MANAGING ORGANIZATIONAL LEGITIMACY OF PUBLIC PRIVATE JOINT VENTURES – A CASE STUDY

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Abstract

This paper examines the general manageability of issues affecting the overall organisational legitimacy of public private joint ventures (PPJVs) by investigating Namdeb, a PPJV between De Beers and the Government of Namibia. 42 interviews were conducted – 41 with stakeholders and one with the focal organisation, Namdeb. Results show that the company's organisational legitimacy is affected by a number of political, economic, social, environmental and legislative factors which are often interrelated and complex. It is concluded that on the one hand, most of the issues are controllable and that companies are able, to a great extent, influence their organisational legitimacy. On the other hand, managing organisational legitimacy is a complex process as companies do not always have control over issues affecting their legitimacy. The data also shows that most issues affecting organisational legitimacy are moral and to a lesser extent pragmatic and cognitive. In order to garner organisational legitimacy, managers are advised to address issues individually and not to invest only in an overall communication strategy as stakeholders expect appropriate and effective action, for example in cases where the rights of stakeholders are violated and where issues of corruption are evident.

Key Words: organizational legitimacy, public private joint ventures, Namibia, De Beers, international management

JEL Code: JEL M, JEL Z

1 Introduction

Empirical research specifically on PPJVs is meagre giving the impression that this type of organisational arrangement is relatively unimportant in present-day economies. However, random empirical evidence suggests otherwise. For example, in the 1980s when research on the characteristics of joint ventures was important, Beamish (1985) found that governmental partners were distinctive to joint ventures that either demand particular high investments or belong to a strategic sector in the local economy. For example, 45 percent of all joint ventures in the aluminium industry involved governments in the early 1980s (Stuckley, 1983). These reasons are also valid in cases where natural resources are explored and extracted. Today public-private partnerships are still often formed for such endeavours addressing key industries in the respective economies. Furthermore, this type of partnership is said to be more relevant in developing countries (Beamish, 1993), where the companies formed have a strong impact on the often weaker national economy. When the relative importance and impact of PPJVs are taken into account, it becomes evident that the business model these companies represent is of vital importance for the country. PPJVs as economic drivers, large employers and the government's prodigies set an example for other firms in the country. They form the local market not only by selling their own products, but also through their sourcing strategy, the enumeration of their employees and their human resource politics. These corporate policies can have a far reaching impact on the society (Crane, Matten & Moon, 2008).

In view of the above, this article addresses a gap in the literature with regards to the organisational legitimacy of such partnerships and the manageability of issues affecting their legitimacy. This is an important point because, as Ackerman (1975) stated, companies must be deemed legitimate by society in order to survive. However, companies face many issues on a daily basis which are potentially detrimental to their legitimacy. For example, one of the most prominent issues PPJVs face is that the partnering government will have a conflicting role as both business partner and legislator and regulator. Many other issues may also arise from this type of company as is illustrated in this research. The paper is divided as follows: In a first instance, a short overview of the literature on organisational legitimacy is given while in a second instance, the PPJV Namdeb, partnership between De Beers and the Government of Namibia, is explained. Thirdly, the methodology is elaborated upon while in the fourth section, the results are discussed. The paper is concluded with a short summary including recommendations for managers.

2 Organisational Legitimacy

Historically, the concept of legitimacy was coined by comparing different types of political rule and their origins (Weber, 1980/1921). In particular, authors analysing the nature of the social contract between people and government address the issue of legitimacy (Hobbes, 2006). The idea is that a government is legitimate when its people chose to subject themselves to its rule, even if individual citizens may reject some aspects of the rule such as specific laws. The political conception of legitimacy contains the notion that legitimacy results from a rational evaluation of an institution by the people who are subjected to and are served by the institution. This political conception of legitimacy is rivalled by a sociological one that describes three potential sources of legitimacy. Legitimacy is here ascribed to traditional, charismatic and rational rule (Weber, 1980/1651). Traditional rule is legitimate due to the authority that is inherited with a position, e.g. the throne. Charismatic rule is legitimated by the affective response to it and rational rule is legitimate because it applies rules and laws in an objective manner.

The literature on organisational legitimacy also tends to identify three alternative forms of obtaining and sustaining legitimacy, or in other words, managing legitimacy, but the categorisation differs from author to author. For example, Dowling and Pfeffer (1975) define social legitimacy as the degree to which an organisation conforms to the prevailing social norms and values. They describe three ways of becoming a legitimate organisation:

> “First, the organization can adapt its output, goals, and methods of operation to conform to prevailing definitions of legitimacy. Second, the organization can attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organization's present practices, output, and values. Finally, the organization can attempt, again through communication, to become identified with symbols, values, or institutions which have a strong base of social legitimacy” (Dowling & Pfeffer, 1975, p. 127).

In short, a company can be perceived as legitimate because it acts in accordance with societal expectations, or because it successfully manipulates expectations and perceptions people have regarding the company.

Post, Murray, Dickie and Mahon (1982) also elaborate on communicating legitimacy or the 'public affairs' function which is responsible for managing the interface between the organisation and its political and social stakeholders of organisational legitimacy. Meznar and Nigh (1993) further explain that the way the public affairs function is conducted is directly related to corporate long term survival. However, in this study it is concluded that communication strategies are not sufficient to maintain legitimacy as stakeholders expect appropriate actions from companies in cases of irresponsible behaviour.

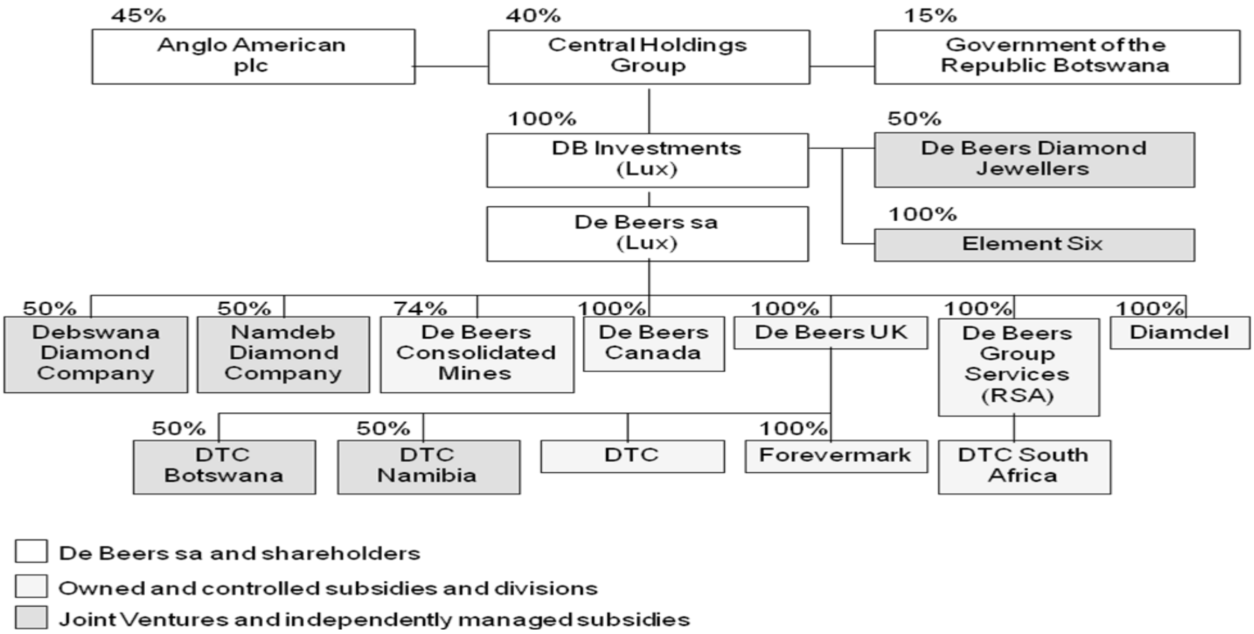
Suchman (1995) distinguishes between cognitive, pragmatic and moral legitimacy. Cognitive legitimacy is the "affirmative backing of an organization or mere acceptance of the organization as necessary or inevitable based on some taken-for-granted cultural account" (Suchman, 1995, p. 582). For example, companies in the food industry are perceived as more legitimate than companies in the tobacco industry because of the different nature of their products. Cognitive legitimacy is not inquisitive by nature as it can be influenced in the third way described by Dowling and Pfeffer (1975) through communicating a link between the firm and legitimate symbols, values and organisations and may be obtained through a marketing approach that establishes this cognitive link.

In this paper stakeholders' statements are analysed and classified according to the three types of legitimacy (moral, pragmatic and cognitive) developed by Suchman (1995). The identified issues are then further classified into categories of 'controllability', 'semi-controllability' and 'non-controllability'. However, before discussing how this was done in more detail, a look is taken at the company, Namdeb, under investigation.

3 The Public Private Partnership Namdeb

Cecil Rhodes founded the South African company De Beers 1880. Since 1902 the family Oppenheimer has been managing the company and developed it into one of the world's most successful cartels (Spar, 2006). For many decades De Beers dominated the diamond market holding a share of about 80 percent (Gupta et al., 2010). During the past decade the share declined to 35 percent (De Beers, 2011), because the discovery of important diamond resources in Canada and Russia caused more competition for De Beers. In addition, the political changes in southern Africa and Russia around 1990 inspired major changes of De Beers' strategy. In 2001, De Beers was delisted of the Johannesburg Stock Exchange and put in the hand of three shareholders: Anglo-American (founded in 1917 by Ernest Oppenheimer, today listed at the London Stock Exchange) held 45 percent, Central Holdings Limited (controlled by the Oppenheimer family) kept 45 percent and the government of the diamond rich Botswana received 10 percent (Spar, 2006). Botswana's share was enlarged in 2005 to 15 percent, reducing the share of the Central Holding to 40 percent (see figure 1). Moreover, De Beers conducts all its African diamond mining activities in joint ventures either with local governments as in Namibia (Namdeb) and Botswana (Debswana) or with a conglomerate of small local shareholders to facilitate the empowerment of black entrepreneurs as in South Africa (De Beers Consolidated Mines). In addition, De Beers has opened branches of its Diamond Trading Company (DTC) in Africa aiming at creating more value for African societies (De Beers, 2010).

Diagram 1 – De Beer's Ownership Structure



Source: De Beers, 2010

Namdeb, the joint venture equally owned by De Beers and the Government of Namibia, became the country's largest private employer and contributes substantially to the economy. Since Namibia's independence from South Africa in 1990, diamond exports contributed in average 14.5 percent to the nominal gross domestic product and constituted 39 percent of the value of total exports (see Figure 2), while taxes and royalties on diamonds contribute in average 6.5 percent of central government revenues (IMF, 2008). Figure 3 summarises the distribution of Namdeb's profits from 1990 to 2002 as reported by Namdeb.[i] Diamond mining companies are taxed 55 percent corporate profit tax as opposed to 37.5 percent for other minerals and 35 percent for any other business. For rough diamonds that are exported 10 percent royalty is imposed (IMF, 2008). In sum, Namdeb makes a major contribution to Namibia's economy and the Government's budget by contributing a larger share of its profit than other businesses do.

De Beers' strategic choice to collaborate with African governments suggests that the company is committed to remain in a strong competitive position by strengthening its ties with the continent's diamond rich nations. However, Namibians are strongly aware of the fact that De Beers was built and immensely successful during Apartheid (Kempton & Du Preez, 1997) and they express the notion that De Beers is indebted to them. Thus, De Beers' partnership with the Namibian Government and its strong emphasis of the "positive role of business in driving

Africa's development" can be interpreted as an attempt to repair legitimacy damages resulting from its past (De Beers, 2010, p. 2). Accordingly, De Beers' companies engage visibly in CSR activities ranging from social investments in mining communities, the rehabilitation and ecological restoration of former mines to "benefication" (De Beers, 2010, p. 28), that is bringing more value-adding activities such as cutting, polishing and trading to producing countries. The following sections describe the methodology and results of a study on how Namdeb's key stakeholders perceive and evaluate Namdeb's legitimacy and its CSR approach.

4 Methodology

The objective of the study was to identify which issues affect Namdeb's legitimacy by analysing the statements of 41 company stakeholders in order to asses which of the issues are in fact 'controllable. For this purpose a stakeholder network analysis approach whereby the researcher identified key stakeholders using available data such as media and company reports was employed. In order to avoid a biased selection resulting from this analysis, each interviewed stakeholder was asked to identify further relevant stakeholders until a saturation was reached when only stakeholders are identified that have already been interviewed. All persons interviewed were legitimate spokespersons of their stakeholder group and influential decision-makers; for example the focal organisation Namdeb was represented by its CEO, Inge Zaamwani-Kamwi. During each interview, the respondents were asked to name other relevant stakeholder groups and contact persons. The interview transcripts were analysed in two readings in which two conceptual levels were distinguished – issues affecting legitimacy and types of legitimacy. In a first reading all phrases relating to Namdeb's moral, pragmatic and cognitive legitimacy were coded and emerging issues related to legitimacy were identified. In a second reading the consistency of the coding was reviewed and corrections were made. The identified issues were then classified according to political, economic, social, environmental and legislative categories and labelled 'controllable', 'semi-controllable' and non-controllable' (Table 1)

5 Results

The analysis brought up 48 issues that were discussed in connection with Namdeb's legitimacy with a total of 1129 counted instances in the transcripts (see table 1 below). The 'controllable' category accounts for 60 percent while the 'semi-controllable' and 'non-controllable' categories account for 31 and 9 percent respectively. The most frequently raised issues were mentioned more than fifty times and by the majority of the respondents: governance issues that are related to Namdeb's structure as a public-private joint venture (19 percent of counted instances), the perception that the company makes high profits that are not reinvested in Namibia (10 percent), the lack of transparency (8 percent) and alleged corruption (7 percent) and on a more positive note the fact that Namdeb is driving Namibia's economic development (6 percent).[ii] The study also clearly shows that normative legitimacy is the most important type of legitimacy present at Namdeb with a total of 82 percent of issues mentioned by stakeholders. Pragmatic legitimacy and cognitive legitimacy account for 14 and 4 percent respectively. For the sake of brevity, only the most important issues in terms of instances are briefly discussed below with reference to the three categories of 'controllability' – 'controllable', 'semi-controllable' and 'non-controllable'.

Table 1 – The Controllability of Issues affecting Namdeb's Organizational Legitimacy

Legitimacy Types	Controllable (60%) Issues – 29; Instances – 674	Semi-Controllable (31%) Issues – 12 ; Instances - 354	Non-Controllable (9%) Issues – 7 ; Instances – 100
MORAL - 82% **Issues – 28; Instances – 922**			
Moral-Political Issues – 12 Instances - 566	Transparency issues (85) Corruption (75) Accountability issues (44) Political interference (34) Good corporate governance (12) Reactive, not proactive (7)	Governance issues related to the PPJV structure (219) Distrust from society (24) View that governments should not do business (3)	Ownership of diamonds (37) Reputation and power of MNCs (18) Reputation of parastatals (8)
Moral-Economic Issues – 10 Instances - 299	High profits and no reinvestment (111) Driving econ. development (68) Resource curse (33) Paying taxes not enough (31) Investing in sustainability (10) Not planning for fluctuations on the international market (4) No development fund (4)	Reputation of the diamond industry (25) Government's investment regime too lenient (12) Unfair competition (1)	
Moral-Social Issues – 3 ; Instances - 3	Responsiveness to social needs & implementation of CSR projects (29) Safety measures in place (1)	Diseases (3)	
Moral Environmental Issues – 2; Instances - 7	Not adhering to international standards (2)	Off-shore exploration (5)	
Moral-Legislative Issues – 1; Instances - 17		Laws in place but not always implemented (17)	
PRAGMATIC 14% **Issues – 13; Instances - 155**			
Pragmatic-Political Issues – 7; Instances - 132	Not all stakeholders included (40) CSR seen as PR (34) Local communities not benefitting (29) Internal staff issues (11) Workers not from region (9) Sharing the 'know-how' with the government (7) Improved public relations (2)		
Pragmatic- Economic Issues – 2; Instances - 2	Disregarding unprofitable actions when people benefit (1) Training employees (1)		
Pragmatic-Social Issues – 2; Instances - 4	Infringing on people's rights (3) Mine fatalities (1)		
Pragmatic-Environmental Issues – 2; Instances - 17	Environmental policies & rehabilitation projects (15) Cooperating with government on environmental issues (2)		
COGNITIVE - 4% **Issues – 7; Instances - 52**			
Cognitive – Economic Issues – 4; Instances - 30		Cost of mining (10) De Beers' technical know-how' (4)	Finiteness of diamonds (13) Diamonds skewing development (3)
Cognitive – Social Issues – 2; Instances - 10		Putting strain on water and electricity supplies (1)	Mine closure (9)
Cognitive – Environmental Issues – 1; Instances 12			Destructive nature of mining (12)

5.1 Controllable Issues

Controllable issues account for 29 issues and 674 instances. The most prominent issue is 'high profits and no reinvestment' with a total of 111 instances. This issue is also considered an economic issue as it involves profits which are made in the country and which could potentially improve the local economy of the people by contributing to overall social and economic development locally. However, respondents lamented the fact that 'huge' profits were taken out of the country and that Namibians, especially local communities do not benefit from the exploitation of their own natural resource. This issue is considered 'controllable' as Namdeb and De Beers can be more open about the profits they may make and the percentage of the profit they spend on corporate social responsibility programs, for example. It was found that one of the main problems was that stakeholders did not have any idea about the amounts of money involved in the diamond industry but expect it to be very high. This idea is reinforced by the fact that diamonds are a luxury product mostly bought by the rich and famous and yet, in a country such as Namibia where the stones are mined, the majority of people are poor. De Beers should also invest more of its profits in order to garner greater moral responsibility.

The second and third most important controllable issues are transparency issues (85 instances) and corruption (75 instances). Both these issues are political and are directly linked to each other. For example, many stakeholders accused both Namdeb and De Beers of not being transparent. In their view, this lack of transparency potentially covers up corruption. Also, in the case of transparency, many respondents brought up the fact that they did not know how Namdeb was managed and how much environmental damage was caused by Namdeb. With regards to the 'controllability of these issues, it is considered that both Namdeb and De Beers can be more transparent by involving their stakeholders and by making more of their decisions and operations public. For example, Namibians should be able to see for themselves what the prohibited diamond areas look like, especially after the company promised that they rehabilitated the affected spots.

5.2 Semi-Controllable Issues

The most important semi-controllable issue is also the most cited issue (219 instances) by 100 percent of the stakeholders. This is 'governance issues related to the public private joint venture structure' which is a moral issue also classified as 'political' because of the highly political nature of the company. For example, many of the stakeholders interviewed mentioned issues such the dual role of the Government which implies a direct conflict of interest situation as the Government is both a business partner and the custodian of the people and the environment, and the legislator/implementer and regulator of Namibian legislation. This is obviously a serious issue affecting the legitimacy of the company and while some stakeholders were of the opinion that the Government should not be a part of the company, others were of the opinion that it is essential for the Government to play a leading role in the diamond industry as diamonds are a strategic resource. Yet another smaller group, mostly government officials and the mineworkers union were of the opinion that the industry should be nationalized. This issue is classified as semi-controllable as it is considered that the management of Namdeb, in collaboration with De Beers and the Government of Namibia is in a position to discuss the reasons for this type of partnership with stakeholders. In general, this type of company is considered a good way to manage natural resources provided that accountability and transparency are an infinite part of the governance structure.

5.3 Non-Controllable Issues

'Ownership of diamonds' (37 instances) is the most important non-controllable issue. This is an issue which affects moral legitimacy. Many of the respondents brought up the fact that the diamonds which made and continue to make De Beers rich, belong in fact to all of the Namibian people. Because of this, people expect De Beers to invest more in the economic and social development of the country. They also stress that diamonds are a non-renewable resource and especially because of this, De Beers and Namdeb have the responsibility to invest in sustainable projects in the country. De Beers and Namdeb cannot change the fact that diamonds are considered a natural resource which belong to the people of the country. They can neither control the number of diamonds which can eventually be removed from the Namibian soil. In view of this, the only responsible thing to do is to acknowledge these facts and to agree with stakeholders on how to 'repay' stakeholders in a fair manner.

6. Conclusion

Companies are able to control the majority of issues affecting their organisational legitimacy. Most of the issues playing an important role are also classified as 'moral' indicating that it often has something to with the values and expectations of stakeholders. A communication strategy alone is therefore considered inefficient for garnering legitimacy. Instead, companies are to address issues which come up individually as stakeholders will not be duped into simply believing that the company is generally acting legitimately because the same company is telling them in a general way that this is indeed the case. This research does not claim that the results are generaliseable across different types of companies, industries and countries. However, it indicates that organisational legitimacy is indeed affected by a complex maze of issues which need to be taken into consideration for company survival.

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[i] Note: Namdeb was founded in November 1994. The earlier data refer to its predecessor Consolidated Diamond Mines (CDM). For more details on the collaboration between De Beers and Namibia's government see Kempton and Du Preez (1997).
[ii] Percentages were rounded.

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