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PERSPECTIVE

The importance of nongovernmental organizations (NGOs) in global governance and value creation: an international business research agenda

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Abstract

The emergence of organized civil society and of nongovernmental organizations (NGOs) as organizational manifestations of broader social movements has dramatically altered the global political-economic landscape. The increasing global reach of NGOs challenges established international business (IB) research, and highlights opportunities for broadening and adapting extant paradigms in the field. In this article, we introduce the concept of NGOs and contrast them with their private-sector (firm) and public-sector (government) counterparts within the context of IB. We discuss factors giving rise to NGOs as important organizational entities that participate in global value creation and governance, and identify limits to their efficacy and viability. We identify important questions raised by incorporating NGOs into our conceptualization of global context, and we challenge three basic tenets of IB theory: the definition and dynamics of an institutional field, the relevance/centrality of a firm-government (i.e., two-sector) bargaining model, and the pre-eminence of the firm as the global organization of interest within the field. We conclude by offering suggested research directions that should serve as catalysts for this new and potentially rich area of future IB research.

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Introduction

The study and practice of international business (IB) revolve around a central concept of value creation and distribution: how organizations transact within the global context to create value through resource transformation and exchange, and how the outputs of this activity are distributed. Multinational enterprises (MNEs) – profit-seeking, private-sector organizations that create value through operations that span national boundaries – and governments, which play important roles in crafting institutional settings that govern firms, generally are considered the focal actors in IB.

Recent efforts to reconceptualize the IB field have emphasized the importance of globalization, the changing strategy of MNEs, their impact on the world economy (Buckley and Ghauri, 2004), and the factors that determine their success or failure (Peng, 2004).

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Central to each of these perspectives are the concepts of value creation and governance.

Kogut (2003) has declared *context*, a key unifying concept for IB research and theory. In this article, we propose respecifying and broadening the context for IB and related research. In this broader and, we believe, more accurate reflection of IB context, nongovernmental organizations (NGOs) – the civil society counterparts of MNEs and governments – act as a third key set of players in value creation and governance around the world. Allied disciplines ranging from sociology to economics to political science recognize the critical role played by organizations formed from civil society; we believe the time has come for the IB field to join in this research stream.

As a starting point, we provide a set of definitions and concepts relating to the concepts of civil society, social movements, and NGOs. We discuss the role and functions of NGOs in global value creation and governance *vis-à-vis* governments and firms, and we highlight ways in which NGOs are classified. We then describe the global rise of NGOs, their scope of operations, and the factors that have contributed to their emergence. We temper our conclusions about the role of NGOs in global value creation and governance by delineating important limits to their efficacy and growth.

Building on this foundation, we identify what we believe are among the most important questions raised by broadening our notion of IB context to

include non-state, non-firm actors: how global society is/can be governed, how value is created globally (and by whom), and how NGOs interact with firms and governments and their related organizations in governance and value creation. We conclude by offering an IB research agenda that questions basic tenets of three standard areas of IB inquiry: the definition and dynamics of an institutional field, the relevance/centrality of a firm–government (i.e., two-sector) bargaining model, and the pre-eminence of the MNE as the global organization of interest within the field.

Civil society: concepts, definitions, and processes

Figure 1 provides a stylized characterization of *civil society*. Civil society, which is also referred to as the ‘third sector’ or the ‘non-profit’ sector, is used to broadly describe all aspects of society that extend beyond the realm of the public sector and the private sector (Pharr, 2003). Brown *et al.* (2000, 275) define civil society as ‘an area of association and action independent of the state and the market in which citizens can organize to pursue purposes that are important to them, individually and collectively’.¹ Figure 1 provides a stylized characterization of civil society.

Civil society and collective action

Individuals have always found benefits from associating with one another in various ways –

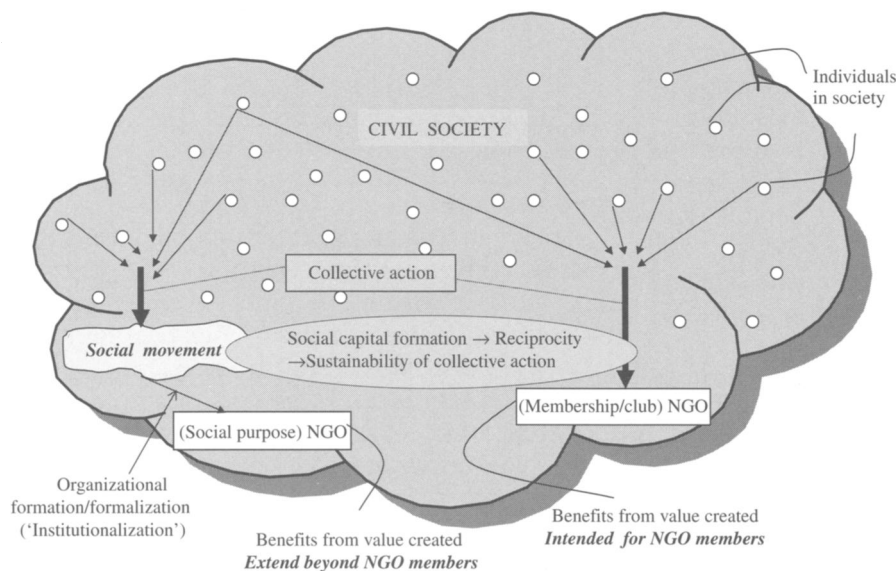


Figure 1 Civil society: relevant units of analysis, concepts, and processes.

traditionally along kinship lines (Florini, 2003) and, more recently, based on shared moral or intellectual sentiments (Seligman, 1992). Civil society association is shaped by dynamic societal forces that allow individuals broader opportunities to coalesce with like-minded others (Pharr, 2003). Unlike state-based membership inherent in citizenship, association in civil society is voluntary and is characterized by individuals coalescing around common ideas, needs, or causes to promote collective gain – that is, they take *collective action* (Olson, 1971). Individuals may choose to join a number of distinct groupings within civil society that reflect their interests and identities. Individuals thus form “‘interest groups’... to compete for control over resources and socially valued activities’ (Whitley, 1999b, 94).

Individuals who participate in collective action seek to achieve some desirable end that they could not attain by acting alone. Often they undertake to ‘shape the larger political and social reality’ facing them (Pharr, 2003), or invoke rights of public debate around common concerns (Habermas, 1989; Perez-Diaz, 1998, 213). Their efforts may arise from the marginalization or neglect of certain individuals by social and political institutions (Skocpol, 2002, 135; Worms, 2002, 185) that deny these individuals social identity and/or support (Putnam, 2002). In this way, civil society actors pursue political ends outside the traditional confines of the state apparatus (Salamon, 1994).

As in all collective action situations, however, civil society must contend with the free rider problem, whereby a given individual has little incentive to participate in efforts associated with the group’s goal if he or she can nonetheless reap the rewards of the collective action (Olson, 1971). The free rider problem is overcome within civil society, and collective action is sustained, when the bonding agent of social capital (Putnam, 2002) – based on shared values (Pharr, 2003) and trust (Fenton *et al.*, 2000) – creates incentives for long-term reciprocity among the collective actors (Axelrod, 1984; Cialdini, 1993).

Although civil societies historically have been defined at the national level (Schwartz, 2003), where group identity derives from citizenship in the nation-state (Florini, 2003; Pharr, 2003), collective action increasingly occurs across borders through transnational networks (Keck and Sikkink, 1998; Khagram *et al.*, 2002). In these cases, shared interests can be a stronger binding agent

than shared geography or common polity. As groups grow larger and more complex, however, homogeneity in their values and interests may decline, creating challenges to cohesion (Wright, 2000).

Social movements and NGOs

When the collective action of a group of individuals is sustained over time in an identifiable way and reflects an important emerging social change, it is termed a *social movement*. The civil rights movement in the United States and the global human rights movement are examples of this phenomenon. In sociology, the rise of social movements has been extensively examined in the context of national vs global movements (Minkoff, 1997; Tehranian, 1998; Ericson and Doyle, 1999), the impact and relevance for the private sector (Davis and Thompson, 1994; Grossman, 2000), and the role of social movements within institutional environments (Sjostrand, 1992). Historically, wide-ranging social movements – whether religious, cultural, or ethnic – have called on governments and businesses to respond to dispersed societal interests. Often, government and business institutions have not addressed these interests until too late, and war or violent change has forced their incorporation. In other instances, such movements were simply suppressed.

Citizens’ growing loss of trust in institutions they rely upon to protect interests of social import has fanned a need for new mechanisms to foster social capital formation that Putnam would describe as ‘outward looking’ and ‘bridging’ (Putnam, 2002, 11). Davis and McAdam (2000), Rao *et al.* (2000), and Smith *et al.* (1997) all provide evidence that social movements are becoming more organized, influential, and integrated into global political and business systems, and often are assuming new organizational forms. When the interests embodied in a social movement evolve structurally to form a free-standing presence within the broader institutional environment, the resulting entity is termed an NGO. Not all social movements spawn NGOs; in some instances, however, prevalent institutional contexts favor the formalization of movements into NGOs through rules related to fundraising, access to representation within decision-making, and enhanced social legitimacy. In these settings, formal NGO formation mitigates important obstacles to the sustenance of collective action.

NGOs arising from social movements are described in Figure 1 as 'social purpose NGOs' and include environmental groups and human rights organizations. The major players in social purpose NGOs are: individuals who contribute time or resources to the organization; NGO staff, management, and board members who direct and monitor the organization's activities; and individuals, private foundations, governments, and multilateral institutions that provide funding support (donors). Social purpose NGOs are accountable to the 'clients' they serve – the objects of the social movement that gave rise to the NGO's formation – and their ultimate success is measured by their impact on these clients and their communities (Woller and Parsons, 2002). Examples of social purpose clients include people afflicted with HIV/AIDS, ethnic minorities threatened with genocide, certain animal or plant species facing extinction, and women denied access to public services and opportunities for advancement.

Figure 1 depicts another category of NGO that can result from collective action taken by individuals within society – the membership or 'club' NGO.² Club theory within economics posits that agents form groups to confer externalities on one another (Buchanan, 1965): by joining forces, members can improve their own utility. Club NGOs share similarities with Putnam's 'inward-looking' social capital, which 'tend(s) to promote the material, social, or political interests of their own members' (Putnam, 2002, 11). Club NGOs are reflective of relationships that have been characterized as 'solidaristic individualism' (Rothstein, 2002) and 'loose connections' (Wuthnow, 2002), and are viewed as 'narrower, less bridging, and less focused on ... public-regarding purpose' (Putnam, 2002, 412). Examples of club NGOs are unions, business associations, and church groups.

Vakil (1997, 2057) suggests that 'lack of consensus on how to define and classify NGOs has inhibited progress on both the theoretical and empirical fronts in the effort to better understand and facilitate the functioning of the NGO sector.' The acronym *NGO* is not very helpful in describing the organizations it defines, in that it tells us what the organizations are not, rather than what they are. The term 'NGO' dates from 1950, when the United Nations coined the expression (Vakil, 1997, 2068). Presumably the UN, which dealt primarily with governments and wanted to consult private, non-profit organizations that were independent of governments, found it convenient to refer to them

simply as NGOs to distinguish them from governments. Today the United Nations (2003) describes an NGO as follows:

any non-profit, voluntary citizens' group which is organized on a local, national or international level. Task-oriented and driven by people with a common interest, NGOs perform a variety of services and humanitarian functions, bring citizens' concerns to Governments, monitor policies and encourage political participation at the community level. They provide analysis and expertise, serve as early warning mechanisms and help monitor and implement international agreements. Some are organized around specific issues, such as human rights, the environment or health.

In the remainder of this article, we focus on social purpose NGOs (referring to them simply as 'NGOs') and define them as follows:

NGOs are private, not-for-profit organizations that aim to serve particular societal interests by focusing advocacy and/or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights.

Having defined NGOs as the organizational manifestations of civil society interests, we now discuss the role and function of NGOs relative to their public- and private-sector counterparts (governments and firms, respectively) in value creation and governance globally. We also highlight the way their roles and activities serve to classify them.

NGO roles and functions in global political economy

An established literature spanning the disciplines of economics, political science, sociology, management, and public administration addresses the appropriate roles and functions of actors from the three sectors.³ Figure 2 illustrates the three sector actors relevant within society. Each actor type typically performs specific roles and functions,

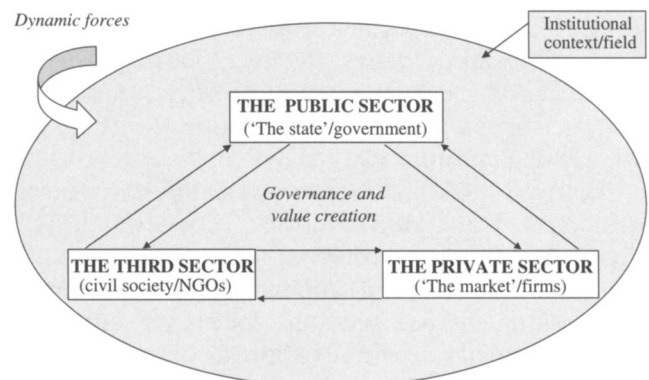


Figure 2 The public, private, and third sectors within society.

and actors from the three sectors interact with one another in creating value and governing society.

Public- and private-sector failures and the multiple roles of NGOs

The literature posits a 'pure' role for firms in providing goods and services where potential exists to earn profits, that is, in situations where publics are willing and able to pay enough for the goods and services for firms to earn adequate returns (Florini, 2003). In these situations, the benefits associated with the goods and services are both sufficiently *excludable* and *rivalrous* (Brinkerhoff *et al.*, 2003). Excludability allows producers to limit the benefits of a good or service to certain parties, and thus negates concerns about free riders enjoying goods and services without paying for their use. Rivalry among consumers for the use of a good implies that one party's use diminishes the potential for another to similarly use the good. Rivalry imputes inherent value in the goods and services, allowing producers to charge for providing these products (Brinkerhoff *et al.*, 2003).

Yet, not all goods and services that are socially necessary or desirable meet these conditions of a market (Florini, 2003). These goods are referred to as *public goods*, and states traditionally are responsible for providing them in situations where low excludability and low rivalry cause market failure (Brinkerhoff *et al.*, 2003). In some instances, however, neither the market nor the state can fulfill all needs present in society. In cases where important services, representation, and/or social cohesion are lacking, NGOs play critical roles in governance and value creation for social ends (Berger and Neuhaus, 1977).⁴ We now examine the various ways in which NGOs engage in society, and then discuss the factors that have given rise to NGO importance and influence globally and the limits on them in promoting social benefits.

As described previously, NGOs can be classified by the benefits they create: membership or club NGOs produce benefits geared toward their members, whereas social purpose NGOs promote broader social interests. Social purpose NGOs, our primary focus from here onward, are further classified according to their principal activities. *Advocacy* NGOs work on behalf of others who lack the voice or access needed to promote their own interests; *operational* NGOs provide critical goods and services to clients with unmet needs. Although some NGOs engage exclusively in either advocacy or opera-

tional efforts, many are *hybrid* NGOs, which use both advocacy and operational means to achieve social benefit (Parker, 2003).

Advocacy NGOs

Many important issues facing individuals and groups are not readily incorporated into formal governance within society. The poor, for instance, lack the resources and attendant power to effect changes that will redress their hardship (Worms, 2002). Others may be excluded from decision-making venues as a consequence of ethnic or religious differences, voting rules, or other grounds (Woods, 2003). Groups whose interests span national borders may have difficulty identifying and accessing entities that can affect their fate (Florini, 2003; Offenheiser and Holcombe, 2003), and certain issues (such as human rights) may infringe upon states' sovereignty. NGOs work to influence key decision-makers to serve otherwise dormant actors, and they attempt to transform the dominant actors' relationships with each other and with dormant actors.

NGOs may be well positioned to understand specific needs and give them an effective voice (Stromquist, 1998), especially when market mechanisms ignore these needs (Korten, 1990) and governmental regimes are deemed too repressive, too weak, or too resource-strapped to serve them (Keck and Sikkink, 1998; Meyer, 1999, 17). NGOs are seen as the 'logical purveyors of norms central to the decision-making process' in matters where conflicts emerge between market-driven economic efficiency and ethically bound social efficiency considerations (Bird and Rowlands, 2003; Reisel and Sama, 2003). The trend toward a greater role for NGOs in decision-making reflects an 'epochal power shift' (Mathews, 1997; Taylor, 2002) that discounts centralized institutions in favor of broader-based, more representative social organizations (Mathews, 1997).

NGOs advocate in various ways: by lobbying, serving as representatives and advisory experts to decision-making fora, conducting research, holding conferences, staging citizen tribunals, monitoring and exposing the actions (and inactions) of others, disseminating information to key constituencies, setting/defining agendas, developing and promoting codes of conduct, and organizing boycotts (Hudson, 2002). In these ways, NGOs give voice and provide access to institutions to promote social gain and/or mitigate negative spillovers from other sectors' actions (Wapner, 1996; Willetts, 1996;

Delmas and Terlaak, 2001; Klein *et al.*, 2001; Christmann and Taylor, 2002; Kolk and van Tulder, 2002; Doh and Guay, 2004; Vachani and Smith, 2004).

NGOs' advocacy strategies can be distinguished as 'insider' strategies aimed at influencing decision-makers directly and 'outsider' strategies intended to mobilize public opinion (Peterson, 1992). As insiders, NGOs can work within the frameworks of powerful institutions as entities granted official status (Deslauriers and Kotschwar, 2003) or as 'partners' with key decision-makers (Brinkerhoff, 2002). As outsiders, they can challenge those institutions' existence or limit their impact by, for example, appealing to the court of public opinion (Deri, 2003; Florini, 2003). Through their insider and outsider activities, NGOs incorporate themselves into established political and business systems (Keohane and Nye, 1971; Mathews, 1997) and participate in the full range of exchanges among business, society, and government.

Important work in the field of management has explored how 'advocacy organizations' influence the way businesses and governments address issues. Keim (2003) describes issue cycles and the role of NGOs in promoting interests within institutional settings. Mahon and Waddock (1992) classify issues into four 'zones' according to the position of pressure groups, public policy groups, and corporate groups with regard to their degree of rejection, indifference, or acceptance of the issues as relevant to their affairs. This model suggests a linear progression in which public and pressure groups (NGO advocacy groups) 'lead' corporations to accept and act on specific issues, and it implies that such leading activity shapes corporate policies toward the issues in question.

Despite high-profile examples to the contrary, including violent demonstrations at meetings of world fora (e.g., 'the Battle in Seattle' at the 1999 WTO meeting) (cf. Robertson, 2000; Spar and La Mure, 2003), many NGO advocacy efforts are not adversarial. Researchers have studied factors that help NGOs to have healthy, collaborative relationship with states (Clark, 1995; Fisher, 1998; Brinkerhoff, 2002). Some NGOs have leveraged their unique expertise, the trust granted them by represented publics, their non-official/non-government status, and their social purpose to help decision-makers in other sectors to recognize common ground for mutually beneficial collaboration (Brinkerhoff, 2002; Sampson, 2002; D'Cruz, 2003; Deri, 2003).

The mutual dependence of the three sectors in promoting social issues has been debated in sociology, promoted by Perez-Diaz (1998, 212–213) but opposed by Schmitter (1997), who argues for 'sectoral autonomy'. At a minimum, states set certain frameworks for NGO engagement (Skocpol, 1996, 1999; Levy, 1999; Bermeo, 2000; Pharr, 2003). Sanderson (2002) suggests that global policymaking in the area of conservation requires the active engagement of states, firms, and NGOs. Scholars in the field of environmental management suggest including NGOs in the development of sustainability strategies (Douglas and Judge, 1995; Porter and Van der Linde, 1995; Hart, 1997; Russo and Fouts, 1997; London and Hart, 2004).

Operational NGOs

Although many observers focus on the advocacy efforts of NGOs, some of the most essential value created by NGOs stems from their operational activities (Barrow and Jennings, 2001). NGOs have long stepped in to serve as critical 'safety nets' (Hodess, 2001; Bach and Stark, 2002; Henderson, 2002; Ip *et al.*, 2003), filling voids generated where markets fail (Florini, 2003), where politically challenged, indebted, or corrupt states are unable or unwilling to provide for unmet needs (Brinkerhoff and Brinkerhoff, 2002), and where global problems defy neat nation-state responsibilities (Kaul, 2001; Lindenberg, 2001b; Teegen, 2003; Vachani, 2004). Examples of such operational activities include relief efforts provided by the Red Cross/Red Crescent, natural resources monitoring by the World Wide Fund for Nature, and the distribution of medicinal drugs by Doctors Without Borders.

Many NGOs are adept at providing certain goods and services because they have gained technical expertise and experience by working in difficult settings or with underserved populations. NGOs also 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'. Given their expertise and trusted position, they are often best suited to provide high-quality services at low cost to publics with unmet needs (Leonard, 2002). In addition, their proximity to local clients affords NGOs the opportunity to expand the range and mix of offerings to diverse publics beyond standard service packages proffered by firms and governments (Brinkerhoff *et al.*, 2003).

Thanks to NGOs' comparative advantage in reaching certain publics, governments and multi-lateral institutions increasingly direct their funding through them (Meyer, 1999; Hirata, 2002). New research demonstrates that income multiplier effects in communities can generate possibilities for NGO operational activities to provide broad societal benefits extending beyond their original mission (Woller and Parsons, 2002).

NGOs can focus widely or narrowly as required by their clients and mission, allowing them to single out segments of a national population or expand beyond national borders. These options are not available as easily to government officials of a given nation, who must generally act across, yet within, their state. Similarly, NGOs may be operationally situated to reach segments of society deemed unprofitable by private firms. As such, NGOs may be able to better respond to particular needs than their public- and private-sector counterparts.

Integrated and hybrid NGOs

Although many NGOs focus primarily on advocacy or operational service delivery, many others pursue both sets of activities simultaneously, or evolve from one to the other. Changes in the context and environment in which NGOs work or a redefinition of their core mission and goals can cause such a transformation. Broadly speaking, NGOs contribute to building (or rebuilding) social capacity, and these efforts typically involve a wide range of activities: establishing codes; providing training, resource access, and know-how concerning goods and service delivery; sharing best practices; and creating and supporting institutional settings that promote social welfare (Brown and Kalegaonkar, 2002; Offenheiser and Holcombe, 2003).

An increasingly important area in which advocacy and operational efforts are integrated is the establishment of codes of conduct for firms and states (Kolk and van Tulder, 2001; Christmann and Taylor, 2002; Doh and Guay, 2004). Examples of such codes include the UN Global Compact, the Global Reporting Initiative, the CERES principles, and the ISO 14000 environmental management standards. NGOs first advocate for the establishment of codes, then leverage their technical expertise and social welfare focus to develop codes that will be deemed legitimate by their clients. They may also monitor compliance with these codes or other rules or norms that promote their interests; indeed, their monitoring capabilities can prove more effective (in terms of speed of response

and commitment to careful assessment) than those of regulatory agencies within state bureaucracies (Florini, 2003). By establishing codes and assessing compliance, NGOs help to govern the activities of public- and private-sector actors within society.

Acting as both insiders and outsiders, NGOs have changed the way governments and corporations conduct business, and have altered the bargaining relationship between these two sectors (Ghemawat and Vachani, 2002). Their emergence as new institutions filling voids where governments and/or firms have not met consumer and citizen needs speaks to their societal importance, and warrants a more comprehensive examination of their role in globalization and IB. In the next section, we highlight some important trends that have given rise to the NGO phenomenon, discuss its impact on debates over the economic effects of globalization, and identify limits to NGOs' importance and effectiveness.

The rise of NGOs in the global context

The violent protests at the WTO meetings in Seattle in 1999 and World Bank meetings in 2000, the ongoing demonstrations at World Economic Forum meetings, and the formation of the 'parallel' World Social Forum underscore the increasing importance of broad, citizen-driven social movements. Although these highly visible events reflect only a small fraction of NGO activity, non-NGOs have grown in number, scope, and stature, and are influencing the conduct of IB in a range of contexts. In 1997 the Nobel Peace Prize was awarded to the International Campaign to Ban Landmines; 2 years later it was presented to Doctors Without Borders, an NGO dedicated to providing healthcare access globally. These awards signal official recognition of the growing importance of NGOs in solving some of the world's most vexing problems.

Estimates of the number of NGOs range widely (largely because definitions vary), but all accounts point to a proliferation in recent years (Spar and La Mure, 2003). Early reports by the Organization for Economic Cooperation and Development (OECD) note an increase from 1600 to 2500 NGOs within OECD member nations from 1980 to 1990 (van Tuijl, 1999). Although many NGOs are small, local organizations, others are large, multinational entities that manage large budgets and employ thousands of people.

Several historical and political developments help to explain the increased presence and importance

of NGOs on the world stage. Early in the 20th century, a number of global human rights issues came to the fore that resulted in concerted and organized activity on the part of civil society actors working to temper individual states' power (Florini, 2003). In recent decades, a resurgence in interest in civil society corresponded with the political failures of centrally planned economies in states of the former Soviet Union and Central and Eastern Europe (Pharr, 2003; Schwartz, 2003). As NGOs emerged to provide institutional alternatives to failed state regimes, the Thatcher (UK) and Reagan (US) administrations instituted policies to shrink government influence, thereby lending legitimacy to and, indeed, establishing a preference for non-state actors (firms as well as NGOs), sparking global repercussions in matters of value creation and governance (Collier, 2002; Florini, 2003). With the emergence of democratically elected regimes outside the former Soviet Union, NGOs often are held up as *'de facto agents'* of democracy (Biekart, 1999; Collier, 2002; Kamat, 2003).

The other pervasive phenomenon to emerge in this period to challenge state sovereignty in important ways is globalization, a 'trend' that IB researchers have been accused of 'missing' (Kogut, 2003). In Figure 3, we project the three-sector model shown in Figure 2 into the global context. On one level, the global venue can be characterized as a series of individual national- or society-level contexts, that is, a series of arrangements whereby actors from the three sectors act and interact subject to dynamic local forces. However, the global context also transcends this series of local contexts: each sector enters the global venue with new levels

and types of organization, and each is subject to both local and global forces when working to create value. States, for example, are represented globally through membership in supranational associations such as the WTO and the UN, and through less formal accords such as conventions on air traffic monitoring (Etzioni, 2004). Firms also work globally, alone or in association along industry lines. Civil society actors in the global setting are international NGOs (INGOs) and other private transnational networks that may not have formal organizational status.

The acceleration of globalization is reflected in the rapid growth in trade, capital, and population flows between countries, and in the decreasing allegiance of MNEs to particular nation-states (Reich, 1991). This acceleration has been facilitated by important technological advances in transnational communications, transport, and travel that permit and/or require otherwise disconnected individuals, organizations, states, and institutions to associate, compete, engage, and interact (Bach and Stark, 2002). In this sense, man-made forces have trumped geography in defining economic, political, and social interactions (Florini, 2003).

The advance of globalization has had significant effects on society, some of them negative. Problems that historically would have been confined within national borders are today frequently becoming the world's problem (the SARS epidemic is one such example). Many states are joining together into supranational/intergovernmental organizations to seek solutions to such global concerns, resulting in an 'upwards sovereignty shift' away from states (Lipschutz, 1992).

However, the collective action problem and its corollaries, free riders and externalities, run rampant in such situations. Setting equitable membership, participation, and commitment requirements are thorny tasks. Certain states (typically large ones) frequently dominate these venues, and many important global problems are left unsolved as a result of cumbersome deliberations within global associations (Athukorala and Jayasuriya, 2003; Beckfield, 2003; Bird and Rowlands, 2003). Many global problems are simply too complex and pervasive for any one sector to handle alone (Sanderson, 2002; Vachani and Smith, 2004).

A recent volume links the globalization discussion to the emergence of NGOs, and reveals that NGOs both respond to, and are agents of, globalization (Doh and Teegen, 2003). For example, although many NGOs have voiced sharp critiques

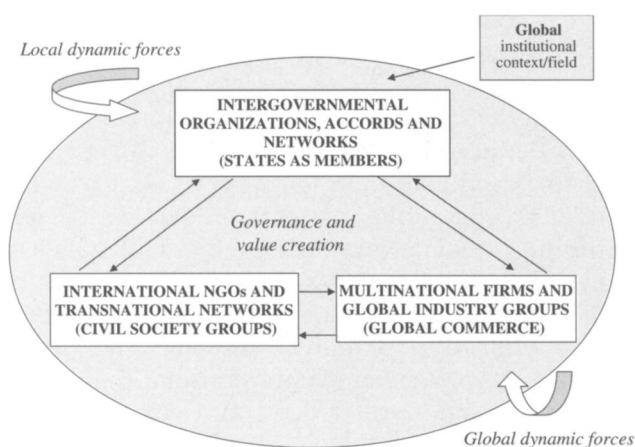


Figure 3 Public, private, and third sector actors in the global environment.

of globalization, they have not hesitated to use the tools of globalization to project their international strategies. These strategies reflect some elements of social movements of the past while borrowing the models, systems, and apparatus of contemporary international institutions and multinational corporations to operate and to further their agendas. The incorporation of the investor community into the anti-apartheid movement provides specific evidence of putting strategies from the private sector to use against the policies of a particular state (South Africa) in redressing a human rights inequity.

Another specific example of NGOs leveraging the globalization phenomenon is the World Social Forum (WSF), which has emerged as a counterweight to the World Economic Forum (WEF), the annual meeting of senior officers from governments, corporations, and international institutions. The WSF is, in many ways, more global, diverse, and democratic than its economic counterpart, and has stimulated the WEF to open its membership to non-traditional participants. A protestor's placard placed outside WEF meetings in Davos – '*The World Movement Against Globalization*' – reflects the irony of globalization for NGOs: just as they promote and are promoted by globalization, they also challenge and are challenged by the forces of globalization.

Central to the interplay of NGOs and globalization are the increasing numbers of knowledgeable and affluent individuals with time and resources to focus on promoting 'higher order' interests beyond mere subsistence (Florini, 2003). By identifying common 'higher-order' interests among individuals across the globe, NGOs can organize cosmopolitan, global segments that spurn identities defined along national lines (Levitt, 1980; Norris, 2000). This 'upward leakage' of state sovereignty to international organizations is accompanied by parallel 'downward leakages' toward more localized interests (Lipschutz, 1992). With their diverse constituencies, NGOs can be effective players across all venues and levels.

The growth in the number of NGOs and in their breadth of support is paying dividends. NGOs are known around the globe as valid and viable entities. States are liberalizing regulations permitting NGOs and even fostering their existence, and significant funds from private, public, and fee-for-service sources are entering their coffers. A global reservoir of NGO management professionals exists (Tarrow, 1998, 137), constituting an ample and

skilled labor pool to support the 'NGO industry', and enabling NGOs to beget more NGOs (Florini, 2003). Yet, important limits constrain NGOs' efficacy and viability. We now briefly review the challenges facing NGOs.

Challenges to NGO efficacy and viability

Unlike democratically elected governments, which are accountable to their citizens, and firms, which are accountable to their owners and shareholders, NGOs serve diverse principals – clients, donors, individual members, and staff – and operate in environments that provide them with relative 'immunity from transparency' (Hayden, 2002; Florini, 2003). The needs and preferences of these principals may diverge, and trade-offs among them must be managed while determining the appropriate scope and focus of NGO activities (Mathews, 1997; Fox and Brown, 1998; Brown and Moore, 2001; Brown and Kalegaonkar, 2002; Ebrahim, 2002; Kamat, 2003). These principals vary in terms of the influence they wield within NGOs and the scrutiny they can effect, sometimes resulting in NGO 'capture' by certain constituents at the expense of others (Bebbington and Riddell, 1995; Edwards and Hulme, 1996; Mathews, 1997; Edwards, 1998; Lindenberg and Dobel, 1999; Brown and Moore, 2001; Skocpol, 2002; Worms, 2002; Ganesh, 2003; Kamat, 2003).

Variations in national context also have important implications for NGOs. Certain governments restrict the range of activities open to NGOs (Hsia and White, 2002; Wiktorowicz, 2002). International NGOs, particularly those headquartered in the North, face challenges when interacting with Southern NGOs and elites owing to concerns of allegiance, sovereignty, and 'solutions' that fail to respect local conditions (Bebbington and Riddell, 1995; Edwards, 1998; Fox and Brown, 1998; Ashman, 2001; Platteau and Gaspart, 2003).

Researchers, meanwhile, have underlined the need for greater NGO accountability. Ebrahim (2003) shows empirically that most NGOs emphasize upward and external accountability to donors, whereas downward and internal accountability mechanisms remain comparatively underdeveloped and short-term; functional choices win out over longer-term, strategic actions. The difficulties associated with defining NGO effectiveness exacerbate the accountability dilemma facing these organizations (Brinkerhoff *et al.*, 2003).

The legitimacy concerns regarding NGOs operating globally stem, in part, from the ambiguity



associated with defining the collective good for society (Florini, 2003). Questions about NGOs' legitimacy also arise because the motives and actions of certain NGOs are questionable (Johns, 2003). NGOs can cause serious harm or foment high levels of conflict (Lipschutz, 1992; Carothers, 1999; Rieff, 1999; Naim, 2002), such as by spreading inaccurate information that distorts public opinion (Simmons, 1998; Florini, 2003). Some NGOs are motivated by commercialism and the availability of donor funds; some lack the capability to make a positive impact. Even otherwise successful NGOs may compromise their effectiveness if they address symptoms rather than root causes of problems, conceal their failures, or tackle issues that are too complex (Fowler and Biekart, 1996). Some researchers question the effectiveness of NGOs in addressing problems such as poverty and inequality (Slim, 1997), and others suggest that NGOs may be less effective in finding long-term solutions than in identifying short-term responses (James, 1989; Clark, 1995).

To some extent, these legitimacy and efficacy issues reflect the challenges associated with developing and maintaining social capital and attendant trust among disparate interests in large groups (Florini, 2003, 47). Cultural, language, and identity differences are among the limitations to global NGO formation and sustainability.

NGOs are notoriously resource-strapped (Brown and Kalegaonkar, 2002), and tend to discount their non-financial resources when they bargain with cash-rich actors. They compete fiercely for access to resources (Dichter, 1999), which diverts attention away from their social purposes, and may create an 'excess of civil society: too many competing interest groups with too little common space' (Florini, 2003, 39). Owing to resource scarcity, they may also lack the capabilities and organizational resilience needed to successfully implement their programs (Mathews, 1997; Brown and Kalegaonkar, 2002).

Researchers have suggested specific ways to improve NGOs' accountability, legitimacy, and performance, which appear to depend on factors such as structure, procedures, purposes, credentials, and members' charisma (Boli and Thomas, 1999). Some have examined strategies for NGOs to gain independence from donors, including diversifying funding sources, accumulating political leverage, and developing unique capabilities (James, 1989). Burbidge (1997) and Charnovitz (1997) argue that the health and effectiveness of NGOs depends on

how much freedom they enjoy from government influence, their ability to oppose state policies and hold authorities accountable, the existence of independent media, and their political freedom, leadership, expertise, size, funding, and communications technology. Fowler (1997) asserts that NGOs can enhance their effectiveness by seeking financial and political independence, developing a track record of effective performance, and acknowledging failures and trying to learn from them (Fowler, 1997).

We now highlight some important questions raised by introducing NGOs as important actors in global value creation and governance. We recommend three particular areas within IB inquiry that present valuable opportunities to apply, expand, or respecify our existing theories by considering NGOs within the global context of IB.

Implications of NGOs for IB theory: questions raised and a proposed research agenda

Incorporating NGOs as organizations representing societal interests into the cast of important global actors calls into question traditional notions of global governance and value creation that posit states at the center of governance and firms at the center of value creation (Mathews, 1997; Smith *et al.*, 1997; Simmons, 1998; Robertson, 2000). Central to our argument is that IB is inherently an integrative field (Shenkar, 2004), and therefore its boundaries must constantly be revisited in light of underlying changes in the scope and reach of its root and/or allied fields and disciplines.

The role of NGOs in value creation and global governance

A rich literature, particularly in the field of political science, addresses the role of state actors in global governance. A critical theme concerns issues that inherently cross national borders where state responsibility and state sovereignty are unclear (cf. Florini, 2003). By joining together into inter-governmental organizations, states have created global institutional bodies to tackle some of these issues (Slaughter, 1997; Barnett and Finnemore, 1999). However, the effectiveness of such inter-governmental organizations is limited, as they lack the tools that states possess and utilize to govern – namely, coercive power and the ability to tax citizens (Florini, 2003). Furthermore, their varied composition and internal hierarchies may favor particular interests over others in designing and implementing policies (Burkhalter, 2004). Even in

organizations with consensus-based approaches to governance (e.g., the WTO), resource and expertise differences among members may favor richer member states over poorer ones.

International NGOs are not subject to the same parochialism that binds state actors, or the limits facing intergovernmental organizations. As such, INGOs can more readily promote interests of *global* concern (Kamat, 2003). Since INGOs as a whole are not subject to the political pressures that individual states face, they can more effectively advocate for sustainable initiatives (Fowler, 2001). INGOs can also help to 'level the playing field' by providing resources to weaker states and by lobbying stronger states on matters of global societal importance. As discussed previously, however, INGOs can also be dominated by powerful state interests (Beckfield, 2003) or those of corporate funders (Phillips, 2002; Kamat, 2003), which can undermine the interests of society at large and/or exacerbate sovereignty challenges facing weak states (McCarthy, 1992; Sandberg, 1994).

NGOs' impact on intergovernmental organizations is seen as mixed (Nelson, 1995; Fox and Brown, 1998). For example, organizational challenges and constraints in the World Bank and United Nations appear to hinder the involvement of NGOs (especially southern NGOs) in those organizations' activities (Nelson, 1995; Otto, 1996). Conversely, in areas such as human rights (Willetts, 1996) and trade dispute settlement (Marceau and Pedersen, 1999; Athukorala and Jayasuriya, 2003; Layton and Jorge, 2003), NGOs are having a significant impact.

NGO activity also affects the involvement of MNEs in global governance and value creation. NGO efforts to develop voluntary codes of conduct such as the UN Global Compact (Ruggie, 2001) and the Forest Stewardship Council (Domask, 2003) demonstrate that NGOs impose checks on MNE activity. By representing global interests in an organized, structural form (Boli and Thomas, 1999), international NGOs serve as important social counterweights to the economic efficiency drivers behind MNE actions (Reisel and Sama, 2003; Vachani and Smith, 2004). In addition, by advocating for private firms to include social interests in their decision-making calculus, NGOs can promote social welfare alongside economic value creation (Kinder and Domini, 1997; Krumsick, 1997; Statman, 2000; Gray, 2002; Most, 2002). However, such activity can sometimes have negative repercussions: NGO activism may drive multinationals out

of some developing countries, causing a loss of jobs (Kapstein, 2001).

With respect to globalization, NGOs can both promote its benefits and mitigate its costs. On the benefits side, NGOs can improve consumer choice by tailoring goods and services to the needs of unprofitable segments (Brinkerhoff *et al.*, 2003), provide better returns to investors who respond to social welfare considerations (Schnietz and Epstein, 2003), and promote increased market efficiency by competing with firms operationally and exposing anti-competitive actions. On the costs side, NGOs can work to foster global equity in incomes and human rights and provide services for publics in highly indebted, resource-poor states, thus redressing some of the burdens on 'losers' in globalization. International NGOs also may work directly through monitoring and enforcement activities to stem the flow of 'global bads', such as trafficking in endangered species (Avant, 2003; Florini, 2003).

Thus, we see that NGOs interact in various ways with state actors and firms in global governance and value creation (Kakabadse and Burns, 1994). States and their associations give NGOs official 'space' in intergovernmental organizations, while NGOs advocate directly and indirectly with both states and firms. All actors play roles in crafting, implementing, obeying, and monitoring rules and codes, and the three sectors collaborate to add value through complementary or specialization activities. The actors within the three sectors manage their activities in ways to enhance their own legitimacy and create value for their key constituencies.

The basic questions of global governance and value creation raised by introducing NGO actors into our conceptualization of global context have important ramifications for the study and practice of IB. In our concluding section, we highlight three key areas in IB theory that warrant renewed examination in light of the emerging importance of NGOs on the world stage.

An IB research agenda that acknowledges and incorporates NGOs

IB research appears to lag behind other disciplines in considering NGOs and the broader societal interests they represent; yet the emergence of NGOs and social movements has implications for established assumptions in IB theory and investigation. Although some limited research efforts have begun to explore the role of NGOs and social movements, we see opportunities for continued

refinement of IB research to better account for the influence of NGOs on multinationals, and to explore the internationalization and global integration of NGOs themselves. Indeed, it may be that both established IB theory and the management theory from which it borrows must be respecified to account for these new actors. We focus especially on *managerial* theory because we believe it is in this area that IB scholars and research can provide the most useful contributions concerning NGOs.

Three basic tenets of IB theory are particularly relevant in light of the emergence of NGOs. The first concerns the definition, scope, and dynamism of the institutional field or context relevant to IB; the second relates to the traditional two-sector bargaining model between MNEs and (host) governments; and the third questions the basic definition of a MNE.

Institutions in IB: a co-evolutionary perspective

At the First Annual Conference on Emerging Research Frontiers in International Business, held in March 2003, *context* emerged as a predominant theme to distinguish IB as a separate domain of inquiry (Kogut, 2003; Meyer, 2004). Earlier this year, in their review of potential new frontiers in international strategy, Ricart *et al.* (2004) adopted a theoretical lens emphasizing 'institutional voids' and the ecology of firms and places to identify questions needing study by the IB community, one of which is, 'What effect do multinationals have on context?'

At a basic level, the operating context for MNEs lies within the geographic space in which they operate. This conception is consistent with Buckley and Ghauri's (2004) suggestion that globalization and the geographic expansion of firms constitute the core realm for IB research. As firms exist within societies, paying limited attention to civil society at large and to its organizational form (the NGO) inherently contradicts what leading scholars in our field argue distinguishes us within the broader field of business. We argue next that a co-evolutionary perspective provides a robust framework for incorporating NGOs and the societal forces and actors they represent into the conceptualization of context and its relevance to IB research and practice.

Institutions provide rules and norms to govern and organize interactions within a particular context (Ortiz, 2003). The business-system perspective, popularized by Whitley (1992a, b, 1994, 1999a, b), presents a framework for specifically assessing the organization of economic activities in different

countries. The business system is defined by the nature and mix of hierarchies and markets, the degree of autonomy granted by stockholders to managers, the manner in which activities are controlled and coordinated within firms, and the way the activities of different economic actors are coordinated (Whitley, 1992a, 10). Variations in business systems are explained by differences in institutional context.

In studying business systems in different countries, Whitley observed that 'business-system characteristics in different societies developed interdependently with dominant social institutions' (Whitley, 1999b, 47). The most important institutional arrangements are those that affect access to capital and labor. Whitley categorizes these into four groups: 'the state, the financial system, the skill development and control system, and dominant conventions governing trust and authority relations' (Whitley, 1999b, 47).

The business-system perspective explicitly provides for the role of a sub-segment of civil society actors, namely labor unions. Two of the institutional features discussed by Whitley are 'strength of independent trade unions' and 'strength of labor organizations based on certified expertise' (Whitley, 1999b, 48). Whitley broadens the discussion when he describes how work systems in particular are affected by 'interest groups', which he defines as 'organized collective actors representing particular social interests that compete for control over resources and socially valued activities' (Whitley, 1999b, 94).

With the increase in NGO activism in recent years, the wider role that NGOs (beyond unions and trade organizations) play as intermediaries in the co-evolution of the business system and its institutional context needs to be explicitly recognized. The global focus of many NGOs also merits examination of a global institutional field comprising unique actors and institutions that are supranational in nature, along the lines of examinations of global innovation systems (cf. Spencer, 2003).

Co-evolutionary theory is considered a useful lens through which to understand and analyze the dynamic fit between organizations and their environment. The co-evolution school integrates different perspectives within organization science that span managerial intentionality on the one side (adaptation) and environmental determinism (selection) on the other (Lewin and Volberda, 1999). We view the emergence of NGOs as both a selection by, and an adaptation to, evolving

business and political systems. NGOs have, in turn, stimulated further evolution in their institutional environment, causing particular institutions to be more reactive and responsive to social concerns (Witt and Lewin, 2004). In effect, international NGOs both create and institutionalize new norms in society (Keck and Sikkink, 1998; Lawrence *et al.*, 2002; Hardy *et al.*, 2003). We argue that IB researchers would do well to explicitly model the important institutional roles that NGOs play within various national contexts as well as within the supranational, global context.

Moving from a two-sector to a three-sector (or a different two-sector) bargaining model in IB

NGOs have the potential to dramatically alter traditional conceptions of the role of MNEs in the global economy and their relations with other players. This is especially true for the bargaining relationship between MNEs and host governments, which historically has been conceived as primarily bilateral in nature (Kobrin, 1987; Vernon, 1971; Vachani, 1995). Ramamurti (2001) has argued that the traditional MNE–host government bargaining model needs to be revisited in light of the emergence of broad international agreements and organizations constraining host government opportunism. Shenkar (2004) questions the primacy of governments as rule makers, urging IB researchers to broaden their conceptualization of the political sphere to incorporate the various groups with which MNEs contend in their foreign investment activities. The activism shown by NGOs regarding MNE entry, operating practices and outcomes, and the important role they play within global institutional systems, call for including these actors as key elements of the relevant political context.

In addition, management researchers exploring stakeholder theory as an alternative to traditional dominant shareholder conceptions of the modern corporation have long argued that labor unions, civic organizations, and other associations are legitimate stakeholders that warrant managerial attention (Freeman, 1984). Indeed, Freeman argued that business relationships should include all those who may ‘affect or be affected by’ a corporation (Freeman and Reed, 1983; Freeman, 1984). Much research in stakeholder theory has sought to address the question of which stakeholders deserve management attention. Mitchell *et al.* (1997) proposed a theory of stakeholder identification and salience based on managerial assessments of

stakeholders’ possession of one or more of three relationship attributes: power, legitimacy, and urgency.

Doh and Teegen (2002) integrated stakeholder theory with institutional theory to support revision of the traditional bilateral business–government bargaining model to include non-state, non-firm actors, using the circumstance of infrastructure privatization and the stakeholder framework described by Mitchell *et al.* (1997) to isolate conditions under which NGOs should be included in negotiations over the terms of investment projects. Their model may be relevant to the range of situations in which governments, firms, and NGOs negotiate the terms of economic and political interactions, suggesting that the bilateral bargaining exchange as historically conceived by IB researchers is giving way to a trilateral framework.

In addition to adding NGOs to our traditional bilateral framework, we argue that NGOs present multinationals with opportunities to shape socially responsive non-market strategies without any explicit intermediary role of government (Ghemawat and Vachani, 2002). Meaningful *collaborations* among business and NGOs, with or without the active input of government, have emerged as major new organizational forms and vehicles to deliver social services such as poverty relief and environmental protection. Firms that successfully solicit the input and guidance of NGOs can avoid negative reprisals and leverage the experience and expertise of these potentially valuable partners (Brinkerhoff, 2002; Christmann and Taylor, 2002; Yaziji, 2004). Despite different organizational goals, styles, missions, and cultures, NGOs and MNEs can effectively collaborate for joint benefit (Lindenberg, 2001a, 614; Brinkerhoff, 2002). Thus, an examination of a new and little-studied bilateral bargaining model is called for: bargaining over exchange, confrontation, and collaboration between MNEs and NGOs.

An obvious area where NGO expertise can be of use to MNEs is corporate social responsibility. The field of social issues in management (SIM) has explored the impact of corporate social performance and responsibility on firm financial performance, including the use of social audits by firms as signaling mechanisms (see Orlitzky *et al.*, 2003, for a review of this research). A related area under study by marketing scholars is the growth of ‘cause-related marketing’, a strategy designed to promote marketing objectives through a company’s support

of social causes (Varadarajan and Menon, 1988; Brown and Dacin, 1997; Barone *et al.*, 2000). The marketing literature also contains work alluding to negative repercussions for firms viewed as non-responsive to social needs, as in the case of consumer boycotts orchestrated by NGOs to protest firm policies or actions (Klein *et al.*, 2001; John, 2003). Recent research examines how multinationals' reluctance to embrace 'socially responsible pricing' may stem from barriers that could be reduced by coordinated actions of multiple stakeholders, including NGOs (Vachani and Smith, 2004).

Social network theory recently has addressed the various ways in which NGOs interact and collaborate with MNEs in an attempt to specify the dynamic and reflexive exchanges among these actors (cf. Doh *et al.*, 2003). At a fundamental level, explorations of collaboration between NGOs and MNEs can be informed by lenses commonly used to examine partnering and alliances among firms – transaction cost economics and learning perspectives. Cross-sectoral collaborations would appear to be fraught with high transaction costs, owing to the primary goal differences between firms and NGOs. Their unique experiences and expertise may serve, however, to overcome important transacting challenges such as information asymmetry; in addition, by increasing the pool of potential collaborators, cross-sectoral collaboration may serve to overcome small-numbers bargaining situations. NGOs are adept at leveraging social capital to promote long-term reciprocity (Florini, 2003), which could favor collaborative norms in these cross-sector alliances that reduce shirking and other opportunistic acts. As these potential partners represent diverse perspectives and experiences, opportunities for learning abound.

Further work in IB must delve deeper into the expansion of firm–government bargaining to better specify and test this new three-sector bargaining model. It must also focus on the new and evolving firm–NGO interactions beyond those involving the state. This research has important implications for MNE organization, partner compatibility and desirability, and performance (resulting both from engaging in and from avoiding interactions with NGOs).

NGOs as MNEs

The MNE has long been the focal organization of the IB field. Shenkar (2004) provides a compact summary of work in the field that virtually equates

IB with the MNE. The MNEs studied, however, are almost exclusively private, profit-seeking firms. This focus flows logically from the equation of *profit-seeking* with *business*. At its core, *business* is about *value creation and distribution* – providing and disseminating valuable goods and services to consumers, firms, and government buyers. Profits can be viewed as one outcome of successful value creation.

Yet, we have argued here that NGOs, which are *also* private (i.e., non-state) actors, *also* create value – both social and economic. Moreover, they influence the distribution of value created by actors in other sectors. Their operational activities are increasingly performed on a fee-for-services basis that occasionally yields a surplus over expenses. Their advocacy efforts are reshaping the core mission and strategies of international, national, and local governments and of MNEs. Furthermore, many NGOs are MNEs in their own right, managing significant resources and complex organizations across national boundaries.

We therefore propose an extension of Peng's proposition that the core question in IB is 'What determines the international success and failure of firms?' (Peng, 2004, 106). As NGOs have been shown to play important roles within the global context, and perform many of the functions of firms in terms of value creation within society, we suggest they are legitimate global enterprises and therefore relevant subjects for IB research. In this regard, we also agree with the call to revive comparative IB research (Shenkar, 2004). One important point of comparison is between the international success of profit-seeking and non-profit organizations. Such a comparison provides important opportunities to test the limits and applicability of theories that concern multinational firms.

Recognizing NGOs as influential actors that affect MNE performance in myriad direct and indirect ways forces us to revisit core assumptions about what determines the success of private firms, such as those included in Dunning's Eclectic Paradigm, which integrates ownership, location, and internalization factors (OLI) (Dunning, 1988). International NGOs may similarly leverage OLI advantages to engage successfully in global settings. They have very different kinds of resources than MNEs, but the resource-based view is sufficiently robust to examine and evaluate the range of resources that provide international NGOs with fonts of power and the ability to exchange to create value, just as it has

been used to understand how firms leverage domestic resources for international advantage (Peng, 2001). Indeed, the criteria under which resources are deemed valuable – scarcity, immobility, and inimitability (Barney, 1991) – may be especially present in cases where NGOs are purposefully seeking to fill voids generated by inattention from governments or business.

NGOs might internationalize in stages (cf. Lindenberg and Bryant, 2001), and follow a life cycle (Vernon, 1966) whereby early internationalizing NGOs may hail from countries in the Northern Hemisphere, followed by their counterparts in the South. International NGOs' modes of entry into foreign markets may be predicted by experience and cultural similarity, as we have seen for their MNE counterparts (Fox and Brown, 1998; Ashman, 2001). Questions concerning MNEs' activities (e.g., related *vs* unrelated diversification) and global strategies (integration *vs* responsiveness) have clear relevance for international NGOs (cf. Vachani, 1991; Edwards, 1998; Salm, 1999; Backman *et al.*, 2000). Ultimately, MNE performance is judged by profitability; different performance metrics will have to be devised for international NGOs (Brinkerhoff *et al.*, 2003). Even issues such as human resource management and organizational behavior in culturally diverse settings are germane to international NGOs (Hailey and Smillie, 2001; Lewis, 2002).

It is difficult for us to conceive of an IB theory regarding MNEs that *a priori* would be deemed irrelevant to international NGOs as value-creating MNEs. At the least, by applying theories used in examining MNE purpose, structure, strategy, and management to international NGOs, we may discover that some are not useful in informing international value creation of all *organizations*. The consolation from such a finding will be further respecification to more accurately explain and differentiate the actions and success of profit-seeking and non-profit organizations that create value globally.

Conclusions

In this article, we have suggested that IB researchers must respond more forcefully and effectively to the challenges posed by the emergence of social movements and NGOs, particularly in an era characterized by increasing integration and globalization. Just as Dunning suggested a reappraisal of the OLI framework in an era increasingly characterized by 'alliance capitalism' (Dunning, 1995), we argue that

many mainstream IB theories, such as institutional perspectives on MNEs, the MNE–host government bargaining framework, and single-sector alliance theories, must be adapted and adjusted to better account for these new phenomena and increasingly important new actors. NGOs are having substantial impacts on governments – both 'host' and 'home' – and on MNEs in local, national, and global contexts. The global political–economic context is also influencing NGOs, creating a dynamic co-evolutionary phenomenon.

In addition, NGOs and their output – the ideas and desires of large groups of citizens, as well as the services that operational NGOs deliver – also demand research attention. NGOs *themselves* are increasingly multinational (Kobrin, 2001; Lindenberg and Bryant, 2001): hence they are subject to many of the same pressures and influences as MNEs, such as globalization, economic integration, technological advancement, and pressure for increasing returns.⁵ Therefore, IB researchers should be prepared to study the internationalization of NGOs and examine the international and global strategies, organizing frameworks, international market entry options, and alliance structures of these emerging organizational forms.

In conclusion, we recognize the emerging role of NGOs in advancing broad social issues of major concern around the world and providing critical goods and services. Attention to the social and moral ramifications of MNEs operating globally has been identified normatively as a key concern for IB researchers (Keohane, 2003; Kogut, 2003; Meyer, 2004; Ricart *et al.*, 2004). NGOs' many and varied interactions with multinational corporations and national governments, and their presence as complex and active multinational organizations in their own right, represent areas ripe for exploration by IB researchers. We hope that these and other themes will be part of an active, creative, exciting, and rigorous future IB research agenda.

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Notes

¹The United Nations Development Programme (UNDP) defines civil society as 'a voluntary sector



made up of freely and formally associating individuals pursuing non-profit purposes in social movements, religious bodies, women and youth groups, indigenous peoples' organizations, professional associations, unions, and so on.' <http://www.undp.org/cso/about/faq.html>

²We are grateful to Lorraine Eden, who directed us to consider NGOs as clubs in her discussant comments in the 'Rise of the Third Force' panel at the AIB annual meetings in Monterey, California in July 2003.

³These include Tiebout (1956), Musgrave (1969), Ostrom and Ostrom (1977), Ostrom (1990), Weimar and Vining (1992), Romer (1993a, b), Ferlie et al. (1996), Kaul (2001), Brinkerhoff and Brinkerhoff (2002), Ramia (2003), Brinkerhoff et al. (2003), and Teegen (2003).

⁴It is important to note here that states willingly cede some control over societies and economies – most notably in the case of economic liberalization and privatization, where market incentives are deemed sufficient to engage private sector actors in efficient resource allocation and value creation that supports overall social welfare. Declining state roles do not necessarily relate to NGO dominance in a particular area (Stromquist, 1998). Likewise, there are limits to the potential reach of NGOs in displacing state or firm actors (Lipschutz, 1992; Arnove and Christina, 1998). Such limits will be discussed in a later section.

⁵There are many services that rate and assess the economic efficiency of charitable organizations, including Philanthropic Research Inc., Guidestar, American Institute of Philanthropy (www.charity-watch.org), and *Worth Magazine*.

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