NGOs: The Dual "Voice" and Institutional Knowledge Transfer

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Abstract: Non-governmental organizations (NGOs), which are informal communities of participation, have become a promising avenue for research on international management and economic development (Buckley, 2002). We propose that NGOs, through their local knowledge and participation, have the potential to link foreign institutions to their local counterparts. We also introduce the emerging role of NGOs as major actors in the global business environment with their dual voices: a voice at an economic level and a voice at a more social or institutional level. Prior research in international management and international political economy has focused on the bargaining relationship between NGOs, MNCs, and governments. The present paper examines the bridging role of NGOs in institutional knowledge transfer and their "dual voice."

Keywords: NGO, dual voice, informality, social bond, subnetwork

Introduction

The present paper examines non-governmental organizations (NGO) by following the approach outlined in Hirschman's seminal work, *Exit, Voice and Loyalty*. Hirschman (1970) suggested that members of an organization, whether a business, a nation or any other form of human grouping, have essentially two possible responses when they perceive that the organization is demonstrating a decrease in quality or benefit to the member: they can exit (withdraw from the relationship); or, they can voice (attempt to repair or improve the relationship through communication of the complaint, grievance or proposal for change). We believe that globalization and the development of the Internet and communication technologies have transformed NGOs into a global "voice" in today's highly international business environment. Buckley (1999) provided an initial analysis showing how Hirschman's seminal work could be applied to entrepreneurship, international business, and knowledge management research. In the present paper, we provide the conceptual integration and synthesis of NGOs by reflecting on the foundations of Hirschman's concept of "voice" (1970) in the business systems (Whitley, 1992a, 1992b) perspective.

The concept of "informality" is crucial to our analysis and to the determination of how certain business systems can be more informal than others. North (1986, 1994) and Langlois (1992, 2003) provided crucial distinctions between institutions and organizations and showed how they could determine the success of a business system. Our analysis distinguishes between informal and formal business systems. This informality in turn provides the institutional foundations for the emergence of NGOs as a global voice in today's international business environment. The importance of informality drives our conceptual framework. NGOs have a dual role in international business: the market and institutional identity roles. This duality best represents the public and private roles of NGOs in the international business environment.

NGOs and Institutional Knowledge Transfer

In this paper, we develop a conceptual framework for understanding how institutional knowledge practices are transferred among countries or national business systems. Rather than focusing on the well-researched transfer of technologies or product innovations (Grant & Spender, 1996; Kogut & Singh, 1989; Kogut & Zander, 1993), we focus on institutional knowledge for strategy and how fundamental it is for the economic and business success of a national business system. We present three key drivers of institutional knowledge transfer in today's international business environment, such as NGOs (non governmental organization), MNCs (multinational corporation) and government. First, we analyze the critical role of NGOs (Buckley, 2002), particularly their complementary role with respect to MNCs and governments in international business. The emergence of NGOs and the important role they play in global governance confirm Ostrom's (1999, 2000) analysis suggesting the importance of the public and private sectors' involvement in global governance (Ostrom, 2000; McGinnis, 1999).

The Economist estimates that the number of international non-governmental organizations rose from 6,000 in 1990 to 26,000 in 1996. Many of NGO budgets have reached millions of U.S. dollars, almost all of which comes from private donors. These organizations have effectively networked and mobilized their members to reshape world politics. This point was graphically illustrated by the significant NGO presence at the 1992 Earth Summit in Rio, where 17,000 NGO representatives staged an alternative forum to the UN-sponsored meeting, while 1,400 were involved in the official proceedings.

The growth of NGOs has, in large part, been fueled by the perceived inability of both domestic and international institutions to respond to the social, economic, and political consequences of rapid advances in science and technology, growing economic interdependence, and political fragmentation. In addition, a growing number of transnational threats (pandemics, global warming, and the proliferation of WMDs) that require a coordinated response have created a need for new partners and approaches to solving global issues. We focus on NGOs role with their private sector (firm) and public sector (government or state) within the international business.

The economics of globalization and the importance of the non-market environment and social issues have resulted in a convergence of relationships among NGOs, states, and MNCs (Prakash, 2002; O'Riain, 2000). The worsening economic reality has resulted in cutbacks in NGO funding (Ottaway, 2001). In this sense, their only potential survival strategy is the blurring of their public and private roles in the international business environment and the creation of new types of strategic alliances and collaborations with MNCs and other sectors of society. Literally, NGOs have to enter the global membership of MNCs. However, based solely on economic or market criteria, MNCs do not have sufficient criteria for entering into such global partnerships with NGOs. However, the possibility of such partnerships can be enhanced if MNCs can take into account the non-market advantages of partnering with NGOs, such as the social capital and institutional linkages of NGOs.

MNCs have started to engage such partnerships, such as Ford Motor Company in South Africa to proactively address HIV/AIDS and Bank of America's partnership with Natural Step, a Swedish environmental organization (Bartunek, Bies, Fort & Zald, 2003). The present paper provides a conceptual and analytical framework that justifies the increased number of such partnerships between MNCs and NGOs across the global business environment. Buckley (2002), in a recent review of international business research, identified the past three stages of international business topics. He identified the topic of NGOs as a potentially fruitful area of future international business research. In the present paper, we analyze NGOs in terms of their potential partnership with MNCs and governments and examine why such partnerships may accelerate in future. We propose that future research on comparative business systems (Whitley, 1992a, 1992b; Lazonick & O'Sullivan, 2000; North, 1986, 1994; Nelson, 2002) should to take into account the role of NGOs in the international business environment. NGOs have a dual identity in the global business environment: a role in the private sector and markets and that in the public sector and institutions.

Formal Versus Informal Institution in Business System

Current research in social sciences on economic growth and developing economies shows a growing consensus on the fundamental role institutions play in the success of economic development (Rodrik, 2003; Acemoglu et al., 2001). International business research has shown that MNCs accelerate the transfer of institutions among countries. Rugman's (2000) seminal thesis proposes that MNCs are focused primarily on the developed triad economies, not on developing economies. This raises an important question: what factors facilitate the transfer of institutions?

North (1990) made an important distinction between organizations and institutions within a business system. Formal institutions are close to laws and legal systems, whereas informal institutions are close to social norms and conventions (North 1986, 1994). Despite the importance of legal systems, recent research on comparative business systems in international business (Foss, 1999; Casson & Lundan, 1999; Chui, 2002; Andreff, 2002) has not analyzed the effects of different legal systems on national business systems. The legal systems in most of the world's developed economies are based on one of two systems: common law, which is prevalent in Anglo-Saxon countries such as the U.S., the U.K., Canada, Australia and many of the former British colonies, and civil law, which is prevalent in continental Europe, South America, and most of Asia. A major difference between these two major legal systems is that common law depends heavily on courts for decision-making, whereas civil law tends to depend more on the legislature and the role of the state. Or, according to Dawson (1968), civil law exists in the world of scholars, whereas common law in the world of judges. Research summarizing the differences between the two systems include: Mattei (1994a, 1994b), Ajani (1995), Ewald (1995), Schlesinger (1995), and Posner (1996), among others.

Globalization has accelerated the integration of these two major legal systems (common law and civil law). The phenomena of legal "transplants" and the adaptation of ideas and frameworks from one system by another have been increasing. Much of the research focusing on Anglo-Saxon countries, which follow the common law tradition, has tended to analyze the borrowing and transplanting of laws and formal institutions for economic and market efficiency reasons (Borocz, 2000; Andreff, 2002; Mattei, 1994a; Agostini, 1988). However, recent research has shown that the borrowing of frameworks from one system by another is driven as much by social, historical, and political reasons as it is by economic ones (Borocz, 2000; Mattei 1994c). Earlier this century, civil law ideas from continental Europe were exported to common law Anglo-Saxon countries such as the U.K. and the U.S., and in more recent years, the export of common law ideas and frameworks has been on the rise, particularly to emerging regions such as Eastern Europe (Mattei 1994c; Olson, 1982, 1992).

In terms of formal institutions (e.g., the two types of laws) and informal institutions (e.g., norms and conventions) (North 1990), there has been a general belief that the modernization of societies would lead to a greater use of formal institutions (Posner, 1996). This is certainly true in Anglo-Saxon countries, which have been increasingly linking laws to economic efficiency, as evidenced by the tremendous growth in the disciplines of law and economics in these countries; however, these disciplines have not experienced similar growth in civil law countries in continental Europe and Japan (Mattei, 1994a; Olson, 1965, 1982, 1992; Ostrom, 1990; Etzioni, 1988). The increasing influence of economic and market efficiency and the role of corporations has increased the need for formal institutions such as laws, particularly those determined by courts and judges, not those by scholars or the state, suggesting the apparent superiority of common law over civil law. Table 1 compares the two formal legal institutions and the informal institution (norms).

Table 1. ***Typology of Institutions in Business Systems***

Institutions	**Main characteristics**
Courts (market)	Common law system prevalent in Anglo-Saxon countries such as the United States, United Kingdom, Australia, Canada. These court systems rely heavily on "market" reasoning and economic efficiency logic, which is why the disciplines of law and economics is thriving in these countries. This institution is seen as superior to the other two.
Legislature (state)	The government is much more involved in civil law countries. Here, the state and legislature as well as academic scholars have a great influence on the institutions. Civil law countries include all of the world, except the Anglo-Saxon countries and former British colonies. The linkage between law and economic or market efficiency is much weaker in this system.
Norms (communities)	These informal institutions are based on the conventions, norms, and customs of a particular community or society. Trust, and personal relations, kinship relations are crucial in these systems. In most countries, norms, which are informal institutions, are combined with the formal institutions of either courts, common law or the legislature and state, civil law.

Informality in Business Systems

Recent comparative research on business systems (Foss, 1999; Danis, 2002; Andreff, 2002; Choi, et al., 1999; O'Sullivan, 2000; Putnam, 1996; Chui, 2002) has taken into account the importance of the national institutional context in various aspects of national business systems, particularly in innovation and technology areas. Such studies have advanced the traditional continental European social science-based research on institutions (Crozier, 1964; Levi-Strauss, 1964). However, such studies have tended to consider countries independently or together in terms of their income, GNP, or other criteria (e.g., considering developed economies as a group). The "informality" factor in a business system is a crucial element in the emergence of NGOs.

We follow the idea that international business research should differentiate between shareholder and stakeholder business systems (Albert, 1991; Freeman, 1984; Andreff, 2002; O'Sullivan, 2000; Chui, 2002). The growing academic debate about shareholder research has focused comparative corporate governance research. Recent studies (Pedersen & Thomsen, 1999; Lazonick & O'Sullivan, 2000; Roe, 1994) have compared the legalistic, stock market-driven approaches of Anglo-Saxon countries (e.g., the U.S. and the U.K.) with the more informal cross-share holding system in Japan and Germany. Legal contracts with ultimate redress to courts are fundamental to the effective operation of the Anglo-Saxon business culture (Roe, 1994; Barzel, 1997). By contrast, in countries such as Japan and Germany and in most of continental Europe, major banks and insurance companies act as external shareholders by holding major shares in firms, exercising governance and control over internal management through a more informal relationship-based exchange.

As discussed by Simon (1991), the shareholder-based system of free-market exchange assumes that the exchange occurs with very little information on the exchange partner, indicating a "formality" of relations as well as the possibility of legal actions (Roe, 1994; O'Riain, 2000; Andreff, 2002). In reality, exchange needs to take into account such identification and shared values. Thus, stakeholder systems (Albert 1991; Freeman 1984; Donaldson & Preston, 1995) have a far greater overlap in organizations and institutions, particularly in organizations such as banks and governments. Exchange across organizations (banks and governments) is similar to the close exchange of inter departments within an organization reflecting a shareholder-based and market-driven business system (North 1994; Simon, 1991; Olson, 1992; Chui, 2002). The acceptance of this diversity in relations among organizations and institutions (North, 1994; Simon, 1991) and between shareholders and stakeholders has recently been analyzed closely (Foss, 1999; Casson & Lundan, 1999).

Social Conventions and Customs

The economic or market factor makes informal institutions such as norms, conventions, customs seem even more inferior. Norms are informal rules that govern collective behavior and are determined collectively and enforced non-legally. Norms may be fuzzy, historical, and difficult to enforce; they may also be ineffective in a rapidly changing environment, particularly when the change is based on technology development. By contrast, the importance of converging on a particular norm, which would allow for the effective coordination and exchange, originates from Schelling's (1960) idea of "focal points." Schelling defined focal points as the areas of salience that different actors can converge and agree upon to make mutually beneficial decisions (Young 1996; Sugden, 1989; Kolm, 1984; Langlois, 1992).

In terms of developing countries, which have been undergoing rapid economic change, Ostrom (1990) demonstrated that the continuation of informal institutions such as norms and conventions are crucial to the foundations of social capital and other coordination mechanisms. Olson (1992) made similar points regarding the transition in Eastern European countries. He stated that the transitional status of the economies in question made difficult the determination of which new formal institutions such as laws and which existing informal institutions such as norms can be effectively combined for national economic and business success.

More recently, Ellickson (1991) demonstrated that effective cooperation was achieved between farmers and ranchers in the U.S. through normative contracts, not through legal contracts and enforcement. To address these imperfections, better alternatives to legal enforcement have been identified.

One is the social alternative, which uses behavioral norms backed by social sanctions as an enforcing mechanism (Hayek, 1945). This alternative even provides socially backed insurance if the effort fails. This limits the opportunistic defection on agreements and contracts. In closed societies such as primitive villages, there can be severe punishment and sanctions for not following social norms or not following through on commitments made to others. In extreme cases, the village may accept the liabilities of an outlier to preserve its standing with the external world.

Conventions develop in socio-economic systems. These are social interpretations, norms, rules, and legitimization processes that constrain action and create typical behavior patterns. In fact, "it would scarcely be an exaggeration to say that almost all economic and social institutions are governed to some extent by convention" (Young, 1998, p.105). In this context, conventions do not work as teleological mechanisms but as co-evolving mechanisms that create order out of the uncertainty and randomness of socio-economic system behavior. How do conventions arise? A typical setting in which conventions become crucial is a situation in which two cars approach each other from opposite directions in a two-way road and there is no law specifying which side each should take. In game theory terminology, this is a game with more than one Nash equilibrium, and there is nothing intrinsic to the game itself that would allow rational actors to deduce what side they should take (Schelling, 1960; Sugden, 1989). This is where conventions come into play. A convention is defined as an established pattern of behavior "that is … expected and self-enforcing," or using systems terminology, a convention is "an equilibrium that everyone expects in interactions that have more than one equilibrium" (Young, 1996, p.105).

Following Young (1996), conventions are distinguished between ”formal“ and ”informal.” Formal conventions are defined as being designed and dictated from the top. Expanding on Young's argument, we suppose that there are two ways in which formal conventions become internalized by the public pressure: *sheer enforcement and positive predisposition*. People follow formal conventions because of the enormous power that the notion of authority has over the human mind (Simon, 1991). Sheer authoritative power can internalize convention, as demonstrated by the case of the French Academy of Arts in Renaissance: As soon as a painter was accepted into the ranks of the Academy and the painter's work was accepted at the co-called Salons exhibitions, the artist was immediately recognized as excellent, and only then the painter could have a successful career and reap rewards in terms of resources. In this case, there was no need for the people involved to have certain shared values or experience; they only needed to accept the central authority imposing the convention and the social practices that followed from the central authority's decisions.

As discussed above, the identification of certain socio-economic system outcomes can be deterministic (formal conventions through sheer enforcement), semi-emergent (formal conventions through positive predisposition), or purely emergent (informal conventions). However, in the age of the Internet, informal conventions are increasingly dominating formal ones because of the increasingly pluralistic nature of society. For instance, in the 19th century, the Impressionists managed to substitute the institutional role (the central authority creating conventions by decree) that the Academy used to enjoy in French arts with a more pluralist institutional environment made up of a network of art critics, museums, and dealers. This example demonstrates that with time, societies move to more pluralistic states.

NGOs & Sub-Group Networks: Institutional Linkages

The earlier sections analyzed the role of institutional knowledge exchange and property rights in using knowledge as a resource. Societies with strong collective ideologies and cultures tend to place greater emphasis on informal rules and norms than on formal, or explicit rules (Ostrom, 2000; Sugden, 1982; Schelling, 1960; Olson, 1965, 1982; Westney, 1999). However, a number of previous studies of collective ownership and interests have demonstrated that groups or communities driven by social bonds and reciprocity based exchange can be limited in size (Ostrom, 1990, 2000; Hardin, 1982; Olson, 1965). Thus, an economy, to use knowledge as a resource, may need to have an overall central combination of formal and informal rules and have individual groups in its society that have their own unique norms. Thus, subnetworks of limited size within the economy should allow for the existence of social bonds and reciprocal exchange mechanisms. Actors in such subgroups or subnetworks are linked indirectly to all other actors in the network system. This in turn develops a collective value system and social bonding toward the total network system (Levi-Strauss, 1969), not just toward the subnetworks. NGOs provide the grassroots and institutional linkages through subnetwork linkages.

> **PROPOSITION 1:** *The success of subgroups or subnetworks creating and exchanging knowledge requires social bonding and collective action at grassroots levels. NGOs provide such institutional linkages in today's global business environment.*

International business today is increasingly about collective ownership among MNCs, states, and NGOs (Prakash, 2002; O'Riain, 2000). Such global collective ownership requires the cooperation between actors in either formal or informal settings in which the actions of the actors are interdependent (Ostrom, 2000; Olson, 1965; Hardin, 1982). Any type of global strategic network, if it is to remain successful over time, faces the complex issues of collective ownership and social bonding (Ostrom, 1990). This is particularly the case when the members of the network have heterogeneous backgrounds and value systems. In today's global business environment, successful strategic networks require actors from different countries, regions, and professional backgrounds and incorporate such heterogeneity or diversity into the network. The traditional definition of markets in neo-classical economics assumes that an individual actor's rationality can lead to a collective rational outcome through the forces of the famous "invisible hand." However, research in other social sciences such as law, economics, social anthropology, and political science has demonstrated that such collective outcomes of groups or strategic networks are not assured. This is particularly the case when the size of any group, network, or community is large (Ostrom, 1990, 2000; Olson, 1965; Hardin, 1982). Thus, a successful strategic network may literally be a holding company for subnetworks that in turn have their own social bonding, reciprocity, and norms.

For a global strategic network to be successful, it requires collective interest and sharing among the network members, and at the same time, it requires mechanisms to "exclude" non-members from the benefits and knowledge of the strategic network (Hardin, 1982). This is similar to the concept of club goods in law and economics, in which members of a strategic network pay a type of club fee for membership and collectively share the benefits while excluding non-members from free riding (Olson, 1965; Ostrom, 1990, 2000) on the resources and assets of the strategic network. This difficulty can be reduced if the actors in the strategic network are from diverse, heterogeneous backgrounds and value systems. The definition of strategic networks developed in the present paper requires the existence of subnetworks with their own norms and aspects of social bonding. Figure 1 shows the crucial linkage NGOs provide between institutions and the global business environment.

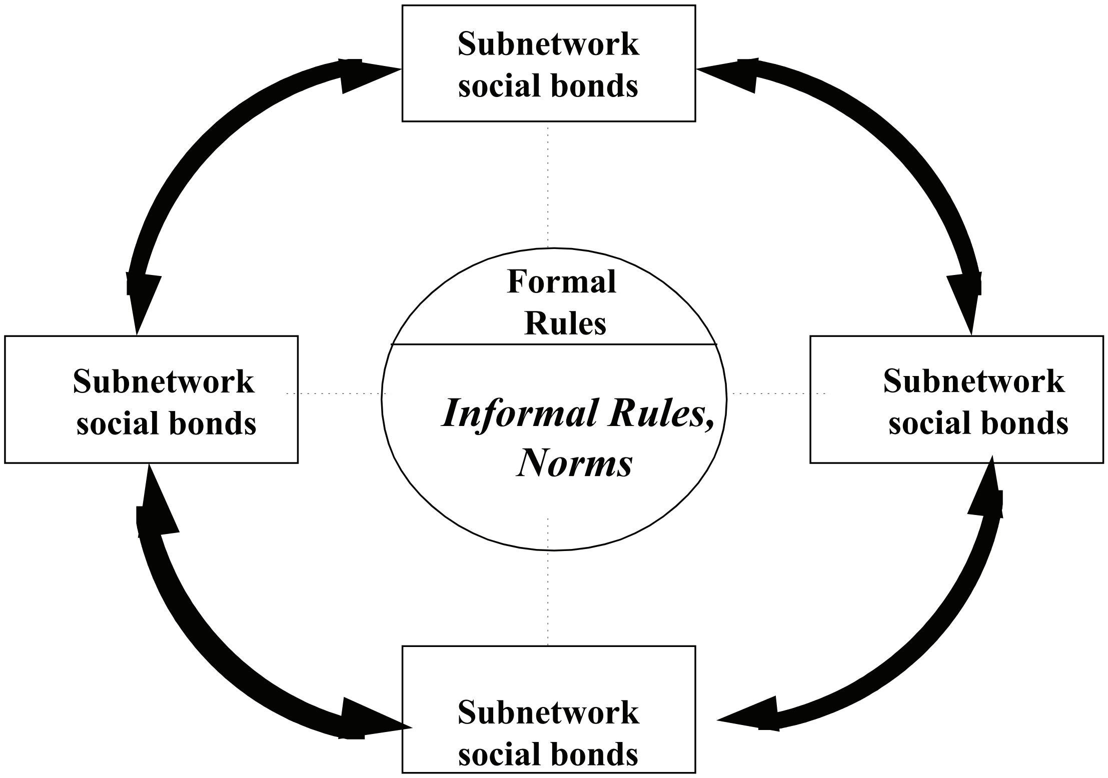

Figure 1. NGOs and Grassroots Subnetworks - Institutional linkages

NGOs and the Dual Voice" Market and Institutional Value

Researchers in international relations and international political economy, such as Keohane (1988) and Putnam (1988), have analyzed the importance of two-level games in terms of following a dual and integrated approach on domestic and international interactions, institutions, and values in international negotiations and cooperation. Putnam's (1988) and Keohane's (1988) studies show that negotiations are neither purely domestic nor purely international and need to take into account dual causes and constraints such as domestic welfare concerns and international economic laws. Similarly, we propose that NGOs have such a dual voice in today's international business environment.

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

> *"...the foundation is a network of constraint generating relationships - some mixture of kinship, authority, and intimacy relations. Built on top of the foundation is a network of real and imagined embedding relationships."*
> **[Burt 1992, pp. 268]**

At one level, NGOs have market value in terms of their knowledge of economic and business issues as well as their collaboration with MNCs. NGOs also have value at others level, that is, at the social, political, and institutional levels, particularly in terms of their relationships with grassroots movements as well as with states in their public sector collaborations. Such institutional value can include social capital, knowledge of local grassroots customs, and local knowledge networks, which are difficult to obtain by MNCs or states. In this sense, analogous to international negotiation and cooperation that occurs in two-level games (Putnam, 1988; Walton & McKersie, 1965; Rosenau, 1969), NGOs have both types of voices (Hirschman, 1970): a voice at an economic level and a voice at a more social or institutional level (Figure 2).

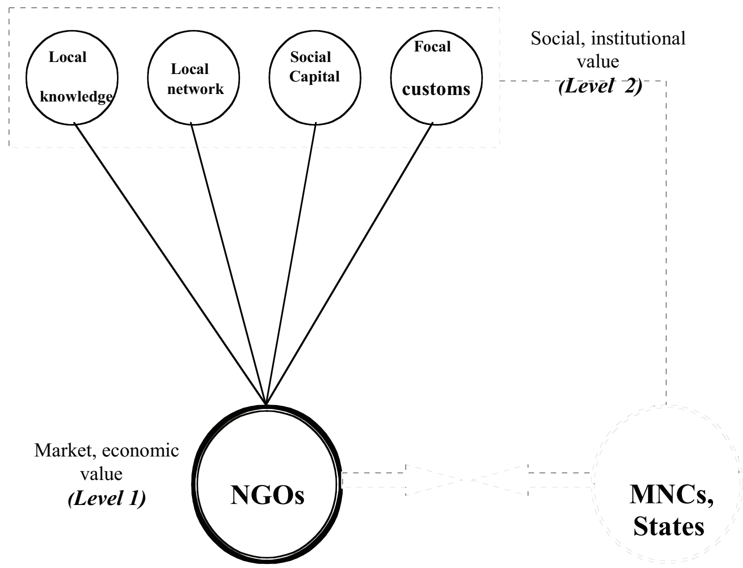

Figure 2. NGOs and Dual Voice - Market and Institutional Value

Conclusions and Further Research

Research in social sciences on the economic growth in developing economies has reached a consensus on the crucial role played by "institutions" (North, 1990; Olson, 1982; Ostrom, 1990) in economic growth. In terms of newly emerging topics in international business requiring such interdisciplinary analysis, Buckley (2002) demonstrated the importance of analyzing new actors such as NGOs in the international business environment. In their recent book, Toyne and Nigh (1998) called on international business researchers to look more directly at the behavioral and social sciences such as psychology and sociology and less at mainstream Anglo Saxon economies, which tend to separate business processes from society (Toyne & Nigh, 1997, 1998; O'Riain, 2000). NGO is a good example of a growing institution that combines business, organization, and society.

The transplanting of foreign institutions or the adjustment of local institutions requires the involvement of local knowledge and local participation. We believe that Non-Governmental Organizations (NGOs) can play this bridging role between the transfer of foreign institutions and their integration with local institutions.

The present paper introduces the emerging role of NGOs as major actors (along with MNCs and states) in the global business environment and provides a conceptual framework for showing the dual roles -- or a dual global voice (Hirschman, 1970) -- of NGOs. NGOs have a dual identity in today's global business environment: a role in the private sector and markets, and the other role in the public sector and institutions.

Two areas warrant further research. First, in-depth case studies of NGOs and their growing relationship with MNCs and economies across different regions are warranted. Second, the role of NGOs in mature, developed economies should be compared with that in emerging economies or economies in transition.

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