



Governance: The Rising Role of NGOs

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EXECUTIVE SUMMARY

The 21st century will largely be defined by the relationship and interplay among traditional governments, multinational corporations, and nongovernmental organizations. During the next few decades, advancements in governance will unfold like the domino effect — businesses will challenge governments to improve the rule of law, governments will more tightly regulate corporate operations, and NGOs will report to civil society on both business and country proceedings.

12 TRENDS changing the world

A five-year research project reveals that the future of commerce worldwide will be greatly influenced by a dozen “global tectonics” that will affect business leaders across all industries:

1. Biotechnology
2. Nanotechnology
3. Information technology
4. Population
5. Urbanization
6. Disease and globalization
7. Resource management
8. Environmental degradation
9. Knowledge dissemination
10. Economic integration
11. Conflict
12. **Governance**

The complexity of governance is difficult to capture in a simple definition. Obviously, the need for governance exists any time a group of people come together to accomplish an end. Most agree that the central component of governance is decision making. One simple definition of governance is that it is the art of steering societies and organizations.

But this definition makes the process seem simple. Steering suggests that governance is a straightforward process, similar to a steersman in a boat. Governance is neither simple nor neat. By nature it may be messy, tentative, unpredictable, and fluid. Governance is further complicated by the fact that it involves multiple actors, not just a single helmsman.

The actors on this stage have changed and evolved over the years, and governance has had to respond accordingly. We once all belonged to small tribal communities governed by a chieftain living among us. Those communities grew into larger nation states governed by kings who were geographically and culturally set apart from the people. Central governments developed to help navigate this process for both the principal actors and the affected audience.

Multinational corporations

In the 20th century, a new character entered the scene — the multinational corporation. Considering that in 2005, 95 of the top 150 world economies were corporations rather than states, companies have experienced and exercised an increasing amount of power in the governance of countries (see “Top 30 Economic Entities,” page 11). Corporate interests have become an integral part of policy formulation in states dependent on multinationals for their economic well-being, and nearly all multinationals apportion budget expenditures for political purposes.

The presence of corporate titans in developing countries gives corporations a hand in deciding issues that

have significant economic and social impact. In many cases, this presence has benefited states and contributed to economic growth and peace. Foreign direct investment inflows to developing countries have increased from about \$35 billion in 1990 to more than \$233 billion in 2004. Resultantly, poverty in developing countries has declined from the previous decade. The percentage of people living on incomes of less than \$1 per day has declined from 28 percent in 1990 to 21 percent in 2001.

Despite being a boon for countries, the effects of multinational corporations’ power have been a double-edged sword. While bringing jobs and economic growth to many otherwise impoverished regions of the world, multinational corporations have sometimes eroded the strength of state governments and are often criticized for putting investor interests before those of the societies they operate in. Corporations have been increasingly scrutinized in their environmental practices, and civil societies are demanding more transparency, corporate accountability, and responsible corporate citizenship. Furthermore, increasing multinational corporation influence in governance has resulted in calls for responsible corporate citizenship by societies and increasing regulation by governments.

Important historical examples of government attempts to regulate industry and multinational corporations include the establishment of the Environmental Protection Agency and similar bureaus in other countries as well as increased scrutiny of corporate practices through legislation such as the Pure Food and Drug Act of 1906. More recently, passage and implementation of the Sarbanes-Oxley Act of 2002 in response to U.S. corporate accounting scandals highlights continued government attempts at regulation.

In response to certain restrictive regulations, multinational corporations have spent billions of dollars lobbying state

governments throughout the world in attempts to influence legislation.

In the early 1900s, the rise of multinational corporations changed the system of governance and the struggle for social and economic reform and progress. Corporations such as United Fruit Inc., which benefited from the global advance of democracy and capitalism, grew into large and powerful enterprises. In just a few decades, multinational corporations rivaled some governments as influential actors in state policy and decision making.

By the mid to late 1900s, multinational corporations themselves had become agents of governance and targets for reform. Their policies had enormous impact on the economic well-being of the states in which they operated — as well as the livelihoods of their vast pools of employees in countries across the world. Progressively, corporations have been regarded as more than wealth-maximization entities. Instead, as they have expanded their profile in countries and regions across the world, multinational corporations have been the target of various labor and other groups for efforts to effect broader social, economic, and political change. Today, civil society continues to press for reforms in corporate patterns — from corporate citizenship to corporate social responsibility to what Proctor & Gamble refers to as “corporate social opportunity.”

With more countries adopting internationally accepted rules and policies, multinational corporations will benefit from a larger and improved operating environment at home and abroad. For all business actors, capital, labor, commodities, technology, and information will flow more freely across borders. In addition, multinational corporations will actively promote further democratic reform in their client countries. For example, in a round of World Trade Organization negotiations, multinational corporations pushed their host govern-

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The rise of NGOs

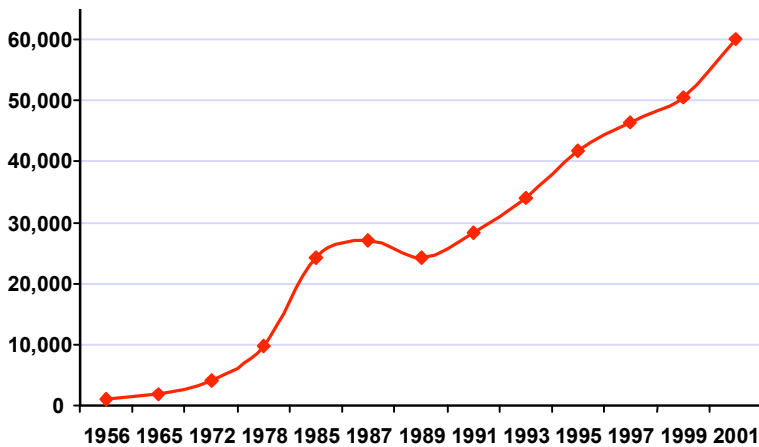


Figure 1. The number of nongovernmental organizations has exploded.

ments to negotiate international agreements on investment and intellectual property rights. Such standards and regulations, if fairly implemented, will improve corporate profitability as well as boost foreign direct investment in a wide range of host countries.

Nongovernmental organizations

Issues of corporate social responsibility may also become more important as firms from developing countries expand abroad. Discussions related to such responsibility have traditionally revolved around developed-country corporations and their behavior abroad; more recently the management of corporations from developing and transitional economies are also being exposed to similar issues. While adherence to various internationally adopted corporate social responsibility standards may entail costs for the companies concerned, it can also generate important advantages — not only for the host country but also for the investing firms and their home economies. A number of developing-country corporations have already incorporated social responsibility policies into their business strategies, and some have become leaders in this area. For example, more than half of the participating companies in the United Nations Global Compact are based in developing countries. Moreover, some developing countries are establishing a regulatory and cultural

environment that supports social responsibility standards.

While citizens in many countries have felt disconnected from their governments and powerless against the interests and influence of multinational corporations, a plot twist has occurred with the rapid development of a new power broker — the nongovernmental organization (NGO).

An outgrowth of societal concerns with multinational corporations and state governments combined with the dissemination of information technology and the growth of the Internet has given rise to this recent major player in governance patterns. This trend is the rise of civil society itself and transnational unity for the accomplishment of social goals, all expressed through NGOs.

NGOs such as Amnesty International, Doctors Without Borders, and the World Wildlife Fund spawned as a method for people to supplement and often check the power of governments and corporations. The number of NGOs officially recognized by the United Nations has skyrocketed from about 2,700 in 1991 to more than 6,000 in 2001, while the actual total number of NGOs currently hovers around 6 million (Figure 1). All of this points to the increased expression of popular sentiments through organized democratic action. The fact that corporate social responsibility initiatives are sometimes

driven by governments and other times by NGOs illustrates the influence and power that NGOs have attained.

While NGOs have existed for many years, their power and importance as stakeholders in governance has only increased recently with the revolution in information flow. NGO Web sites and Internet blogs provide alternative perspectives and news for everyone (particularly for those living in areas that lack a free press) while linking people across borders who share a common global cause.

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After the United States and China, Iran accounts for the third-largest number of blog Web sites, indicating that Iranians are seeking to express themselves in ways that are outside government control. Indeed, Iranian blogs played an integral part in the 2005 Iranian presidential elections.

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In the next two decades, NGOs will become better organized, more media savvy, more active as stakeholders, and more connected to their constituencies by Internet and telecommunication technologies.

The effects of these changes are already visible, dramatic, and widespread. For instance, Nike Corp., under pressure for hiring cheap labor to work in substandard conditions, revamped its policy to be more in line with declarations on international labor standards and human rights. Exxon Mobil is likely to pay billions to address the environmental and social damages caused by the 1989 Exxon Valdez oil tanker that crashed and spilled crude oil off the coast of Alaska.

Through public education and information dissemination, NGOs can pressure governments and corporations to be more accountable and transparent about issues ranging from human rights to envi-

ronment to labor standards. Corporations cannot afford to ignore these organizations that have the backing of a younger generation of civil society and the power to report information quickly and accurately. NGOs have garnered a great deal of influence in global society, and they will continue to shape corporate governance.

Unfortunately, NGOs have also risen in support of less constructive social goals. Desperate and discontent people have supported violent NGOs such as Al Qaeda to express their grievances. NGOs, their goals, and their methods bring questions relating to conflict, including terrorism and government regulation.

As they grow in power, NGOs will be required to meet international and local accountability and transparency standards. These organizations will need to maintain a balance between volunteerism and activism (the defining character of NGOs), and to develop and maintain the professionalism necessary to operate competitively in nonprofit and business environments. The United Nations, for example, has adopted a program of NGO certification, thereby elevating the credibility of a number of nongovernmental partners. In the future, NGOs that desire to maintain their social influence will have to meet high reporting standards in addition to providing further public access to their funding sources and affiliations.

Looking forward, NGOs are expected to experience a period of pronounced pressure on their own governance structures not dissimilar to what the private-sector experience in the wake of the Enron events. Looming issues such as legitimacy (Where do NGOs get their authority?) and operational characteristics (How efficiently are they operated?) will assume ever-sharper definition.

This evolving three-part convergence of governance between nation states, multinational corporations, and NGOs must also be considered in the context of other major global trends.

Expanding educational opportunities, higher standards of living, and the dissemination of information technology have resulted in populations that are more connected, informed, and engaged

Top 30 economic entities

Rank	Entity	Gross domestic product or sales (in millions)
1	United States	8,708,870
2	Japan	4,395,083
3	Germany	2,081,202
4	France	1,410,262
5	United Kingdom	1,373,612
6	Italy	1,149,958
7	China	1,149,814
8	Brazil	760,345
9	Canada	612,049
10	Spain	562,245
11	Mexico	474,951
12	India	459,765
13	Republic of Korea	406,940
14	Australia	389,691
15	Netherlands	384,766
16	Russian Federation	375,345
17	Argentina	281,942
18	Switzerland	260,299
19	Belgium	245,706
20	Sweden	226,388
21	Austria	208,949
22	Turkey	188,374
23	General Motors	176,558
24	Denmark	174,363
25	Wal-Mart	166,809
26	Exxon Mobil Corp.	163,881
27	Ford Motor Co.	162,558
28	DaimlerChrysler	159,985
29	Poland	154,146
30	Norway	145,449

in their country's political processes than ever before. Resultantly, the expectations of people for their governments have increased, and citizens are seeking greater leverage in control of governance issues. These expectations go hand in hand with decreasing government strength in the face of multinational corporations and NGOs. Furthermore, issues such as bureaucratic corruption and taxation will challenge 21st-century governments and businesses attempting to navigate through these changes.

National governments

The final major trend in governance involves changes in the structure and reach of national governments. In the past few decades, the world has experienced an explosion of democracies, extensions of civil liberties, and the rise of a free press in regions where such concepts were previously alien. Between 1991 and 2001, the number of states ratifying the six major human rights conventions increased from 10 percent to 50 percent. In 1950, only 31 percent of the world's population lived in free societies and another 12 percent lived in partially free countries. In 2005, these numbers increased to 46 percent living in free societies and 18 percent living in partially free countries.

Authoritarian regimes have continued to decrease in number as citizens take control of their governments. Freedom of the press has expanded at a similar rate, and the actions of governments today are more scrutinized than ever thanks to the dispersal of information technology and improved communications.

The spread of human freedoms and expansion of democracy has important benefits regarding governance trends. Citizens are more empowered than ever to participate in their governments and criticize their leaders. Corruption in governance, which inhibits the ability to address societal problems in many states, can be solved only through the increased transparency and accountability that democracy and a free press offer. Democratic countries tend to be peaceful and rarely engage in armed conflict with one another, giving rise to democratic peace theories and mutual trust between free societies. Furthermore, democracy has characteristically been associated with economic liberalization, promoting free trade and development.

In addition to the spread of freedom and democracy, expansion of government scope in societies is an important tenet of changes to government structure. Indeed, the scope of government has increased across the board in many countries as citizens expect more from their leaders.

Johns Hopkins University professor of international political economy Francis

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Fukuyama defined government scope as the breadth of a government's involvement and responsibilities in a society. Over the past few decades, provisions for social safety nets, health care, environmental protection, and support for education have all become standard expectations in many governments. U.S. government expenditures as a percentage of real gross domestic product have increased overall since the 1950s, indicating greater government involvement in society.

This is a very delicate balancing act. History has proven that citizens seem to be content with their governments implementing income taxes up to around the 10 percent mark but that income taxes levied above this line appear to incite rebellion — 11 percent preceded the French Revolution; 10 percent provoked the Chinese uprisings and revolutions, and even in early West African kingdoms it resulted in the toppling of kings.

The more money the national government collects from its populace, the more influence its citizens want to have in how that money is spent. As tax rates increase above the 10 percent level, citizens demand to have a say on how their funds are being spent. This is the natural tendency of democracy, as most countries must collect taxes to carry out the governance of the nation. The corresponding need of the people to direct its leaders about where they want funds spent has led to the development of legislative, judicial, and executive branches of government.

The few rare nations that don't need to collect personal income taxes are those in which we see a delayed rise of democratic institutions. The revenue of commodity exporting nations such as Saudi Arabia, Kuwait, and Qatar allows these governments to support citizens through external income rather than taxation. This, however, is a governance exception rather than the rule.

While government scope has expanded, the strength of many governments in their ability to perform duties for society has weakened for a variety of reasons. Regions experiencing violent conflict suffer from anarchy

U.S. is tops in competitiveness

The United States ranks first internationally in the competitiveness of its companies, according to Harvard's professor Michael E. Porter and two of his colleagues at the Institute for Strategy and Competitiveness, which Porter heads.

The researchers' Business Competitiveness Index puts Germany, Finland, Switzerland, and Denmark into the top five slots behind the United States.

The index ranks 121 countries by their microeconomic competitiveness, identifies competitive strengths and weaknesses in terms of business environment and company operations and strategies, and assesses the sustainability of current levels of prosperity as measured by per capita gross domestic product adjusted for purchasing power.

According to the study, key ingredients in the success of the United States are the high degree of U.S. domestic rivalry brought about by intense local competition and facilitated by effective antitrust policy, plus accessible and sophisticated financial markets and a high capacity for innovation.

Porter and his colleagues found that the Chinese economy has faltered, falling to the middle of the pack at number 64 from its previous year's rank of number 9.



and a lack of public services, resulting in health crises and migrations of large populations. The diffusion of authority from the central state to regional and local semi-autonomy is limiting the reach of many governments.

Ethnically diverse states such as Russia have had to reconcile the demands for autonomy of regionally clumped minorities with national unity and development. Further eroding the strength of the state is the presence and function of supranational organizations such as the European Union and World Trade Organization. International economic and security groups have forced many state governments to give up some sovereignty to larger bodies and submit to collective decisions that may not be in their own national interest. In 2003, American steel tariffs enacted to protect the fragile steel industry were met with World Trade Organization sanctioned threats of European tariffs on goods coming from politically significant regions in the United States, demonstrating the power of supranational organizations in limiting the actions of governments in today's global economy.

Democratization and citizen empow-

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erment represent important positive changes to government structures and reach that will drive overall trends in governance issues. Governments in the future will have to contend with increasingly demanding constituents in an environment where the power of national governments is actually being eroded.

21st-century governance

The 21st century will largely be defined by this triangular relationship and interplay between stakeholders falling within traditional state governments, multinational corporations, and NGOs.

Now and into the future, NGOs, multinational corporations, and governments will become more accountable and transparent. During the next few decades, advancements in governance will unfold like the domino effect — businesses will challenge governments to improve the rule of law; governments will more tightly regulate corporate operations, and NGOs will report to civil society on both business and country proceedings. As they unfold, these trends in governance will improve the quality, dignity, and efficiency of international business across the globe. ❖