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International NGOs as global institutions: using social capital to impact multinational enterprises and governments

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Abstract

Due to institutional power and prevalence at the *national* (or subnational) level, certain *global* collective good exchanges do not comport well with a *national* institution model. Examples of such globally relevant exchanges include those concerning the natural environment and those pertaining to key human rights considerations such as health care/disease prevention.

These global collective good exchanges entail the involvement of both multinational enterprises (MNEs) and national governments. The allegiance of MNEs to any particular country has been questioned; national governments are arguably driven by their perceptions of their specific nation's interests. These global exchanges encounter *formal* institutional failure due to the supranational venue of these exchanges, and concerns regarding institutional legitimacy are furthered by incompatibilities between public sector (national governments) and private sector (MNE) actors' interests. In this institutional chasm, the governance and promotion of effective exchange relations between and among these players is hampered. These market imperfections and resulting high transaction costs associated with collective goods [J. Law Econ. 3 (1960) 1.] prevent actors from efficiently engaging in exchange relations. It is in this context of *formal* institutional failure that "third sector" entities—international nongovernmental organizations (INGOs)—have emerged as *informal* institutions operating globally to significantly change the context within which governments and MNEs interact.

A recent review of the concept of *social capital* by Adler and Kwon [Acad. Manage. Rev. 27 (2002) 17.] is used to theoretically support an empirically documented surge in activity by INGOs at the global level as a response to heightened transactions costs in this venue. I attempt to respond to the call by Leenders and Gabbay [CSC: an agenda for the future. In R.Th.A.J. Leenders and S.M. Gabbay (Eds.), Corporate social capital and liability, pp. 483–494, Boston: Kluwer, 1999.] to link this emerging global *social structure* (the rise of third sector institutions—INGOs) to the concept of the *social capital* that INGOs inherently possess as institutions that bridge and bond public and private

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sector actors. I provide an illustrative example of an INGO that utilizes social capital in filling an informal institutional role for global goods/services transactions: the *Nature Conservancy* and its work in a prototype Joint Implementation (JI)/Clean Development Mechanism project in Belize as called for under the Kyoto Protocol.
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1. Introduction

Institutions provide contexts for firms and governments to interact in providing goods and services to the public. Most institutions are national in character—a country's laws, political system and administrative bodies are generally seen by firms as key environmental factors constraining or incentivizing the firm's activities in a given venue (Kostova, 1999).

Governments, through national institutions, work to protect public welfare interests. In exchange for the provision of security, economic promotion and other public goods, citizens transfer their power to the national government. A government, therefore, is accountable to its nation's citizens, who judge it according to its effectiveness in providing for social and economic welfare.

Firms engage with the public via market mechanisms, trading goods and services produced for valuable monetary and nonmonetary compensation. Multinational enterprises (MNEs) are firms active across nation-state boundaries and thus may trade benefits for one nation-state's citizens against benefits for another nation-state's citizens.

The largely hierarchical model of national government interaction with its national public and the largely market-based model of multinational firms' interaction with a variety of national publics do not comport well with a significant class of exchanges between and among individuals, governments and firms. This class of exchange concerns goods that are defined as collective goods (Olson, 1965). These goods—as rivalrous and exclusive—can belie the ability of national institutions and/or MNEs to engage in efficient exchange as neither private firms nor public institutions have the requisite information, expertise, influence or collaborative abilities to create value by simultaneously fostering public and private parties' welfare.

The failure of public institutions and private firms to create value in global collective goods exchanges stems from two basic limitations. The first of these limitations is the lack of an effective supranational institution to govern or regulate the good in question. This problem results from the inherently global nature of these exchanges—as exemplified by the cases of the natural environment and of human rights protection via basic health care—coupled with the inherently state-centric nature of most institutions. The second of these limitations concerns the legitimacy proffered for public and private sector institutions. Private firms are commonly held to pursue profit maximization for the exclusive benefit of their shareholders that may run counter to the general public welfare goals of a nation-state's citizenry. The interests of private and public sector actors are often perceived to be

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