing an MNC to retain IP rights over partnership-related technology also effectively addresses one of the key hazards faced by an NGO partner in a corporate citizenship alliance, that is, that the MNC does not take its citizenship responsibilities seriously, and therefore will "shirk," not putting forth adequate effort or applying its state-of-the-art technology. Such shirking may undermine the mission-related objectives of the partnership, devaluing the resources that the NGO devotes to the alliance in good faith. By allowing the MNC to maintain control of existing *and new* IP created within the alliance, the potential for positive spillovers from the partnership to other aspects of the MNC's business are enhanced, so increasing the MNC's motivation to invest significantly in the citizenship program activities.

Assigning broad IP rights to the MNC also plays a valuable role in ameliorating the *ex post* holdup risk to the MNC, since the NGO now depends on the

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MNC for continued access to key resources for effective program delivery, and stands to lose those benefits should they (the NGO) renege on the initial agreement. To reiterate our earlier argument, all else equal, an MNC's holdup risk with an NGO is increasing in LOP, since this increases the NGO's ability to manipulate close ties to key stakeholders, and ratchet up demands. Consequently, an additional implication of this argument is that retention of IP rights by the MNC will be *most* important when the LOP is high.

For citizenship alliances with local business firms, we expect a quite different allocation of IP control rights. Here, retention of IP by the MNC does nothing to alleviate the primary hazard in the partnership – that is, potential shirking by the local partner. Indeed, we should expect that such a rights allocation only *increases* the hazard: by retaining control over relevant technologies, the MNC increases its ability to switch to a different local partner, exposing the local firm to greater potential holdup by the MNC; this vulnerability in turn increases the local firm's incentives to shirk, and reduces its incentives to make value-creating investments that are specific to the MNC's citizenship program. To alleviate the local firm's holdup concern (and reduce its incentives to shirk) thus requires some balancing of technology control rights. This can be achieved by sharing or transferring rights to the local firm for any IP developed in the course of partnership activities. Indeed, if the local firm is able to license alliance-generated IP back to the MNC (or exploit it in other markets), the commercial interest of the local partner is further engaged, and it has a stronger incentive to exert effort. Joining this argument with our prior discussion of IP rights allocations in alliances with NGOs leads to the following propositions:

Proposition 3a: MNCs will transfer greater control rights over IP in corporate citizenship partnerships with local firms than in those with NGOs, *ceteris paribus*.

Proposition 3b: The extent of IP rights granted by the MNC to NGO partners will be decreasing in the liability of privateness.

Unfortunately, as King (2007) aptly notes, "One of the important implications of transaction cost [economics] is that any governance solution usually creates another governance problem." For an alliance with an NGO, strengthening the MNC's incentives through retention of technology and IP rights may have the effect of exacerbating the reputational risk to the NGO if the MNC uses (or, from the NGO's perspective, *mis*uses) IP connected with the citizenship activities in a way that harms stakeholders and NGO supporters.[14] This suggests that the MNC must post an offsetting bond or hostage to balance the NGO's increased dependence and threat to its reputation. The precise form that such a hostage should take will ultimately depend on the institutional and operational context, but a natural solution is for the MNC to grant the NGO greater control of complementary resources or activities necessary to realize value through the citizenship alliance (Teece, 1986), and in particular of activities connected with program delivery and other "stakeholder-facing" resources.

Returning again to the connection between NGO alliance hazards and the LOP, we posit that, all else equal, the threat to the NGO's reputation with stakeholders is increasing in the severity of the LOP: where private investments in the public domain are viewed with great suspicion, the likelihood that an NGO will be "tainted" by its relationship with an MNC in the event that the goals of the partnership are subverted will be significantly elevated. Thus we predict a positive relationship between the LOP and the "bond" that the MNC must post (i.e., program control granted to the NGO) to bring mutual dependence back into balance.

Applying this same line of logic to the case of partnerships with local firms, we observe that the transfer of IP rights to a local partner potentially increases the alliance hazards faced by the MNC: the MNC now becomes more vulnerable to leakage or *ex post* holdup unless the local firm in turn posts a bond, or some other safeguard is put in place. Fortunately, the MNC has additional tools at its disposal to balance dependence and reengage the incentives of the local partner. In particular, where significant IP rights are transferred to the local firm, we would expect the MNC to retain control of program delivery and other complementary assets. In addition, because there are in general fewer obstacles to closer cooperation between a local business firm and the MNC than is the case for an NGO (because perceived independence is not as salient a concern), the MNC may be able to effectively expand the geographic or operational scope of the partnership, increasing the local firm's expected future returns and ameliorating the threat of opportunism in the focal alliance.

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These arguments together lead to our final set of propositions:

Proposition 4a: MNCs will grant greater control rights over local program delivery and stakeholder-facing resources to the local partner in corporate citizenship partnerships with NGOs than in those with local business firms, *ceteris paribus*.

Proposition 4b: The extent of control rights granted to an NGO partner will be positively related to the LOP.

In the next section we present a brief description and interpretation of Microsoft Corporation's Partners in Learning program, to further illustrate the LOP concept and its implications for partnering strategies.

AN ILLUSTRATIVE CASE: MICROSOFT CORPORATION'S PiL PROGRAM

Microsoft Corporation's PiL program provides a useful illustration of a corporate citizenship program in action. The education sector represents one of the primary targets for corporate citizenship investments, particularly by MNCs, and IT companies such as Intel Corporation, Cisco Systems, and Microsoft are among the most active private-sector contributors to the education sector (CECP, 2009).[15] In line with industry peers, Microsoft Corporation's contributions to the education sector date back to the mid-1980s, beginning with software donations to US schools and libraries, and increasing gradually in scale and geographic scope in subsequent decades.[16] With the announcement of its PiL program in 2003, Microsoft built on previous initiatives and embraced a broader goal, of contributing to educational development and reform around the world. Beginning with Brazil, India, and Thailand, the company has since signed memoranda of understanding (MOUs) in over 100 countries to deliver IT and educational resources through the public education system.

Below, we describe the general scope of the PiL program, and take a closer look at the program organization in Jordan and South Africa, two countries in which historical developments have resulted in significantly different levels of LOP for Microsoft's corporate citizenship investments. Our observations are extracted from a larger inductive study of Microsoft Corporation as an emergent transnational authority in education, employing a comparative case analysis of the PiL program in these two countries, conducted by the first author over the period 2004–2008.[17] The narrow focus of the case data precludes us from drawing any strong inferences from our case analysis, but the observations nonetheless provide a useful illustration of how one company's corporate citizenship activities are organized in different institutional environments (Flick, 1998).

A core programmatic element of PiL is PiL Grants.[18] Approximately 100 Microsoft staff have been assigned to this program worldwide, with investments of US$225 million over the period 2003–2008 in three key areas:

(1) curriculum and teacher development;
(2) the International Teachers Network – an online community, moderated by Microsoft, where teachers can obtain free access to teaching resources, such as lesson plans, tutorials, articles, and projects; and
(3) education events and forums, such as the annual Innovative Teachers Forums, held at both the national and regional level wherever PiL operates.

These PiL Grants activities have the potential to positively impact the education systems in host countries, but they also raise significant concerns for stakeholders, who view Microsoft and other IT companies' involvement in public education with great suspicion (Ball, 2007).[19]

Sources of (Il)legitimacy in the PiL Program

Interviews with managers and stakeholders in the PiL program reveal ample evidence of mixed motives on the part of Microsoft Corporation in establishing the program, with efforts to generate both public and private benefits from its corporate citizenship initiatives. External stakeholders speak highly of Microsoft's development-oriented approach to the PiL program, with one observer at the 2005 Microsoft Worldwide Innovative Teachers Forum remarking for example, that "The event feels like I'm participating in an international event for teachers organized by an NGO or UN agency [rather than an MNC]." A government employee also commented about the PiL program, "Microsoft really underplays their contribution. They don't make a big noise about it."

Organizationally, the broad social goals of the PiL program have been reinforced through the establishment of a quasi-independent panel of advisors, the International Advisory Council (IAC), comprising educators recruited by Microsoft from several

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countries, as well as a Spanish science and technology ministry official, and the founder of a Canadian educational NGO. All PiL program priorities are set in consultation with the IAC, and in our interviews IAC members often emphasized the contributions of the program to the broad public good. Commenting on the multilevel evaluation strategy in place for PiL, for example, one IAC member suggested that "I think we'd all agree that the most important level is how does [our program] impact learning …." In addition, in discussing the organization of the PiL program, another IAC member observed that "There is no pressure on selling … [the PiL representative] is supposed to develop a relationship with [stakeholders] for economic development and education."

At the same time, the PiL program also illustrates the porous boundary between corporate citizenship activities and market strategy. Potential enhancements to Microsoft's image as a responsible corporate citizen were certainly a salient concern at the time of PiL's establishment, given the ongoing antitrust actions against the company in the United States and in Europe (Slater, 2004). And indeed, one Microsoft executive acknowledged this, noting that "One of the things that we're hoping for is that there will be enough impact to influence the way people look at Microsoft. … There is a level of leadership that people are expecting us to have, and they hold us accountable at a very high level. This is a way of showing that … we're going to step up to that level of leadership."

Organizationally, at its inception the PiL program was located within an operational division rather than in a separate division dedicated to corporate citizenship activities. While this organizational placement confers some cost advantages on the program, facilitating interaction and resource sharing between operational and citizenship activities in a given country, it inevitably also raises the potential for incentive conflicts, and exacerbates skepticism among stakeholders. A Microsoft corporate headquarters employee perhaps best summed up the complex of motives behind the PiL program, saying:

> It's about building capacity … you're growing your future market, but that's a long-term benefit. We think it's the right thing *and* it will pay off. And that's why we don't want to pretend that this is [pure] philanthropy. But hopefully it's the classic win–win because we do think we'll win long term in terms of being successful with our products.

Partner Choices

The PiL program is – as its name suggests – implemented primarily through partnerships with other organizations involved in the education sector. Partners are engaged primarily on a country-by-country basis, in line with the MOUs signed with individual national governments, and, despite similar overall goals for PiL in most of these countries, partnerships differ considerably across locations in terms of both the types of organizations involved and the partnership structures adopted.

Table 2 gives a flavor of this variety, showing the identity of local partners engaged for local curriculum development (a core PiL activity) in the "first wave" of PiL countries.[20] Local partners include a mix of NGOs and private firms, and there is no obvious temporal or geographic pattern to these arrangements, albeit that the majority of partnerships are with NGOs (or other non-profit organizations such as universities).

Not surprisingly, when asked about important factors to consider when choosing local partners, all of the PiL managers we contacted in the countries in Table 2 mentioned the importance of technical skills and/or capabilities in digital content development, as well as "compatibility" with Microsoft's goals for the PiL program. Explicit consideration of the perceived legitimacy of Microsoft's citizenship activities was also mentioned, however: one PiL

Table 2 Local partners in "first wave" of PiL program countries

Country	Local non-governmental partner(s) for curriculum development activities	NGO, non-profit, or private firm?
Brazil	UNESP (University of the State of São Paulo)	Non-profit
India	NIIT and Educomp	Local firms
Jordan	Menhaj Educational Technologies	Local firm
Namibia	LearnThings S.A.	NGO
Russia	National Training Foundation	NGO
South Africa	SchoolNet S.A.	NGO
Taiwan	Chinese Society of Information Management	NGO

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manager, for example, highlighted the importance of seeking an NGO partner with "local influence and good reputation."

PiL Partnerships in Jordan and South Africa

Examining the organization of Microsoft PiL activities in Jordan and South Africa is particularly interesting, owing to the contrasting institutional environments and partnering approaches taken by the company in the two countries. As the data in Table 3 indicate, the South African economy is significantly larger than Jordan's, but the two countries are otherwise roughly comparable in terms of economic and educational development: both countries fall in the World Bank's Low-to-Middle Income group, and educational attainment is quite comparable – roughly 90% literacy in each case. Internet penetration is still low by global standards. Moreover, governments in both countries adopted IT development and e-education as crucial strategic priorities starting in the mid to late 1990s.

Beyond these basic economic and demographic characteristics there are nonetheless several important differences in the institutional environment in the two countries, rooted in their different experiences of colonialism and prior corporate involvement. Both countries have a history of British colonial rule, but whereas colonial rule in Transjordan (Jordan's name prior to independence) has been described as relatively *laissez-faire*, "operating with non-confrontational policies, subtle intervention, [and] low visibility" (Alon, 2007: 6), British colonialism in South Africa, and subsequent apartheid rule under the Afrikaner-dominated government, have been marked by constant conflict and open repression of the majority population, Black South Africans (Deegan, 2001). Moreover, when apartheid ended and power was transferred to Black South Africans under democratic rule in the mid-1990s, there was a strong backlash against perceived economic exploitation by the many multinational companies operating in the country under the previous regime.[21] In the subsequent period of economic turbulence accompanying political transformation this backlash was manifested in a variety of ways, including "the refusal even to consider privatization and a market solution to the provision of a cost-efficient and reliable [infrastructure] system" (Jones & Vivian, 2010: 5). This was also a

Table 3 Microsoft corporation's partners in learning program in Jordan and South Africa

	Jordan	South Africa
Economic and demographic context	World Bank low-middle income group: GNI/capita=$3813 Population=6.1 million 92% literacy rate Internet penetration=18.2% Educational investment a national priority	World Bank low-middle income group: GNI/capita=$5386 Population=49.6 million 90% literacy rate Internet penetration=10.5% Educational investment a national priority
Historical context	British colonial rule from 1921 to 1946 Constitutional monarchy with stable dynasty since 1946	British colonial rule from 1806 to 1910 (continued British influence into post-WWII period) Apartheid rule until first democratic election in 1994 Constitutional democracy
Liability of privateness	Emphasis on privatization in economic policy reforms Endorsement of private investment in education Under-developed NGO base Pre-existing public–private education initiative (JEI) Low liability of privateness	Emphasis on access and equity in economic policy reforms Strong existing NGO base suspicious of private investment in education, other public domains Strong open source movement High liability of privateness
Primary local partner	Local IT company – Menhaj Educational Technologies	Local NGO – SchoolNet

Note: All economic and demographic data are for 2004.
Sources: World Bank, http://data.worldbank.org/country/jordan; http://data.worldbank.org/country/south-africa
UNESCO Institute for Statistics, http://stats.uis.unesco.org/unesco/
International Telecommunications Union, http://www.itu.int/ITU-D/ict/statistics/

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period of active civic engagement, with a proliferation of new NGOs and social movements concerned with a wide array of issues including the environment, technology use, and low-income housing (Robins, 2008). Even today, although South Africa has in recent years become more integrated into the global economy, significant anti-corporate sentiments remain, particularly with respect to investments in sensitive domains such as education and infrastructure. As one of our South African NGO interviewees explained, "There is quite a bit of rhetoric about neo-colonialism and …a strong communist and socialist type of sentiment in the country. …"

In Jordan, the colonial legacy has played out in a quite different way. Jordan emerged from colonial rule in 1946 as a constitutional monarchy that has proven to be remarkably resilient and stable, despite being impacted by regional instability (Knowles, 2005). The first monarch, King Abdullah I, not only succeeded in founding a new state but also established a dynasty that has now been ruling the country for four generations (Alon, 2007). In the shadow of this strong and authoritarian state, civil engagement has been relatively sparse.[22] At the same time, engagement and development of the private sector has been increasingly cited as an important political priority, in part at the urging of the International Monetary Fund and the World Bank – powerful champions in a country that was heavily reliant on economic aid from the West over much of its history. In 1990, then Prime Minister Adran pronounced that "the economic reform [program] is principally based on improving the efficiency of the public sector and reducing it as far as possible; and on increasing, broadening and diversifying the private sector's investment opportunities" (Knowles, 2005: 165). The result of this reform process has been an increased acceptance of private corporate involvement in erstwhile public domains.

These different historical trajectories also shaped the attitudes of important Jordanian and South African stakeholders toward Microsoft and its PiL program, such that the LOP faced by the company was markedly different in the two countries.[23] By the time that Microsoft had established its PiL program in Jordan in 2003, the legitimacy of corporate involvement in educational reform was subject to little debate, so the LOP was relatively low. The government was quite receptive to adopting Microsoft's operating platform in the educational environment, declaring it "the only sustainable model for Jordan." The pre-existence of a broader public–private educational initiative organized by the World Economic Forum in Jordan (the Jordan Education Initiative) further reinforced the legitimacy of corporate involvement in educational reform. Moreover, the government has come out strongly in support of the benefits of IP protection. Indeed, one of our interviewees noted that, in the early stages of Microsoft's PiL initiative in Jordan, the Ministry of Education (MOE) explicitly communicated to all PiL participants the importance of IP rights in software, and the need to obtain valid licenses for all software use.[24] At the same time, based on King Abdullah's prioritization of local IT sector development, there was an understanding that foreign IT companies' access to the education system should be accompanied by technology transfer to local firms.

In contrast, South Africa continues to have a more socialist orientation, such that corporations face an elevated LOP when they engage in corporate citizenship activities: government's ambivalence regarding private-sector involvement in education was – and remains – quite high and, for IT companies in particular, the LOP is heightened by a strong open source movement that has promoted the use of open source software (OSS) through various campaigns and initiatives.[25] As a result, when President Mbeki accepted a large software donation from Microsoft in 2000, this move was highly criticized by NGOs and open source supporters, and the government subsequently adopted a much more cautious approach to private involvement in education. Describing the development of its "E-education" policy, for example, a government official stressed that:

> These developments were followed by several policy initiatives driven primarily by the desire to establish clear decision-making frameworks at a national level *to ensure that educational technology decisions were driven by educational motives and not by the marketing agendas of technology vendors.* [emphasis added]

It was in this context of strong local ambivalence that Microsoft signed an MOU with South Africa's Department of Education (DOE) to establish the PiL program in 2004.

Microsoft's partnering strategies in Jordan and South Africa are consistent with our observations regarding differences in the dual liability of foreignness and privateness that the company faced in each country. In South Africa, the primary implementation partner chosen by Microsoft was the

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education-related NGO SchoolNet South Africa. This partnership conferred much-needed legitimacy on Microsoft's investment, and because SchoolNet already had experience working with the DOE, the organization could also facilitate access to the education system. In Jordan, local development and delivery of the Microsoft-originated and funded e-curriculum was achieved through a partnership with a local Jordanian company, Menhaj Educational Technologies.

Thus we see that Microsoft's PiL activities in both countries are implemented through partnerships with local organizations, driven in large part by the desire to engage local stakeholders, consistent with our presumption of elevated LOF in corporate citizenship activities. The company's decision to partner with a local firm in Jordan and an NGO in South Africa is also consistent with the differences that we observe in the LOP in the public education sector in the two countries.

Governance of PiL Partnerships

Our observations of Microsoft's PiL partnerships with SchoolNet in South Africa and Menhaj in Jordan are also consistent with the broad contours of our theoretical arguments related to the governance of citizenship partnerships with NGOs and private firms. Given the high LOP in the South African context, Microsoft was potentially quite vulnerable to the hazards of *ex post* holdup or expropriation (ratcheting up of demands) by the government – and by SchoolNet. Microsoft also risked devaluation of IP in the event that SchoolNet distributed Microsoft products along with the e-curriculum content without due regard for copyright protection. This risk would be mitigated, however, in that SchoolNet had an observable track record of prior partnering with an MNC, having been involved previously with Intel Corporation's Teach to the Future program. This track record gave Microsoft at least a partial view of the NGO's likely behavior as a PiL partner, reducing their concern that SchoolNet would leverage its relationship with the DOE to extract additional investments and benefits from the company after the original commitment had been made.

To further reduce salient alliance hazards, under the agreement with SchoolNet, while Microsoft and SchoolNet jointly determined specifications for the e-curriculum and teacher training modules for South Africa, Microsoft retained full control of the IP used and generated in the development process. This ameliorates the risk that SchoolNet and the DOE might expropriate Microsoft's technology and put it to use in unauthorized applications.[26] On the other side, to waylay the considerable concerns that Microsoft could abuse its access to schools and educators, for example by tying use of the localized e-curriculum to the purchase of other Windows-based software applications at the expense of open source alternatives, Microsoft granted control over key elements of PiL program implementation to SchoolNet and the DOE: SchoolNet was charged with local development and delivery of e-curriculum and training modules, effectively acting as a gatekeeper to local users of the products; meanwhile, the Microsoft-moderated online community and resource system, International Teachers Network, which is typically controlled and hosted by Microsoft in other PiL locations (including Jordan), was hosted through the DOE portal in South Africa. This arrangement further enhanced the perceived legitimacy of the PiL program among educational stakeholders, while at the same time ensuring Microsoft's continued dependence on SchoolNet and the DOE for the success of its citizenship activities.

In contrast to the situation in South Africa, the agreement setting up the PiL partnership with the local partner in Jordan (the local IT firm Menhaj Educational Technologies) assigned ownership and control of the localized e-curriculum to Menhaj, even though the e-curriculum was based on existing Microsoft technology. With this assignment of rights, the holdup risk facing Menhaj was significantly reduced, since Microsoft could not unilaterally (or prematurely) withdraw the product from the market after engaging Menhaj. In return for this valuable hostage, the agreement called for Microsoft to be given the authority to define product specifications (in negotiation with the Jordanian MOE) and to control the implementation process. In addition, Microsoft retained control of the International Teachers Network in Jordan, and also featured the Menhaj e-curriculum on the worldwide PiL employee portal, so that Menhaj could gain exposure to markets outside Jordan. As a result, Menhaj's incentives to renege on the spirit of the Jordanian PiL agreement were further reduced, and they would be more willing to make investments specific to their relationship with Microsoft.[27]

In summary, while the limited scope of the Microsoft case study means that several of our theoretical propositions are beyond the scope of the case data, we nonetheless see that the features

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of the PiL partnerships in Jordan and South Africa are consistent with the propositions that contrast partnerships with NGOs and local firms: As Proposition 1 would predict, Microsoft chose to partner with a local business firm in the national context associated with lower LOP, while opting for a partnership with an NGO when LOP was high. Also, as predicted in Propositions 3a and 4a, the allocation of control rights was significantly different in these two alliances, with IP rights being transferred to the local firm in the Jordanian context and Microsoft retaining the rights to complementary resources related to program dissemination; in South Africa the converse situation prevailed, with Microsoft retaining full control of IP but ceding control of program dissemination to the NGO partner. In the concluding discussion, below, we suggest potential settings and strategies to put these and the other propositions to more systematic empirical test in future work.

DISCUSSION AND CONCLUSION

Partnerships formed to facilitate implementation of corporate citizenship programs represent a fascinating phenomenon for study by strategy scholars in general and international business scholars in particular, prompting us to re-examine and extend extant theoretical perspectives on alliance governance, and on the "liabilities" associated with conducting business in different domains. The mixed motives underlying corporate citizenship initiatives predictably lead many stakeholders to view private investments in public goods with suspicion, particularly in countries where such investments are considered to be the proper responsibility of government. We have argued that engaging NGOs through cross-sector partnerships is one important way that companies can overcome the resulting LOP that this suspicion engenders; such partnerships enable firms to regain the legitimacy needed to reach the target stakeholders effectively for their citizenship investments. We have further argued that the governance solutions that arise in corporate citizenship partnerships may differ from those in more conventional commercial alliances, in part because forming an equity JV is often infeasible or ineffective in this context.

The theoretical discussion and illustrative case example presented in this paper represent only a small first step into this fascinating research domain, and there are many exciting opportunities for future study. One important avenue for further development involves empirical testing of our theoretical propositions, including validation of the LOP construct in the context of corporate citizenship initiatives, and further disentangling of the related but distinct aspects of the LOP and LOF. Systematic empirical analysis will require access to data on a larger sample of corporate citizenship partnerships established in a variety of institutional environments, where we can expect to observe significant variation in each of the dual liabilities – of foreignness and privateness – facing the MNCs involved. Developing operational measures of the LOP construct is also an important prerequisite for such large-scale empirical study. We believe that we have identified some important country-level indicators, such as the relative size of the government and civil sectors, and the legal deference granted to private property rights vs state or collective interests, but more needs to be done. As discussed earlier, we expect the severity of the dual liability – and most particularly the LOP – to also exhibit sector-specific, and even firm-specific, variance. An empirical study that encompasses investments by both local and multinational companies in a variety of sectors and national institutional contexts would therefore be ideal. This represents a significant data challenge, since systematic data collection on corporate citizenship partnerships is still in its infancy, but such efforts have begun.[28] These data collection initiatives reflect the increased attention and urgency around efforts to understand the interdependence of public and private interests, and to harness the potential for business to address the world's pressing problems more effectively (e.g., Mahoney, McGahan, & Pitelis, 2009; Margolis & Walsh, 2003).

Looking beyond the immediate context of corporate citizenship initiatives, we believe that our analysis has the potential to contribute to the study of alliance governance in other domains. In particular, we note that hostage arrangements come to the fore in our analysis, spotlighting a set of governance mechanisms that have been relatively neglected in recent strategy and international business research. The need for dependence balancing in alliances has long been a common theme in the practitioner-oriented literature (e.g., Brouthers, Brouthers, & Wilkinson, 1995) but there is little extant research that systematically examines control rights allocations or other non-equity-based hostage arrangements in the international business research on entry mode choice, something that may be attributable to the strong focus on equity JVs in this literature. Given that many

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commentators have noted the increased prevalence of non-equity alliances in the global economy (e.g., Hagedoorn & Roijakkers, 2006), examining the use of hostage arrangements in corporate citizenship partnerships where JVs are not feasible can generate insights relevant to other alliance settings. One potentially interesting avenue for additional future research would be to zoom in on the issue of IP rights assignments in market entry and other cross-border alliances, to examine the extent to which such rights assignments can play a role in balancing dependence and mitigating potential alliance hazards.

We also believe that the line of research initiated here is applicable to partnership governance in a range of settings where lack of legitimacy is a key concern. Another central insight that emerges from our discussion, for example, is that a corporation's lack of legitimacy in the citizenship domain makes it particularly vulnerable to holdup by the government or other stakeholders in the form of "ratcheting up" of investment demands. This vulnerability is exacerbated by the fact that citizenship programs are typically implemented under the auspices of non-binding MOUs with host governments. Prior research suggests that such a lack of credibility is a more general feature of agreements between corporations and governments in contexts where the rule of law is relatively weak, as is the case, for example, in many emerging economies (Henisz & Zelner, 2005). Further research in this area therefore has the potential to deepen our understanding of cross-sector partnerships developed for a broader set of purposes, including infrastructure privatization and other "government outsourcing" initiatives (Savas, 2005). As other questions and opportunities emerge, we look forward to participating in this exciting and important research effort.

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NOTES

[1]The terms "corporate social responsibility" and "corporate citizenship" are sometimes used interchangeably, and can encompass a wide array of activities, including adherence to voluntary labor and environmental standards, and charitable contributions, as well as direct investments in public service provision such as community education and health initiatives. In this paper we focus explicitly on this last category of activities, which actively leverage the company's expertise and specialized resources in the creation of public goods and services (i.e., what Valente and Crane (2010) refer to as a *supplement* public responsibility strategy). Simple charitable contributions and voluntary adherence to labor and environmental standards are outside the scope of our analysis; although these activities also involve the creation of public goods, they do not actively leverage the company's expertise and specialized resources.

[2]As emphasized in prior writing on the role of NGOs in international business, there is significant heterogeneity in the form and function of NGOs, with some taking on primarily an advocacy role and others focusing on the provision of products and services (e.g., Teegen et al., 2004). While much of the prior research on business–NGO relationships focuses on the advocacy role of NGOs, our focus – and the focus of companies seeking partners for citizenship activities – is naturally on the latter type of NGO, what Teegen et al. (2004) refer to as "operational NGOs."

[3]Cornes and Sandler (1994: 404) describe the properties of an impure public good as follows: "We imagine each unit of a marketed good as generating β units of a private characteristic and γ units of a public characteristic." An important factor distinguishing corporate citizenship investments (our focus here) from investments in infrastructure services or other "collective goods" (Boddewyn & Doh, 2011) essential to MNCs' market operations in developing countries is the *balance* between public and private benefits – that is, the small magnitude of β relative to γ. As Boddewyn and Doh's more general discussion of the strategic implications of collective goods provision in emerging markets suggests, this distinguishes corporate citizenship investments from many other investments in collective goods that are at least partially excludable and can generate significant private benefits (i.e., they have relatively large β). When β is large, collective goods provision becomes a more strategic investment, because "being the first mover in producing collective goods in an emerging market may deter competitors who would have to expend much higher amounts of resources to effectively compete with the local MNE subsidiary" (Boddewyn & Doh, 2011: 356).

[4]Note that Teegen et al.'s (2004) contention that NGOs enjoy greater public trust than either private

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firms *or governments* in public service provision also suggests that third-sector organizations make for more effective partners than governments or government agencies, in the face of elevated LOP (see below).

[5]This definition consciously mimics that of Zaheer's (1995) *liability of foreignness* (see below), in recognition of the parallels between the two concepts.

[6]Hillman and Wan (2005) make a similar point in their discussion of the connection between MNEs' political strategy and the degree of corporatism/pluralism in a country. And indeed, we might conjecture that more pluralist systems like the United States, with their emphasis on competition, market orientation, and individualism, may in general present a lower LOP than is the case for corporatist states that emphasize consensus and formal rules of cooperation (Hillman & Wan, 2005: 326–327).

[7]See Eden and Miller (2004) for a useful review of research that builds on Zaheer's (1995) seminal paper.

[8]For example, as MNCs seek to understand development priorities in a host country, they must confront the often idiosyncratic and arcane bureaucracy surrounding the public-interest sectors in which citizenship investments take place (Peloza & Falkenberg, 2009); navigating the relevant bureaucracy is inevitably more difficult and costly for a foreign company than for an otherwise comparable local organization.

[9]A robust body of prior research supports the proposition that the amount of resources that an MNC is willing to commit to a particular host location depends significantly on perceived institutional distance (Anderson & Gatignon, 1986; Xu & Shenkar, 2002), and that this relationship attenuates as the company gains relevant experience (e.g., Henisz & Delios, 2001). The concept of institutional distance has been further refined with separate consideration of regulatory, normative, and cognitive distance (Xu & Shenkar, 2002), and the three institutional pillars that relate, respectively, to what firms may/may not, should/should not, and can/cannot do, (where "can" implies ability) (see Eden & Miller, 2004).

[10]The "market entry mode" literature in international business is vast, and impossible to do justice to here. Examples include Agarwal and Ramaswami (1992), Gatignon and Anderson (1988), Henisz (2000), Meyer (2001), and Oxley (1999).

[11]The propensity to form a JV has been shown to be higher (relative to a contractual alliance) when production is knowledge-intensive (so that rights and responsibilities are particularly difficult to pre-specify in a contract); where there is a large "capability gap" between the host and local firm (such that high-technology transfer and/or other irreversible investments are required); and where contracting institutions (e.g., intellectual property rights, contract law, the judiciary) are weak (Oxley, 1997, 1999).

[12]Here, as elsewhere in the paper, we restrict our attention to "pure" citizenship ventures for analytical clarity. If local business partners are engaged for a mixture of commercial and citizenship activities then partner choice and governance structures will reflect these mixed activities, and in this case an equity joint venture may be a feasible solution.

[13]The engagement of core resources is also an important distinguishing feature of corporate citizenship activities relative to "pure" philanthropy.

[14]Moreover, as long as the MNC retains control of key technology, the NGO cannot effectively discipline the MNC by threatening to withdraw from the alliance, since in that case they will lose access to these crucial MNC resources and jeopardize the citizenship program goals.

[15]Assessing the precise magnitude of corporate citizenship initiatives is quite difficult, owing to the paucity and unevenness of reported data. Taking a broad view, the Committee Encouraging Corporate Philanthropy (CECP) in the United States estimated average corporate giving by each of the Fortune 100 companies at about $50 million in 2008, with approximately 20% of this giving directed to international recipients. Education (K-12 and higher) and health and social services were the most important recipients, each garnering approximately 25% of total investment. The CECP report also identifies IT companies as among the largest contributors to education, with over 40% of the IT sector's total giving going to education (CECP, 2009). In addition to Microsoft's Partners in Learning program, other significant initiatives include Intel's Train the Teacher program, initiated in 1996, and Cisco Systems' Networking Academies Program, started in 1997.

[16]In addition to the corporate citizenship activities of Microsoft Corporation, there is also a separate foundation that is linked to Microsoft through the company's founder, Bill Gates. The Bill and Melinda Gates Foundation (now the wealthiest charitable foundation in the world) is primarily active in global health. Although the foundation also makes significant contributions to the educational arena in the United States, these are almost exclusively outside the realm of IT. There are no organizational or strategic links between the Gates Foundation and Microsoft Corporation, and therefore the activities of the Gates Foundation are beyond the scope of our analysis.

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[17]The Appendix provides a brief summary of the data sources and methodology employed to construct the case study; a more detailed description and complete listing of data sources can be found in Bhanji (2009).

[18]Our description of Microsoft's PiL program reflects the structure of the program during the period of observation, 2004–2008. Since that time the program has gone through several phases of reorganization. During the observation period, PiL also included two direct software donation and subsidized sales programs aimed at facilitating access to technology in schools: PiL Fresh Start and the PiL School Agreement program.

[19]This suspicion was also evident in many of our stakeholder interviews, for example when one Jordanian interviewee described his government's ambivalent attitude, saying: "I'll accept your resources, but I'm going to be very wary about this and how beneficial it will be."

[20]Unfortunately, partly as a result of turnover in personnel involved in the PiL program, we are unable to collect systematic data on partnerships beyond those discussed here, particularly as they relate to the time period of our study. However, the limited data that are available on partnerships in later phases of the program indicate that Microsoft is continuing to partner with a mix of private firms and NGOs; these partners continue to be engaged primarily on a country-by-country basis. Interestingly, our most recent conversations with leaders of the program suggest that they are currently seeking to enter into more global agreements, in the hopes of facilitating greater cross-national coordination of PiL activities.

[21]By the 1980s, there were over 2000 foreign businesses investing approximately $30 billion in South Africa, accounting for approximately 20% of all industry in the country. These firms had annual returns averaging nearly 25%, compared with rates in Britain of 6.5%, or 4% in Germany. While the economy grew rapidly during this period, growth did not result in increased wages for Black South Africans. Today, the average per capita income of Whites is still about five times that of Black South Africans (Clark & Worger, 2011).

[22]Indeed, public dissent is severely proscribed, as a series of overlapping and vaguely worded laws forbid the publication of anything that may upset national unity or foreign relations, and ban criticism of the king (George, 2005).

[23]We are of course unable to rule out alternative explanations for the organizational arrangements that Microsoft entered into in the two countries, given our quite limited observations. Systematic empirical testing of our theoretical propositions, including analysis of alternative explanations, represents an important opportunity for future study, as we discuss in the concluding section of the paper.

[24]This action is significant, because piracy and the availability of open source alternatives to Microsoft's products have been widely recognized as among the gravest threats to the company's long-term competitive advantage (Berman, 2006; Hamm, 2005).

[25]OSS refers to software whose developers make their source public, often allowing users to modify and distribute it freely. The OSS movement appears to fuel (and be fueled by) both the LOF and the LOP. As one supporter of OSS noted, for example: "Open source software (OSS) helps retain a large amount of money within the South African economy, which is otherwise paid out as licensing fees to foreign coffers. South Africans spend a whopping R6 billion on software licensing every year!" (Gopalakrishnan, 2006: 55).

[26]Note that it is never possible to control leakage completely; as with any analysis of contracting or alliance hazards and governance, our focus is on "comparative analysis of discrete structural alternatives" (Williamson, 1985) and choice among *feasible* alternatives.

[27]An interesting footnote to this discussion is that the transfer of IP rights to Menhaj was neither required – nor necessarily approved of – by the MOE, as a government consultant explained in an interview: "Microsoft did not involve the MOE when they signed the contract with Menhaj …. The agreement is with Menhaj, so the MOE is not able to make changes [and] can't stop Menhaj from doing anything with it." This quote illustrates the tension that can exist among the different stakeholders involved in a corporate citizenship partnership, and how it may be necessary to restrict the degrees of freedom enjoyed by one stakeholder (here the MOE) in order to ensure engagement of another stakeholder (Menhaj) that might otherwise be vulnerable to holdup.

[28]Data collection efforts that encompass corporate citizenship initiatives as well as other public–private partnerships are under way at international organizations such as UNESCO, the World Bank, the World Health Organization, and the World Economic Forum. Industry associations are also increasingly interested in tracking their members' corporate citizenship partnerships, although, to date, data collection is less systematic in most cases.

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APPENDIX

Summary of Methodology and Data Sources for Microsoft PiL Case

The in-depth exploratory case study of Microsoft Corporation's PiL program in Jordan and South Africa from which the illustrative data in this paper are extracted was conducted by the first author over the period 2004–2008. The research – described in detail in Bhanji (2009) – followed standard case study methodology (Yin, 2003), and relied on three major sources of data. The first source comprised publicly available documents related to Microsoft Corporation's history, its corporate citizenship and market-based activities, and the evolving industry and institutional environment in which the company operates. These documents included a variety of books, websites, newspapers, magazines, speeches, policy documents, research reports, and press releases.

The second source of data was participant observations. Several international conferences and meetings organized by Microsoft and other organizations were attended by the first author between 2004 and 2008. Examples include the Microsoft Innovative Teachers Worldwide Forum held in Redmond, the United States, in 2005, the Microsoft Innovative Teachers Awards event held in Johannesburg, South Africa, in 2006, and the First International Conference on IT for Development, Education and Training, held in Addis Ababa, Ethiopia, in 2006. Detailed notes were taken during all sessions, describing the context of Microsoft's work in education, and the behavior and decision-making processes of Microsoft executives and PiL staff.

The third and final source of data comprised a series of 66 interviews, also conducted by the first author between April 2006 and February 2007, primarily in North America, Jordan, and South Africa. These included interviews with Microsoft staff at their headquarter offices in Redmond, Washington, and with members of Microsoft's IAC in North America and overseas. During extended field research visits to Jordan and South Africa, interviews were also conducted with local Microsoft staff, plus representatives from government, corporations, consultants, NGOs, international organizations, and academics active in the region. All interviews were semi-structured and open ended, and each lasted between 45 min and 1.5 h, with a mean length of 1 h.

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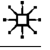

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