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Legitimacy for Sale – Towards A Framework for Comparing Inter-Firm and Business-Nongovernmental Organization Partnerships

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Abstract

This conceptual paper builds towards a framework supporting legitimacy seeking inter-firm alliances comparing partnerships between firms and nongovernmental organizations (NGO). Putting forward the concept of *organizational legitimacy* as a resource the paper contributes to the strategic alliance literature by drawing upon concepts from corporate social responsibility (CSR) literature. In essence, through alliances, firms can access the legitimacy of other organizations for their own benefit. This has important implications in understanding and researching the factors influencing inter-organizational strategies.

Key words: Legitimacy, partnership, strategic alliance, nongovernmental organization, NGO, Corporate Social Responsibility, CSR

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1. Introduction

Certain management scholars have called upon firms to increase their commitment to corporate social responsibility (CSR) by partnering with nonprofit organizations not only in the name of good corporate citizenship but in order to “contribute in solving the challenging problems faced by industries and societies” and resolve the current global economic recession (Quelch and Jocz, 2009).

While the international business scholarship has certainly recognized the increasing importance of corporate social responsibility (CSR), dedicating numerous special journal issues to the topic[*], the literature seems wanting in a discussion of how firm CSR strategies are to be positioned within the rest of the literature. Particularly, there is a lack of understanding of how CSR seeking behavior differs and compares with other firm strategies. The objective of this conceptual paper is to develop an understanding of the concept of legitimacy and how firms seek to gain it through inter-organizational relationships or alliances. Following a discussion of business-to-business and non-governmental organization and business alliancing, the framework we propose aims to contribute to the CSR and alliance literatures by putting forward legitimacy as a valuable firm or organization specific resource that influences firm and organizational network ties. The resulting discussion allows for a positioning of the CSR discussion whereby it can further contribute to the international

[*] Journal of International Business Studies, 2006; International Business Review, forthcoming; Journal of World Business 2003, 2006 and forthcoming; Journal of International Management, 2008

business literature and inform managers, including those not involved in CSR, about alliancing dynamics.

This conceptual development is a result of the EIBA call for papers that aims to discuss corporate social responsibility in the context of what is an interdependent world or business environment. Arguing that relevant firm analysis must be embedded in the firm's environment we focus on alliances between organizations from the perspective of the party seeking legitimacy or a focal firm perspective. Alliances have become an increasingly common instrument by which to implement firm strategy especially in terms of accessing resources or capabilities, such as legitimacy.

The legitimacy perspective to the CSR discussion is also motivated by the contemporary economic climate in which the legitimacy of some firms has been challenged not only in terms of relevance as economic actors but societal stakeholders as well. By identifying legitimacy as a resource to be sought out firms can not only improve their standing within their economic network but also shift their ties to be congruent with those viewed to be in line with external stakeholders.

The concept of gaining legitimacy is taken up as a tool by which to access a wider conceptualization of firm behavior transcending the narrower CSR discussion. This approach allows for CSR strategies to be positioned with respect to the 'rest' of the firm's behavior and can be applied in a wider context to firms seeking legitimacy within their sector or industry in general outside the realm of CSR.

Therefore, in this conceptual paper, we build towards a framework by which we aim to answer our research question *'How do organizations/firms gain legitimacy through inter-organizational partnerships?'*

The rest of the paper is organized as follows: First, the literature review will overview the importance of CSR studies within International Business and the need for new research directions. In line with Suchman (1995) the conceptualization of legitimacy is presented and shown to be difficult to integrate within the current partnership or alliance literature. A comparison of business-business and business-NGO partnerships brings us to our theoretical framework. Finally, the paper concludes with a discussion of the findings and their relevance to international business.

Literature Review

The field of international business has been looking for new directions and new research questions in the past few years (Buckley, 2002; Buckley and Lessard, 2005; Griffith et al., 2008). Lately, researchers have started emphasizing the need to study business-society management in the international context (cf. van Tulder and van der Zwart, 2006) and in particular the relationship between companies and NGOs (Doh and Teegen, 2002; 2003). For example, Egri and Ralston (2008) review 321 articles related to corporate social responsibility, environmental issues, ethics and governance published in 13 international business journals between 1998 and 2007. However, Buckley and Ghauri (Buckley, 2002; Buckley and Ghauri, 2005) and Lambell et al. (2008) identify and note that nongovernmental organizations are an underdeveloped research area in international business. There is also a call for more comparative research that would identify differences between NGOs and business partnerships. Furthermore, while there are an increasing number of studies on different types of partnerships, few studies have analyzed the legitimacy related issues of these inter-organizational relationships.

Next, the concept of legitimacy will be contextualized to the firm or organization and likened to a valuable firm specific resource and strategic objective to be sought, and gained

2.1. Legitimacy: A Resource

In organization studies as well as international business, legitimacy has been a significant theme in several streams of research (Suchman 1995; Scott 1995). Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."

The strategic imperative underlying an organization's aim to gain legitimacy arises from the fact that audiences are most likely to supply resources to organizations that appear desirable, proper, or appropriate (Parsons, 1960 in Suchman, 1995). However, as legitimacy is "something that is socially constructed … on an aggregate societal level. Legitimacy within this framework can be manipulated by managers to the benefit of the organization" (Suchman, 1995).

Suchman (1995: 585) further discusses the role that firms and organizations can play in actively seeking and gaining legitimacy. The "multiplicity of legitimacy dynamics creates considerable latitude for managers to maneuver strategically within their cultural environments (Ashforth and Gibbs, 1990; Oliver, 1991)." For example, organizations may seek to improve their position through the purchase of pragmatic legitimacy (Suchman, 1995).

The logic that extends from this perspective is that as managers seek to make their organizations, in an institutional sense, more legitimate in self-interest. Thus, underlying this perception, legitimacy within a field or industry must be distributed unevenly or, in other words, firms and organizations are heterogeneously legitimate. As a result, *organizational legitimacy* can be likened to a resource with potential influence on firm performance.

This resource-based view logic can be congruent with the concept of isomorphism (DiMaggio and Powell, 1983) in that the imitation of the practices and access to resources of legitimate organizations can also make the organization in question more legitimate. In line with this argumentation, Suchman (1995) puts forward strategies by which organizations can gain (pragmatic) legitimacy by conforming to demands (responding to needs, co-opt constituents, build reputations), selecting markets (locate friendly audiences, recruit friendly co-optees), advertisement (advertise product, advertise image).

Continuing with the argument that firms and organizations are heterogeneously legitimate the case can be made that certain firms or organizations can have accumulated or stockpiled legitimacy as an organizational resource. This sought after resource can benefit an organization and can even, under certain circumstances, be categorized as valuable, rare, imperfectly inimitable and imperfectly substitutable (Barney, 1991). Depending on the value of the socially constructed legitimacy in question, the organizations that can possess the valuable legitimacy may become the arbiters or gatekeepers (Suchman, 1995) of legitimacy for other firms or organizations.

As such, amongst the numerous techniques by which a firm or organization can seek to gain legitimacy is through *access* to the valuable resource of organizational legitimacy. Firms can thus form strategic alliances in order to associate with legitimate firms such as those identified to be engaged in sustainable practices (Llorca and Seltene, 2008) or those that have achieved a status of 'gatekeepers' to legitimacy (Suchman, 1995).

The remainder of this paper is takes the perspective of a focal firm engaging in an inter-organizational alliance with the objective of gaining legitimacy. Following the examination of legitimacy seeking strategy in a business-business alliance and in a business-NGO alliance, we put build towards a framework for alliances seeking legitimacy. However, in order to develop a broad framework we propose that the concept of legitimacy should be applied widely and should not be constrained within the realm of corporate social responsibility.

2.2. Alliances and Dependency

"To survive, organizations require resources. Typically, acquiring resources means the organization must interact with others who control those resources." (Pfeffer and Salancik, 1978: 258).

Alliances are defined as all types of cooperative inter-organizational relationships that create and / or protect competitive advantage (Doz and Hamel 1998; Hagedoorn and Osborn, 1997). Forming alliances has thus become a core strategy by which to access desired resources or capabilities and one of the effective ways to enhance firm legitimacy (Eisenhardt and Schoonhoven, 1996, Llorca and Seltene, 2008). However, due to the reputation effects arising from the inherent complexity of organizational legitimacy much of the current strategic alliance falls short of providing a framework by which to adequately describe legitimacy seeking by firms and organizations.

Traditionally the stated objective of alliances is to achieve a cooperative strategy whereby firms combine resources and capabilities to achieve mutually beneficial ends. Thus, firms are increasingly engaging in strategic alliances and cooperative partnerships with other firms. Not only are firms strategically focusing on fewer activities internally and increasing outsourcing more to partners (Barkema et al., 2002), the role of alliances is only expected to become more important as they play a major role in complex, interdependent and communicative globalizing markets (Contractor and Lorange, 2002). As such alliances are becoming increasingly central to firms' strategies (Lorange and Roos, 1992) and have become a popular topic of research within the strategic management and international business literatures (Harrigan 1988; Hennart 1988; Hamel et al. 1989; Hagedoorn 1993; Parkhe 1993; Eisenhardt and Schoonhoven 1996; Nakamura, 2005; Anh et al., 2006; Dong and Glaister, 2006; Garcia-Canal and Sanchez-Lorda, 2007; Nielsen, 2007).

Strategically, alliances may serve to reinforce deficiencies in the firms internal configuration (Prahalad and Doz, 1987). As a result, there are numerous studies exploring the impact of strategic alliances on a firm's performance, that find that co-specialization, complementary partnerships and access to knowledge spillovers provide important benefits to firms (Teece 1987; Harrigan 1988; Parkhe 1993; Hamel 1991; Dyer 1996; Stuart, 2000; Sarkar et al., 2001; Gimeno, 2004; Vapola and Seppälä, 2006).

However, the focus of prior studies in this area has been primarily limited to activity-based motivations and the research has largely neglected the forming of alliances with the objective of gaining legitimacy. For example, though the logic driving firms to form strategic alliances in Das and Teng's (2000) Resource-based Theory of Strategic Alliances is congruent with legitimacy seeking alliances, the discussion of resources (see Table 1 below) does not sufficiently inform the discussion of a complex resource such as legitimacy.

Table 1. Typical Resources Based on Resource Characteristics and Types

Resource Characteristics	*Resource Types*	
	Property-Based Resources	*Knowledge-Based Resources*
Imperfect Mobility	Human resources	Organizational resources (e.g. culture)
Imperfect Imitability	Patents, contracts, copyrights, trademarks and registered designs	Technological and managerial resources
Imperfect Substitutability	Physical resources	Technological and managerial resources

Source: Das and Teng (2000: 42)

In summary, less attention had been paid to simply the reputation affects of association arising out of strategic alliances. In other words the existence of the alliance, in and of itself, has a value of association and may even be the resource for which the inter-organizational relationship is formed. We propose that the negotiations between firms seeking access to a complex resource such as legitimacy is best captured through the resource dependency approach (Pfeffer and Salancik, 1978). In other words, "to understand organizational behavior, one must understand how the organization relates to other actors in its environment. [In this perspective] Organizations comply with the demands of others, … and the perspective developed denies the validity of the conceptualization of organizations as self-directed, autonomous actors pursing their own ends" (Pfeffer and Salancik, 1978: 257). The next section will review studies on the two types of partnerships examined (inter-firm alliances and business-NGO partnerships).

2.2.1. Business-to-business Alliances

Strategic alliances between firms have become a major research area within both the strategic management literature as well as the international business field. Partnering with other firms has become an increasingly prevalent strategy instrument for managers seeking to gain access to resources and capabilities rapidly (Eisenhardt and Brown, 2000) while retaining flexibility.

Amongst the researched objectives for alliancing are: achieving economies of scale and scope, limiting transaction costs (Hennart 1988), gaining market power (Hagedoorn 1993), gaining market access (Dong and Glaister, 2006), managing and sharing risk (Hennart 1988; Hamel et al. 1989; Ohmae 1989), creating options for future investment (Kogut 1991), competitive responses (Gimeno 2004) and primarily, getting access to unique and valuable complementary resources (Eisenhardt and Schoonhoven 1996; Garcia-Canal and Sanchez-Lorda, 2007), learning (Hamel et al. 1989; Hagedoorn 1993; Khanna et al. 1998; Nakamura, 2005; Anh et at. 2006; Dong and Glaister, 2006).

As more and more firms limit their activities and focus on their core capabilities managers have formed not only more relationships (Barkema et al., 2002) with other firms but also deeper partnerships. While earlier strategic alliances tended to contribute key resources to joint projects, for example, while contemporary alliance partners collaborate more deeply and are integrated more tightly and into the fabric of larger firms.

While the strategic alliance behavior amongst firms has been increasingly steadily (Harbison and Pekar, 1997) the research has placed less emphasis on the corresponding interdependence amongst firms or the fact that "organizations interacting with one another are involved in a dynamic sequence of actions and reactions leading to variations in control" (Pfeffer and Salancik, 1978: 260). The control of legitimacy becomes especially relevant to firms engaging in inter-firm relationships.

The trend towards more alliances had increased the demand for the management of firm partnerships (Spekman et al., 1998). However, the deepening of the alliance partnerships and the integration of external firms close to the core operations of firms have also placed more emphasis on the gatekeeper role of alliance managers as they span the boundaries of the firm. The result of this close involvement with partners is that established industry players may determine the legitimacy of, for example, the suppliers and newly entering subcontractors within an industry. Thus many suppliers seek legitimacy within the industry by becoming so-called 'authorized suppliers' or officially certified partners according to the schema dictated by the larger incumbent firms that possess the organizational legitimacy within that industry.

Established or incumbent firms within an industry are not the only organizations that possess organizational legitimacy. The following section will provide an overview of research on non-governmental organizations and firm cooperation.

2.2.2. *Non-governmental Organization - Firm Alliances*

The relationship between nongovernmental organizations (NGOs) and firms has received increasing interest from both academics and practitioners. NGOs can be defined as social, cultural, legal and environmental advocacy and/or operational groups that have goals that are primarily non-commercial. The growing interest in NGOs is due in part to their growth in number and influence (Boli and Thomas, 1997; Bendell, 2000; Doh, 2003; Teegen, 2003; Powell and Steinberg, 2006). Furthermore, NGOs are increasingly becoming more international and constantly developing new tactics for engagement with business (Yaziji and Doh 2009), and have shifted from focusing on governments to businesses (Doh and Teegen, 2003).

In the analysis of the NGO-business relationship, key research themes have included activism and NGO influence strategies, dyadic partnership (NGO-business), cross-sector partnerships (NGO-business-government), global governance and standardization, national level governance, and stakeholder management (Kourula and Laasonen, forthcoming). Kourula (forthcoming) identifies the following company objectives for engaging with NGOs: risk management (including identifying weak signals and avoiding damaging campaigns), gaining a license to operate (including building better stakeholder relations in general and using independent actors as mediators and consultants), reputation (including brand building through sponsorship and alliances with reputable NGOs) and value creation through expertise (including learning about the local business environment and environmental practices and potentially creating new innovations).

In the literature on NGO-business relations, there seems to be a movement from philanthropy towards an orientation that recognizes dialogue and partnership as promising tools towards creating sustainability. Indeed, an increasing number of studies, focus on NGO-business partnerships. Ählström and Sjöström (2005) evaluate different NGO types and conclude that only a few types of NGOs are suitable for collaboration.

Learning is a key expected outcome of partnerships between NGOs and businesses. Hartman *et al*. (1999) draw attention to the idea of learning-action networks as tools for partnership and Arya and Salk (2006) also focus on the learning perspective in alliances. Furthermore, Stafford *et al*. (2000) describe a collaborative partnership between the environmental NGO Greenpeace and the company Foron in the development of a new technology. King (2007) focuses on the cooperative aspect of the NGO-business relationship from a transaction cost perspective. He also examines the necessary conditions for the co-development of technology between companies and environmental groups, especially partial property transfer, the development of long-term relations, and separate "corporate engagement" groups.

In examining adversarial business-NGO relationships, Heugens (2003) argues that even if there is an adversarial nature to a relationship, the parties can still build capabilities. While the emphasis is typically on the MNC point of view of the relationship, the NGO perspective and benefits of partnerships for NGOs are beginning to be evaluated more and more (MacDonald and Chrisp, 2005).

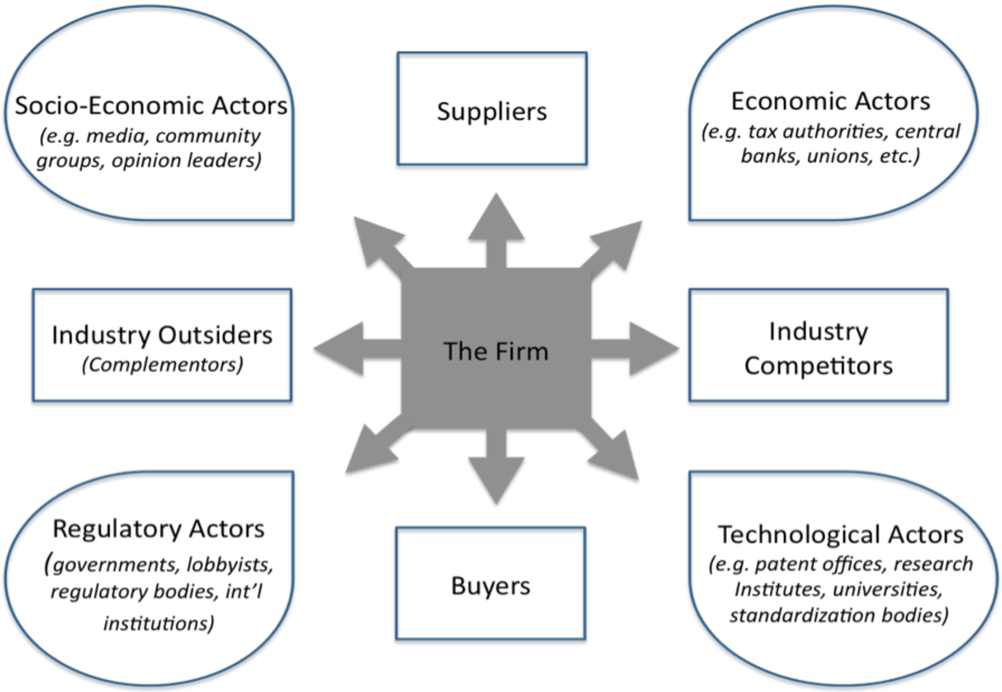
All things considered, these studies seem to not focus enough on the value of the association between the NGO and the firm in terms of legitimacy. Furthermore, more research addressing the differences that arise from the various types of organizations engaged in alliances and the subsequent learning and environmental conditions would benefit the literature.

2. Theoretical Framework

Although the literature acknowledges that motives, objectives and aims of alliance formation are important, they have not been studied in detail. In the following theoretical framework, we aim to develop the legitimacy perspective in order to not only discuss institutional legitimacy within an industry or given business environment but also identify organizational legitimacy as a resource that is sought out by external stakeholders.

Having identified legitimacy as a valuable resource, the business environment in which the alliance formation occurs is mapped out in line with the strategic alliance literature in Figure 1 adapted from De Wit and Meyer (2004). This understanding of the context of firm or organizational legitimacy is a prerequisite for the description of a socially constructed concept such as legitimacy. It is within this setting that the central firm or organization seeks legitimacy from its external stakeholders.

Figure 1. Firm Relational Actors



Adapted from De Wit and Meyer (2004)

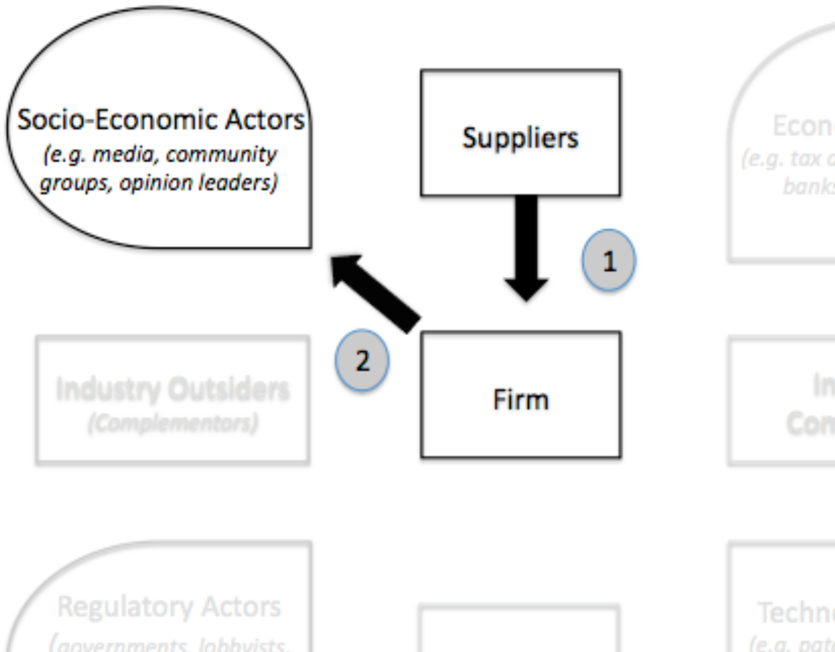
In recognizing the resource of organizational legitimacy amongst the external firms or organizations within this setting the firm's managers may seek to access this resource through the formation of alliances or inter-firm or inter-organizational relationships. While the attainment of legitimacy benefits the firm or organization in question the audience that determines the outcome of the legitimacy seeking strategy may vary. Indeed the numerous external stakeholders in the environment do not exercise the same parameters for legitimacy as some seek pragmatic legitimacy while others require moral or cognitive legitimacy (Suchman, 1995).

Thus, the framework to be developed will not rely on a static hierarchy of legitimacy that would result in legitimacy being depicted as a “"process whereby an organization justifies to a peer or super-ordinate system its right to exist." Maurer (1971: 361 in Suchman, 1995). This dated perspective does not allow, or rather require that, a manager to determine the relevant audience that justifies the organization’s legitimacy. As a result, the relevant stakeholder from whom to seek legitimacy will be further addressed in the on-going development of the theoretical framework that will draw upon stakeholder theory (Freeman, 1984)

Stakeholder theory is a managerial concept of organizational strategy and its principal idea is that an organization’s success is dependent on how well it manages the relationships with stakeholders such as employees, customers, suppliers and communities (Freeman, 1984; Phillips *et al.*, 2003). As a case and point, of the two examples presented in the paper, namely business-to-business alliances and NGO-business alliances, the alliance partner with organizational legitimacy may well differ (see Figure 2).

In the business-to-business case the relevant party from who to seek legitimacy for a supplier firm may be the established firm in the industry. Examples of firm seeking authorized supplier status, such as in the case of Nokia and its supplier firms Perlos, Elcoteq, Foxconn, etc., abound. It is beneficial for the firms engaged in the industry to be seen as legitimate by the largest firm in the market. In line with resource dependence theory the valued resource of legitimacy thus promotes the position of the industry incumbent. The benefits of this legitimacy, however, may not be limited to the dyadic relationships described in the legitimacy seeking alliance but may well influence the perception of the firm among other external stakeholders within the industry and beyond. (This case is depicted conceptually in instance 1 below). While the position of an industry leader, for example, relative to suppliers is in line with the theory this is hardly surprising.

Figure 2. - Seeking Legitimacy (1)Business-to-business (2) NGO- Business



In the case of a NGO-firm alliance the case of legitimacy may become more surprising as the findings may differ from that of straight forward Porterian Five Forces relationships. Instances of large industry leading firms seeking legitimacy from smaller, industry outsider, non-governmental organizations can be explained by the fact that NGOs may hold organizational legitimacy that is relevant to a different audience or stakeholder group than that possessed by the firm, whether it be the industry leader or not. Continuing with the mobile telecommunications example, Nokia actively promotes is continuing collaboration with the WWF on environmental issues and lists twelve other corporate level partnerships with various NGOs, associations and initiatives.

3. Conclusions and Implications

The on-going development of the framework seeks to build a theoretical perspective that would further inform firms and organizations in forming strategic alliances with respect to legitimacy. This perspective may well complement existing perceptions about firms and organizations within a firm's environment while it may also challenge alliance management perspectives that do not include the concept of legitimacy. The value of partners within existing alliance portfolios and firm networks may also be require reevaluation when organizational legitimacy is assessed as a resource that can be accessed through partners. The further development of the theoretical framework will extend the organizational legitimacy concept to more stakeholders.

The concept of legitimacy is clearly important to the discussion of corporate social responsibility. This is especially relevant as many firm's legitimacy as corporate citizens has been challenged during the current economic downturn. In order to respond to the challenge firms may well be inclined to learn how to better manage business-society relations by turning to their existing alliancing strategies for support. In other words, in order to become better corporate citizens with more sound CSR policies, firms could invest learning as they do in other alliance situations and learn from their partners and form the necessary alliances.

Furthermore, the implications of the concepts discussed in this paper have bearing on the activities of firms usually reserved for study within the field of International Business. A fundamental research question within IB involves the internationalization of firms and business from the perspective of the 'liability of foreignness'. Foreign firms are required to prove themselves to be legitimate in foreign markets in order to be successful. In order to do so MNCs embed themselves locally through subsidiaries or form partnerships with local players. The organizational legitimacy of the firms and organizations with which they form alliances requires further analysis than that which is available through the current tools available through the strategic alliance literature.

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