ELSEVIER

Long Range Planning 43 (2010) 326–342

LRP long range planning

http://www.elsevier.com/locate/lrp

Corporate-NGO Collaboration: Co-creating New Business Models for Developing Markets

Nicolas M. Dahan, Jonathan P. Doh, Jennifer Oetzel and Michael Yaziji

Multinational enterprises (MNEs) face a range of challenges when entering developing countries, including the need to adapt their business models to local markets' cultural, economic, institutional and geographic features. Where they lack the tangible resources or intangible knowledge needed to address these challenges, MNEs may consider collaborating with non-profit nongovernmental organizations (NGOs) to help facilitate new modes of value creation. In such cross-sector partnerships, parties contribute complementary capabilities along each stage of the value chain to develop products or services that neither could produce alone, creating and delivering value in novel ways while minimizing costs and risks. Our conceptualization broadens the business model concept to incorporate cross-sector collaborations, arguing such partnerships can create and deliver both social and economic value, which can be mutually reinforcing. We highlight, in particular, the competencies and resources NGOs can bring to such partnerships, including market expertise, legitimacy with clients/customers, civil society players and governments, and access to local expertise and sourcing and distribution systems. Beyond contributing to particular value chain activities, NGOs and companies can offer missing capabilities to complete each other's business models, or even co-create new and innovative multi-organizational business models. We stress four strategic imperatives for the success of corporate-NGO developing market partnerships – innovative combinations of firm and NGO resources and skills; the importance of trust-building, and of fit between the two organizations' goals; and supporting and understanding the local business infrastructure and environment.

0024-6301/$ - see front matter
doi:10.1016/j.lrp.2009.11.003

Introduction

Multinational enterprises (MNEs) face a range of challenges when entering and operating in developing countries. Dominant business model logics from developed countries may need to be adapted and adjusted to the cultural, economic, institutional, geographic and other features of these markets – but multinationals may lack the tangible resources or intangible assets to address these challenges successfully. Collaboration with a non-profit nongovernmental organization (NGO) may provide a partial solution to developing appropriate, bespoke business models for developing countries. In these joint efforts, NGOs and firms contribute complementary capabilities – both intangible assets such as knowledge, reputation, and brand, and tangible resources, such as human capital, production capabilities and market access – along each stage of the value chain and affecting many aspects of the business model. These initiatives enable participating firms to create and deliver value in novel ways, while minimizing costs and risks. We seek to highlight, in particular, the competencies and resources that NGOs can bring to such partnerships, including market expertise (needs identification, knowledge of certain market segments); the value of NGO brands to customers, customer relationships, legitimacy with civil society players and governments; and ownership of – or access to – local distribution systems and local sourcing abilities, which can also enable them to contribute to formulating novel and viable business models.

NGOs – such as Amnesty International, CARE, Greenpeace, Oxfam, Save the Children, World Wide Fund for Nature and hundreds of other smaller examples – that engineer campaigns with the goal of advancing specific causes have become important actors in the global political, social, economic and business environment. Recent statistics indicate a 450 percent increase in the number of international NGOs between 1990 and 2000.[1] The advocacy, operations and service delivery of many NGOs is designed to ameliorate intractable social and environmental problems, working on multiple issues including combating hunger, curtailing human rights abuses, countering environmental degradation and improving health care. NGOs and for-profit corporations are also developing more collaborative relationships of potential mutual benefit. Their relationships with NGOs can provide corporations with access to different resources, competencies and capabilities than are otherwise available internally, or which they might acquire from alliances with other for-profit organizations.[2] These can enable corporations to overcome business model liabilities in developing countries by helping them to identify market shifts and trends, accelerating market entry, and in some cases, co-developing innovative new business models. Exhibit 1 outlines a handful of the hundreds of innovative partnerships emerging between MNEs and NGOs around the world.

Exhibit 1
Innovative MNE/NGO partnerships

In May, 2008, Microsoft Corp (MS) and One Laptop per Child (OLPC) of Cambridge, MA, announced an agreement to make a version of MS Windows available on the low-cost XO laptops the non-profit is distributing around the world. In India, Unilever has teamed up with NGOs to create Shakti, a rural network employing 31,000 women that sells products adapted to customers in more than 100,000 rural villages. Electricité de France (EDF) is bringing electricity to rural areas through a range of partnerships: its Energy Access program involves collaboration with the World Bank, UN agencies, other multilateral and bilateral donors and NGOs to create small, locally-run companies to provide electricity. The potential in such basic infrastructure areas is enormous: two billion people worldwide still have no access to electricity.

This article extends the business model concept in documenting the case of firm-NGO partnerships as a particular response to a fundamental problem MNEs face in developing countries markets: how to adapt existing, or develop new, products and services that are appropriate for the local context when critical information about those markets is difficult to acquire, marketing outreach and distribution is inaccessible, and broader brand awareness and social reputation are hard to come by.

Our conceptualization represents an extension of the business model concept in two ways. First, we broaden the concept to incorporate cross-sector collaborations; previous business model research has focused almost exclusively on business models as executed by single firms or, in a few cases, by business partnerships. Second, business model research has traditionally identified the purpose of the business model as generation and delivery of economic value: here we extend the notion to argue that business models can be viewed as generators of social value, and that economic and social value creation can be mutually reinforcing. The primary contribution of our article is to extend the business model literature beyond the traditional focus on private sector value creation towards models where businesses, NGOs - and other types of non-traditional partners - can work together in cross-sector alliances or other collaborations to create new products and services, pioneer new delivery methods, improve the quality of existing products and services, and generate new value for the customers and clients of all parties. Business models resulting from these partnerships may create economic value, social value, or both.

Our level of analysis is the partnership, alliance or other cross-sector initiative or project. These collaborative formats are the vehicles through which new business models are developed, and facilitate the creation of new products and services: we focus here on how this process works and offer examples of the resulting project-level outcomes.[3] Just as new technologies can enable businesses to reach new customers, provide better products and services to existing customers - and at lower cost - so too can cross-sector partnerships facilitate the creation of new business models. Unlike the adoption of technologies like the Internet, which are readily available in the marketplace, the new business models generated through these cross-sector partnerships are likely to be harder for other firms to replicate.

Strategy is how to move to a desired future state: a business model describes that state. A good model will be relatively comprehensive, and coherent - its attributes will fit together in a way that makes sense

Value creation through collaborative business models

The business model literature has a long and varied history, tracing its origin to Peter Drucker's classic 1954 book, *The Practice of Management*.[4] The concept gained increased currency in the late 1990s in the context of the development of new business models that took advantage of impressive advances in information communication technology (ICT) and, of course, the internet,[5] and has subsequently been applied more broadly in a range of corporate settings.[6] There is no one clear and consistent definition of a business model - but a useful approach is to consider the concept as a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network.[7] While the concept is not universal, most conceptualizations of business models contain common definitional elements which we highlight here.

- First, we can distinguish a business model from a strategy, another concept with which it is often confounded. A strategy can broadly be understood as a description, plan or process for how to move from the current situation to a desired future state. By contrast, a business model is *a description of a state*.
- Second, a good business model is a *relatively comprehensive* description of the organization's situation. A complete business model may include descriptions of organizational governance,

structures and capabilities, partners, the target market, the value proposition, who is creating and capturing value, the value chain, as well as which activities will be conducted by the focal firm, by partners, or through arm's length transactions, as well as revenue and cost structures. It is important to note that a business model will include not just a description of the organization but also, critically, a description of its environment, including the broader (economic, social and political) institutional context, competitors, customers, consumers, suppliers and - especially relevant for our discussion - partners.

- Third, a good business model will be *coherent* - its various attributes will *fit together in a way that makes sense.* For example, a 'low price, high volume' business model will make sense only if there is an appropriate low-end target market and if the organization is optimized around cost minimization so it can benefit from size-related economies.
- Fourth, given the requirement for coherence, some believe that there are a finite number of generic business models — including, for example, those termed *low-cost; open source; copy-cat; 'bricks and clicks';* and *differentiation* business models, thus making a typology possible.

We contend that, just as firms do, NGOs use business models to structure and map the mechanisms whereby they intend to deliver value - generally social rather than economic - to their target public, and how the necessary costs and revenues will be structured. While NGOs have no mandate to generate profits, they are concerned with balancing their economic needs with their various sources of financing in order to sustain their operations and have maximum impact on the ground, and are thus subject to the same forces and reasoning as for-profits when designing their business models. While business model research has most often focused on value creation, it has also addressed issues of value appropriation and capture. In this article, we are primarily concerned with the value created by corporate-NGO alliances and partnerships, and - more specifically - we focus on both the economic and social dimensions of value creation. Economic and social values are dual outcomes of several of our examples of MNE-NGO alliances.

We see three archetypal 'scenarios' in the evolution of how corporate-NGO collaborations restructure, redefine or develop new business models, which are illustrated in Figure 1. The first situation (Case 1) represents the situation where the corporation and NGO each have a complete business model that they can fully carry out alone, obviating the need for any collaboration. In Case 2, one or both parties possess preexisting business models that are incomplete — since they rely on resources and skills the organization does not possess or fully control — and can only be realized by accessing the capabilities of the other partner. By providing each other with access to rare resources, the parties can make each other's (separate) developing country business models viable — NGO support can enable the implementation of a firm's business model that generates

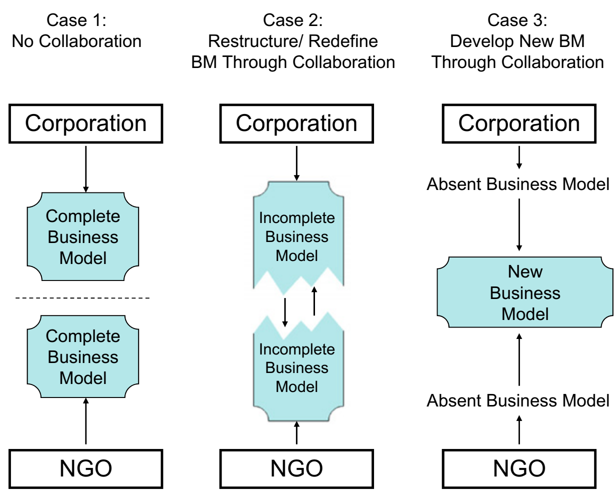

Figure 1. Corporate-NGO Collaboration for Developing Country Business Models

and delivers economic value to customers, or assistance from a for-profit can facilitate the business model of an NGO's project for generating and delivering social value to its target public. Each business model remains distinct - but both depend on the organizations acting complementarily, as neither could succeed without the input of the other. In the third case (Case 3), there is no prior business model, and a common one - based on resource contributions from both partners - is developed for a joint project which is carried out by the two together, with the understanding that each partner derives a distinct benefit from the collaboration, leading to financial earnings for the firm, and enabling the NGO to deliver impactful social value. Thus a joint project's business model delivers both economic and social value concurrently.

Firm/NGO cooperation and co-creation in developing markets

The opening and liberalization of developing country markets presents new kinds of opportunities, and also constraints. That the institutional conditions and idiosyncratic environments of developing countries present formidable challenges for corporations entering and operating there has been widely documented.[8] At the most basic level, the unique institutional conditions in developing countries preclude simply importing existing developed market business models. Adapting existing or creating new business models for developing markets will often involve redesigning value delivery systems, product attributes and cost structures in order — for instance - to supply a profitable offer at prices much lower than the standard developed country offer.[9]

Research on alliances between for-profit firms in commercial environments suggests that each partner benefits when one brings resources, capabilities or other assets that the other cannot easily attain on its own. These 'combinative capabilities' allow the firm to synthesize its acquired resources, and build new applications from them, so as to generate innovative responses to unfamiliar or rapidly evolving environments.[10] We extend this notion to include collaborative relationships between MNEs and NGOs in developing country environments, a conceptualization that challenges some established orthodoxies of international strategy, notably the assumptions that entry modes and operational structures will closely follow the patterns of developed country markets. The inherent differences in mission, governance, strategy and structure between corporations and NGOs mean that business models emanating from their collaborations will usually be opportunistic, project-based initiatives, as opposed to representing deep and fundamental transformational change at the corporate level. Importantly, however, some of these project-based interactions will result in prototypes which can form the basis for deeper, longer-term collaborations - and these may result in more fundamental business model and strategic changes in both firms and NGOs.

In their review of corporate-NGO collaborative initiatives Selsky and Parker note that the terminology for these cross-sector relationships varies,[11] and includes *social partnerships, intersectoral partnerships, social alliances, issues management alliances* and *strategic partnerships*.[12] Regardless of the vocabulary, collaborations between some combination of public authorities, nonprofit organizations and MNEs may provide opportunities for the latter to address developing markets with product or process innovations that would be less likely, or less successful, than they would without the partnerships. Rondinelli and London note that '*Alliance[s], in fact, may be the only option for companies interested in accessing the knowledge held by (NGOs), since internal development of such expertise may be too costly, inefficient and time-consuming for most companies and merger with or acquisition of an (NGO) is highly unlikely,*' while Kramer and Kania support a similar view: '*Nonprofits often have a deeper understanding of the social problem, which enables them to help companies devise more comprehensive strategies and set more ambitious and attainable goals*'.[13]

A developing country business model will be incomplete unless it addresses the specific constraints of the local context. However (as noted above) neither firms nor NGOs may possess, within their own organizations, the full range of tangible and intangible capabilities or resources required to compete successfully in such environments. Typically, MNEs possess capital, managerial capability, large-scale and global production capabilities, legitimacy with other private sector-players, global sourcing, purchasing power and brand value with customers. On their part, NGOs can offer competencies and resources of their own, such as market knowledge and expertise (needs identification, knowledge of specific or new market segments); brand value with their own clients and the trust of customers and gatekeepers; legitimacy with civil society players and governments; relationships with global and local suppliers; as well as other local advantages such as sourcing ability and ownership of (or access to) distribution systems. MNEs may need to form collaborations with a variety of stakeholders - government agencies, indigenous civil society organizations, local suppliers and customers - to access these NGO capabilities. But this process need not just be one-way: indeed, combining and leveraging their relative strengths through collaborative efforts can allow all parties - MNEs, NGOs and other nontraditional business partners — to achieve their individual organizational goals more fully.

Combining and leveraging their relative strengths through collaboration can allow MNEs, NGOs and other nontraditional business partners to each achieve their individual organizational goals more fully.

We now examine our second case in Figure 1 in more detail, providing examples of how NGOs and firms can work together, in varying degrees and in complementary ways, at each stage of the value chain, to support the development of market business models that would be incomplete without their partner's support.

Firm/NGO contributions to market research

Most NGOs involved in social issues in developing countries have 'on-the-ground' facilities and staff who will have first-hand experience of the cultural specificities, living conditions, typical hardships and lack of infrastructure in a developing country.[14] They will be acutely aware of its population's economic and social needs, as well as being in touch with social trends, and thus able to identify potential local markets and products. Collaborating with NGOs possessing these insights can allow a firm to develop a product or service offering better adapted to the local market context.

Ashoka — a foundation dedicated to promoting social entrepreneurship in developing countries — has developed a Full Economic Citizenship Initiative (Ashoka/FEC) - an example of an NGO effort specifically designed to bring local market research and technical expertise into partnership with businesses to establish large-scale solutions for solving economic development problems in low-income countries. One of their projects centers on expanding irrigation in Latin America. Ashoka discovered that the 35 million smallhold farmers who live on less than two dollars a day in Latin America could double or triple their incomes if their land were adequately irrigated. But only about 12 percent of agricultural land is irrigated, and water rights are often controlled by a few wealthy landholders. To try to democratize access to quality irrigation systems, Ashoka/FEC has brokered a commercial partnership between a multinational water distribution system company and several citizen-sector organizations working on rural issues. Ashoka reports that these efforts have led to the creation of new delivery channels to serve low-income farmers, some of which have used new technologies developed in Latin America. For the water distribution MNE involved, the 88 percent of farmers without adequate irrigation represent a significant market opportunity.[15] The local NGOs and other organizational partners educate small farmers about new irrigation technology and promote its use, identify sources of consumer financing for farmers and help link them to markets to sell their increased production; in return, these groups earn a commission on sales to cover their operational expenses and advance their social programs.

Without this corporate-NGO collaboration, it is highly unlikely that either the NGOs and local citizen groups or the MNE could have succeeded on their own. The former lacked the technical, organizational and financial resources to transform their market research and knowledge of newly developed Latin American irrigation technology into a functioning water delivery system. On their side, the multinational would have been unaware of the new irrigation methods and how they could be utilized to create a profitable business opportunity, and would have found it exceedingly difficult to reach potential customers and aggregate the consumer base into a viable market without the input of the NGOs and citizens' groups. Thus, key business model variables — including target customers, the value proposition, the governance of activities and the distribution channels — were all redefined in the specific new business model developed by the collaboration for this situation.

Firm/NGO contributions to product R&D

R&D efforts can be product- or technology-driven on the one hand - as when basic science leads to new components or products being envisaged before a market is even identified (in fields such as, for example, nanotechnology) — or market-driven, as when a solution is developed in response to an identified need. In NGO/corporation collaborations, corporations are often involved in more 'upstream' R&D areas - i.e., actual product creation - whereas the NGOs are closer to the market side of the process, identifying needs or providing feedback on the various options being considered by the firm, either through their intimate knowledge of local needs or through test marketing in a small market to fine-tune a concept before a broader launch.

Cemex reduced self-construction time by 60% and costs by 35% and Patrimonio Hoy developed a low-income financing program. By 2008, the partnership had benefited more than 200,000 Mexican families and expanded into Colombia, Venezuela, Nicaragua and Costa Rica.

Cemex — Mexico's largest integrated building solutions company (and the third largest in the world) — worked with Patrimonio Hoy, a self-financing nonprofit (created by Cemex itself, among others), to 'co-create' a solution aimed at alleviating the dire housing deficit in Mexico, estimated at four million homes affecting 20 million people. This joint effort developed a new offering in the form of a sales, distribution and savings program aimed at serving Mexico's self-construction housing market. In collaboration with Patriomonio Hoy employees in the targeted communities, Cemex developed a package of new products and services that reduced self-construction time by 60 percent and costs by 35 percent, facilitated the timely supply of materials, and included - an important aspect - a financing program aimed specifically at the low-income target market. By 2008, the Cemex Patrimonio Hoy partnership estimated it had benefited more than 200,000 families in 22 states throughout Mexico, and the program had also expanded to Colombia, Venezuela, Nicaragua and Costa Rica.[16]

While foreign multinational firms often lack the level of local knowledge that can be critical to developing and testing new products, they have a great deal of experience and expertise in product R&D generally, and can prototype new products quickly and efficiently. In this case, Patrimonio Hoy would not have the technical and manufacturing resources and expertise to provide construction materials at affordable prices on its own, while — similarly - Cemex needed its nonprofit partner's local knowledge and access to understand the specific needs of self-construction consumers and to develop and administer the collaboration's microcredit system. This corporate-NGO effort has resulted in economic value creation for Cemex - in terms of increasing its customer base and enhancing its reputation - and has also delivered substantial social value by increasing access to housing in the communities served by Patrimonio Hoy.

Firm/NGO contributions to procurement and production

Successful business models for lower income markets are usually based on low-cost, low-margin, high volume patterns: legitimacy with suppliers and the buying power to secure high purchase volumes and multiple product purchases can be critical to such low-cost business models. In these matters, it is the corporations that tend to have the relevant resources and skills: global firms can wield tremendous buying power and have on-going relationships and legitimacy with global suppliers, who are more likely to have the scale to produce supplies at lower cost than developing market providers, particularly in terms of physical supplies. For their part, NGOs can help with procurement, particularly of low-cost labor, and can often both identify and develop the local labor pool through training. This is especially important in service industries such as microcredit, where low-cost labor is a critically important input for the model, and for the training and monitoring activities involved in various fair trade and sustainability-focused business models. Where production is local, as well as sourcing and developing local labor, NGOs can often manage it better than can a foreign partner firm.

Nestlé's cocoa initiatives in Africa are a good example of corporate-NGO collaborations along a supply chain. Together with a dozen other major chocolate manufacturers, Nestlé has partnered with NGOs and local governments in setting up programs to improve labor conditions and promote sustainable farming practices in West Africa. Nestlé is at the forefront of the latter objective, with its sponsorship of 'farmers field schools' in the Ivory Coast,[17] which support both the production of higher quality cocoa (thus ensuring Nestlé has access to a valuable supply line), and the social benefits of that production. Here again, substantial value is created on both fronts: Nestlé gains a strong and more skilled labor force as well as access to better ingredients, while the NGOs further their mission to support sustainable farming and fair labor conditions, helping reduce abusive child labor and slavery in the African cocoa industry.

Firm/NGO contributions to distribution

NGOs and corporations can often provide each other with complementary distribution capabilities, with corporations providing global distributions systems and NGOs - who have knowledge of, and access to, local networks and existing distribution systems and have built trust with various local stakeholders - facilitating the 'last mile' local distribution.[18] For example, 'Doctors Without Borders' extensive on-the-ground networks in developing countries make it a reliable, efficient and trustworthy partner for pharmaceutical companies for distributing medications in such environments.

New products targeted for developing markets are often distributed as a bundle with an array of complementary services - such as technical assistance, service and financing - that are critical to the success of the venture. Providing this product/service bundle on the ground can be a shared responsibility between the firms and NGOs. In the Cemex affordable housing case, participants enter a savings and credit program, get assistance to plan construction work and benefit from services such as material storage, delivery and guaranteed two-year fixed prices. This coordinated access to the services of both Cemex and its NGO partners helps the company reach new customers it could not serve otherwise, and poor families to improve their living conditions.

Again in the microfinance arena, HSBC Amanah (HSBC's global Islamic banking division) has partnered with the international development and relief organization Islamic Relief to offer Islamic Microfinance in Pakistan: both microfinance and banking ventures provide financial services to devout Muslims in accordance with Islamic Shariah law. HSBC Amanah provides funding and training in microfinance to Islamic Relief, which, in turn, fulfils a role comparable to a local partner marketing company, marketing microfinance to local entrepreneurs, identifying and screening customers and their projects and tailoring the offering as needed.[19]

Firm/NGO contributions to marketing

NGOs usually have recognized expertise in a social issue and the public legitimacy to address it, and the impact of commercial firms' marketing messages is greatly enhanced by endorsements from non-profit organizations. This 'co-branding' brings tremendous credibility to the firm's claims regarding the benefits of its product/service, increasing the perceived value of its offering.[20] As developing market customers often have little (or no) education, and illiteracy levels may be high, NGO staff can provide much-needed local consumer education about how to use a product or service. Raising awareness of the product's existence, and convincing consumers that using it is both beneficial and straight-forward, can be important prerequisites to a firm building a customer base.

Population Services International (PSI) is one of the largest social marketing NGOs in the world. It uses commercial customer education and marketing techniques tailored to developing markets, and has tremendous local expertise critical to successful marketing, as well as in market research and product R&D. Working together with firms, it educates customers to increase uptake of products such as malaria and AIDS treatment and prevention, birth control and water treatment. For instance, unsafe water supplies and inadequate sanitation kill more than three million people worldwide every year, making this problem collectively more lethal than AIDS. In 2003, a $20 million Procter & Gamble (P&G) R&D and marketing project had reached a commercial impasse after eight years of work.[21] A decade earlier P&G had spotted an opportunity to supply a water-purifying product it believed could save lives in the developing world by providing a simple way to purify household and drinking water, and (it hoped) would increase the company's share of the mass consumer market in emerging economies. But it had no expertise or credibility in water access and management, and reached out to various partners - including PSI — for social marketing expertise and funding. PSI had previously been involved in the initial design and testing of the first safe water solution trials, and had subsequently implemented safe water programs in 20 developing countries. Thus it had fundamental expertise - which P&G lacked - about how water was viewed, used and distributed in developing countries. In 2000, this relationship allowed P&G to develop and launch PUR, a sachet of powder which, mixed into a 10-litre bucket of dirty water, would make it clean and safe to drink. Pricing its product for a low-income commercial market at $0.08—$0.10, P&G has since sold millions of units.[22]

PSI had fundamental expertise about how water was viewed, used and distributed in developing countries. In 2000, this [facilitated] P&G in launching PUR, a sachet of powder that made dirty water clean and safe to drink, which has since sold millions of units.

In the area of microfinance, MasterCard builds on an affinity card relationship with Banco Popular Dominicano and Asociacion para el Desarrollo de Microempresas, Inc. (ADEMI), a micro- and small-scale lender in the Dominican Republic. ADEMI's marketing efforts have drawn 15,000 owners of microenterprises, most of them too small to attract banks due to their lack of profit potential, into the formal financial system. About 3,000 of these previously 'unbankable' entrepreneurs are now using MasterCard-ADEMI-Banco Popular Dominicano credit cards at purchasing outlets, to withdraw cash and to pay utility and other bills, thus building their stature in the local business community. Citicorp, HSBC and other well-known financial institutions are following suit.

Firm/NGO contributions to new business model development

Beyond contributions to particular activities within the value chain (which corresponds to our second case in Figure 1, where each organization supports the business model of its partner's project), some of the most exciting, challenging and innovative developments have been multiple-organization, cross-sector partnerships, often involving national governments, transgovernmental organizations, firms and NGOs. In these complex partnerships, the co-imagining and co-creation of complex multi-organizational business models has been as critical as the actual execution of the diverse activities by various players. This co-creation by all the partners of a novel joint business model corresponds to our third case in Figure 1.

One example of this type of complex collaboration is the Global Health Initiative (GHI) which was initiated by Kofi Annan and the UN and is run by the World Economic Forum. GHI's purpose is to engage businesses in public-private partnerships to address global health concerns such as AIDS, tuberculosis and malaria, and the initiative has received strong support — financial and otherwise — from many firms, academics, NGOs and governments in both developed and developing nations. One example of its work is the development of a GHI 'toolkit' entitled *Protecting Your Workforce and Surrounding Communities from Tuberculosis,* targeted at employers and produced in collaboration with the Lilly MDR-TB Partnership. The aim of this initiative is to boost the involvement of Chinese companies in tackling the country's tuberculosis crisis. If successful, the project would create substantial value in terms of widespread public health benefits in China, while private firms stand to benefit from having a healthier workforce.

Another example is the successful co-venture between NGOs and the private sector to produce and distribute mosquito nets in Africa. This collaboration involves the AtoZ factory in northern Tanzania, ExxonMobil and the Japanese pharmaceutical Sumitomo, together with the World Health Organization (WHO), UNICEF and other non-profit groups. Working with Chinese engineers African workers produce mosquito nets in the AtoZ factory, which are purchased by the WHO and distributed across Africa using funds raised by the international community. The AtoZ factory uses a resin supplied by ExxonMobil for the yarn for the nets - and ExxonMobil hands over its income from the resin sales to UNICEF, which uses it to buy more nets. Sumitomo sells long-life insecticide to AtoZ, but also donates production technology know-how to the venture, which it regards so favorably it is planning a large joint-venture with the AtoZ factory to increase production.[23]

In each of these complex partnership examples, firms, NGOs, and other partners bring different resources and capabilities, and different strengths and areas of expertise: in combination, these allow public-private partnerships to co-imagine and co-create complex systems of value delivery that would probably otherwise be inconceivable.

An overarching goal of many multinationals is to gain social legitimacy in markets which view them with suspicion or skepticism.

Social and economic value complementarities

We are primarily concerned in this research with the question of value creation as opposed to value appropriation, capture or distribution among the collaboration partners. Most of the initiatives documented here are at relatively early stages, and it would be difficult to quantify precisely the benefits to the different types of collaborators. What we can see is that complementary social and economic value is being created for intermediate or final customers (or adopters/users in the case where third parties are purchasing goods or services distributed free or at low-cost). An overarching goal on the part of many of the corporate partners is the desire to attain social legitimacy in markets where foreign multinationals are often viewed with suspicion and skepticism. By lowering costs, reaching new groups of customers, streamlining distribution and - more broadly - by filling institutional voids through new product or service offerings, these collaborative initiatives provide bundles of social and economic value that may be very difficult to disaggregate. Through these collaborative efforts, MNEs - with their advantages of financial and organizational size, managerial and marketing expertise and operational scale and scope - can enable NGOs to enhance their product and/or service offerings and improve their organizational performance and thus create more social value for their constituents. Going forward, as these new business models mature and become more formalized, we expect more specific contracting arrangements to be developed, with corporate and NGO partners negotiating more comprehensive cost and revenue sharing arrangements akin to alliance contracts among private partners.

Table 1 summarizes the specific contributions NGOs make to business models, noting the market constraints facing corporate/NGO collaborations in addressing developing country markets and how key NGO resources and capabilities made direct contributions to the generation of new business models. It also highlights the specific ways in which NGOs contribute to the MNE business model - in terms of value creation, value delivery, revenue generation and cost minimization - and how economic and social benefits are likely to be distributed by the partnership.

Corporate-NGO business models in developing countries: risks and recommendations

Despite the potential opportunities and benefits we have documented, identifying and accessing NGO capabilities may itself pose managerial and organizational challenges for MNEs. Rondinelli and London note that corporations and NGOs have fundamentally different structures and values, and that relations between the two have often been characterized by hostility and mistrust. They point out that cross-sector collaborations face the additional challenge that the levels of common experience generally required for successful organizational learning are often lacking (or are only weak) in alliances between profit-making and nonprofit organizations.[24] This lack of common experience, trust and communication can sometimes result in conflict, even when partnerships appear to have shared values and commitments. Indeed, partnerships with NGOs may sometimes open a path to escalating (and potentially unrealistic) demands for firms to upgrade their commitment to social development. There are also more specific threats and challenges around such partnerships. One is that a company interacting with an NGO is likely to be providing it (and potentially other interested parties, such as regulators and even competitors) with sensitive, proprietary information. Knowledge of a company's R&D projects, strategic plans and internal audits may help NGOs be better partners, but could also turn them — or their other partners — into challenging competitors. Companies should have strict disclosure policies and guidelines for their partnerships with NGOs, just as they would for commercial joint ventures.

We believe there are four strategic imperatives for the success of sustainable long-term corporate-NGO alliances. The first two deal with internal issues to the alliance, while the other two address external issues in its local environment: they are summarized subsequently in Figure 2.

- **'Combinative Capabilities' across Business Activities**. Many NGOs can provide more than one of the capabilities described above. For example, nonprofit partners in microfinance contribute new product and service ideas, open up new distribution channels and offer insights for novel marketing practices. Firms should seek to exploit the entire range of potential contributions a partner NGO may be in a position to make.
- **Organizational Fit, Cultural Compatibility and Trust: Key Elements for Comprehensive, Ongoing Alliances**. In some instances, corporations and NGOs may simply enter into a one-time (or repeated) contractual arrangement. However, for more comprehensive and ongoing alliances, organizational fit, cultural compatibility and trust are all critical to success, as they are in alliances between private business organizations. There are many examples of failed corporate-NGO partnerships where strategic integration and resource complementarity brought the two parties together, but which were doomed by fundamental differences in organizational culture and a lack of basic trust. These issues are especially challenging as private corporations and NGOs have fundamentally different values and missions.[25]
- **Supporting Local Business Environments**. Developing markets commonly lack critical supporting activities to enable firms to provide product or service offering successfully. Infrastructures,

Table 1. Specific NGO Contributions to Business Models in Developing Markets

Business activities and example	Market constraint and NGO contribution	Relation of new model to prior corporate or NGO business model	Potential benefit(s) to business model	Distribution of social & economic benefits
Market research: Ashoka/FEC project to provide irrigation to small farmers in Latin America	*Market constraint*: Lack of knowledge; overcoming information asymmetries, *NGO contribution*: Identifying innovative technologies developed for unique local environment and market conditions; identification and aggregation of customer base	New co-created business model that enabled the provision of irrigation service to farmers resulting in a doubling or tripling of their incomes; enabled private sector firm to reach new customers that would otherwise be inaccessible.	Generation of novel Business Model	Social and economic
R&D: Cemex's Patrimonio Hoy program	*Market constraint*: Lack of appropriately priced and designed construction materials for self-construction of housing and financing *NGO contribution*: Market testing of products, incorporation of customer feedback; use of internal microcredit system to facilitate purchase of newly developed materials	New co-created business model that enabled Cemex to expand its market to through reconfiguration of its business model and made it possible for Patrimonio Hoy to expand housing opportunities for low income families.	Generation of novel Business Model; Value creation; Cost minimization	Social and economic
Procurement and Production: Nestlé's cocoa farming initiatives	*Market constraint*: Underdeveloped human capital; need access to local networks and supply chains *NGO contribution*: Established relations with local communities and host-country governments	Extends Nestlé's existing business model (supply chain) and enables local NGOs to increase employment and other social benefits for residents.	Value creation; Value delivery; Cost minimization	Primarily economic

(*continued on next page*)

Table 1 (*continued*)

Business activities and example	**Market constraint and NGO contribution**	**Relation of new model to prior corporate or NGO business model**	**Potential benefit(s) to business model**	**Distribution of social & economic benefits**
Marketing: P&G/PSI and the Safe Drinking Water Alliance	*Market constraint:* Lack of knowledge surrounding distribution and use of water in developing countries *NGO contribution*: Input in product development, co-branding, customer education	Extends P&G 's and PSI's existing business models by expanding the market for and the affordable availability of water-purification products (P&G product development; PSI's distribution networks)	Value creation	Social and economic
Distribution: HSBC Amah and Islamic Relief	*Market constraint:* Access to local networks and supply chains *NGO contribution*: May take on the provision of some services itself	Extends HSBC Amah's existing business model	Value creation; Value delivery; Cost minimization	Primarily economic
Comprehensive: AtoZ Mosquito Net Venture	*Market constraint:* No single organization was able to develop and distribute affordable mosquito nets *NGO contribution*: Holistic and fundamental rethinking of product/process and construction of new model tailored to specific context	Creation of new product based on shared technology and expertise. WHO participation makes product accessible to many people in Africa. Substantial financial and social value created.		Social and economic

marketing media, distribution channels, financing services may be unavailable or insufficiently developed. Firms must move beyond their core offering and commit to organizing a wider array of activities if they are to provide an integrated bundle of products and services successfully, either by internalizing these additional activities or by coordinating with external partners such as NGOs. Local businesses must be strengthened and supported if the potential benefits of cross-country corporate-NGO partnerships are to be realized: strong local businesses are vital to the continued growth of the private sector in developing countries, and for supporting corporate-NGO alliances. They can provide products or services to both NGOs and foreign firms, and can help train and develop a country's human resources. Local businesses attempting to innovate and develop new products and services can be strong partners for foreign firms and NGOs because of their unique local market perspective. It is in the self-interest of businesses and NGOs to support such private sector capacity development, and help local firms improve the quality of their products and services so they can be globally competitive.

It is in the self-interest of businesses and NGOs to support private sector capacity development, helping local firms improve the quality of their products and services so they can be globally competitive.

- **Understanding the Unique Conditions of Developing Countries**. There is no substitute for first-hand experience in the developing world. Managers interested in developing cross-sector alliances, and hoping to develop innovative business models for such countries, must understand the dynamics of the local country. Consumer, producer and even NGO behaviors may differ substantially between developed and developing countries, and may sometimes seem counterintuitive to Triad country managers. Only through experience can managers begin to understand the complexity of doing business in these environments.

Notwithstanding these challenges, we believe corporate-NGO partnerships hold great promise for companies seeking to break free from conventional constraints in adapting existing business models and developing new ones. By reaching out across sectors, well beyond their typical range of partners and collaborators, companies can find avenues to overcome institutional constraints, pursue opportunities of which they would otherwise be unaware, and approach problems in ways beyond their current capabilities and vision. Not only may the strategies firms develop in such activities contribute to their strategic renewal,[26] but the ability of a firm to overcome the challenges we describe and successfully partner with an NGO may *itself* constitute a capability that can lead to competitive advantage for the firm.

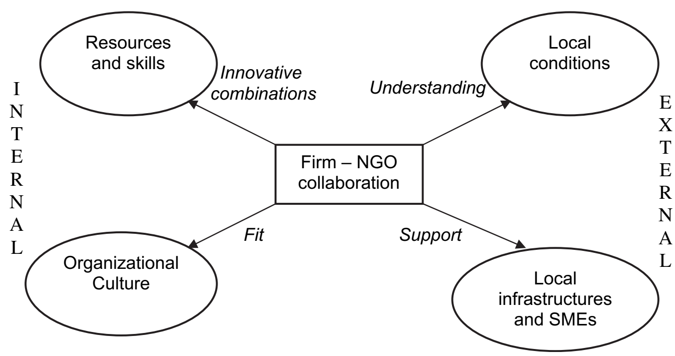

Figure 2. Four Strategic Imperatives for Successful Corporate-NGO Alliances

In closing, our conceptualization represents an extension of the business model concept in two ways. First, the means by which new business models are created is through cross-sector collaborations, as opposed to the previous research focus on single firm business models or business-business partnerships. We present two distinct mechanisms whereby firms and NGOs can collaborate in improving their business models: where partners contribute to the completion of each other's business model (case 2 in Figure 1), or where they jointly create a novel business model (case 3). Second, business model research has traditionally proposed that the purpose of business models is to generate and deliver economic value. Here we extend this notion to include social value, stressing that both types of value can be achieved concurrently, and can be mutually reinforcing.

[novel, collaborative business models can allow] economic and social value to be achieved concurrently, and to be mutually reinforcing.

Acknowledgements

We thank the Special Issue editors, Benoit Demil and Xavier Lecocq;the journal's Editor-in-Chief, Charles Baden-Fuller, and its anonymous reviewers for their guidance and encouragement.

Appendix

This article builds on our prior research on the emergence of NGOs and their contributions to global governance and value creation, the capability of multinationals to leverage their unique resources and combine them with those of NGOs to contribute to the process of development, and a comprehensive project by two of the authors on NGO-corporate engagement. In developing our initial intuitions and research questions we also drew, in part, on an earlier survey from one of the authors.[27]

Data for our cases was taken from two of the authors' consulting and executive education work (especially the examples related to HSBC and Nestle) as well as from publicly available archival sources. We used an inductive approach to select our cases; that is, they were intended to illustrate and punctuate our theoretical development, rather than to serve as a formal test of the validity of that theory. This approach is consistent with a form of comparative case analysis that has been termed 'strategic narrative', as used in a number of studies seeking to show new applications of existing theory.[28] Our goal was to generate and refine our theoretical insights as well as to draw sound practical insights. Our conclusions and insights provide the conceptual basis for further formal empirical testing via survey research, ethnographic studies and field research.

References

1. M. Yaziji, Turning gadflies into allies, *Harvard Business Review* **82**(2), 110–115 (2004).
2. H. Teegen, J. P. Doh and S. Vachani, The importance of nongovernmental organizations (NGOs) in global governance and value creation: an international business research agenda, *Journal of International Business Studies* **35**(6), 463–483 (2004); Yaziji M. (2004), op. cit. at Ref. 1.
3. J. Magretta, Why business models matter, *Harvard Business Review* **80**(5), 86–92 (2002).
4. P. Drucker, *The Practice of Management*, Harper Row, New York (1954).
5. C. Kim and R. Mauborgne, Value innovation: the strategic logic of high growth, *Harvard Business Review* **75**(1), 102–112 (1997); C. Kim and R. Mauborgne, Strategy, value innovation, and the knowledge economy, *Sloan Management Review* **40**(3), 41–54 (1999).
6. C. Baden-Fuller and J. Stopford, *Rejuvenating the Mature Business* (2nd ed.), Harvard Business School Press, Boston (1994); C. Baden-Fuller, F. van den Bosch and H. Volberda, Mastering strategic renewal, *Long Range Planning* **34**(2), 159–178 (2001).
7. S. M. Shafer, H. J. Smith and J. C Linder, The power of business models, *Business Horizons* **48**(3), 199–207 (2005); Magretta J. (2002), op. cit. at Ref. 3.

8. See T. Khanna and P. Krishna, The future of business groups in emerging markets: long-run evidence from Chile, *Academy of Management Journal* **43**, 268–285 (2000); T. Khanna and K. Palepu, Why focused strategies may be wrong for emerging markets, *Harvard Business Review* **75**(4), 41–51 (1997); T. Khanna and K. Palepu, Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups, *Journal of Finance* **55**(2), 867–891 (2000); T. Khanna, K. Palepu and J. Sinha, Strategies to fit emerging markets, *Harvard Business Review* **83**, 63–74 (2005).
9. C. K. Prahalad and S. Hart, The fortune at the bottom of the pyramid, *Strategy + Business* **26**, 13–14 (2002).
10. B. Kogut and U. Zander, Knowledge of the firm, combinative capabilities, and the replication of technology, *Organization Science* **3**(3), 383–397 (1992).
11. J. Selsky and B. Parker, Cross-sector partnerships to address social issues: challenges to theory and practice, *Journal of Management* **31**(6), 849–873 (2005).
12. D. Ashman, Civil society collaboration with business: bringing empowerment back in, *World Development* **29**(7), 1097–1114 (2001); D. Austrom and L. Lad, Issues management alliances: new responses, new values, and new logics, *Research in Corporate Social Performance and Policy* **11**, 233–255 (1989); I. E. Berger, P. H. Cunningham and M. E. Drumwright, Social alliances: company/nonprofit collaboration, *California Management Review* **47**(1), 58–90 (2004); S. Waddell, New institutions for the practice of corporate citizenship: historical, intersectoral, and developmental perspectives, *Business and Society Review* **105**(1), 107–126 (2000); S. A. Waddock, Building successful social partnerships, *Sloan Management Review* **29**(4), 17–23 (1988); S. A. Waddock, A typology of social partnership organizations, *Administration & Society* **22**(4), 480–516 (1991).
13. D. A. Rondinelli and T. London, How corporations and environmental groups cooperate: assessing cross-sector alliances and collaborations, *Academy of Management Executive* **17**(1), 62–76 (2003); M. Kramer and J. Kania, A new role for non-profits, *Stanford Social Innovation Review* **4**(1), 32–41 (2006).
14. C. K. Prahalad and S. Hart (2002), op. cit. at Ref. 8.
15. See: http://www.ashoka.org/hvc_applications.
16. A. I. Segel, M. Chu and G. Herrero, *Patrimonio Hoy, Case No. 9-805-064*, Harvard Business Publishing (2004); See: also http://www.cemexmexico.com/se/se_ph.html.
17. See: http://www.nestle.com/SharedValueCSR/FarmersAndAgriculture/Cocoa/Introduction.htm.
18. J. Oetzel and J. P. Doh, Multinational enterprise and development: a review and reconceptualization, *Journal of World Business* **44**(2), 108–120 (2009).
19. See: http://www.hsbcamanah.com/1/2/hsbc-amanah/about-us.
20. C. K. Prahalad and S. Hart (2002), op. cit. at Ref. 8; I. E. Berger, P. H. Cunningham, M. E. Drumwright (2004), op. cit. at Ref. 12.
21. M. Hanson and K. Powell, *Proctor & Gamble PUR Purifier of Water (a): Developing the Product and Taking it to Market*, Case No. 706–057—1, INSEAD, (2006).
22. See: http://www.psi.org/resources/pubs/usaid-wwd.pdf.
23. Fighting Malaria in Africa, *NewsHour with Jim Lehrer*, PBS video, 01/04/2006.
24. D. A. Rondinelli and T. London (2003), op. cit. at Ref. 13.
25. J. Oetzel, J. P. Doh (2009), op. cit. at Ref. 18; M. Yaziji and J. P. Doh, *NGOs and Corporations: Collaboration and Conflict*, Cambridge University Press, Cambridge, UK (2009).
26. J. A. Pearce and J. P. Doh, The high impact of collaborative social initiatives, *Sloan Management Review* **46**(2), 30–39 (2005).
27. See: H. Teegen, J. P. Doh and S. Vachani (2004), op. cit. at Ref. 2; J. Oetzel and J. P. Doh (2009), op. cit. at Ref. 18; M. Yaziji and J. P. Doh (2009), both op. cit. at Ref. 25; J. P. Doh, Corporate social responsibility and NGO engagement. Working paper (2009).
28. See: R. Stryker, Beyond history vs. theory: strategic narrative and sociological explanation, *Sociological Methods and Research* **24**, 304–352 (1996); A. McWilliams, D. D. Van Fleet and K. D. Cory, Raising rivals' costs through political strategy: an extension of the resource-based theory, *Journal of Management Studies* **39**(5), 707–724 (2002).

Biographies

Nicolas M. Dahan is an Assistant Professor of Management at Long Island University and a Research Fellow with Rouen Business School in France. His research interests include corporate political strategy, business ethics and corporate social responsibility, as well as European business. He has most recently published in *Journal of Business Ethics*, *Human Relations* and the Best Paper Proceedings of the Academy of Management. *College of*

Management, Roth Hall 206, 720 Northern Blvd, Brookville NY 11548-1300 (USA). Tel: (001) 516-299-2360; e-mail: nicolas.dahan@liu.edu

Jonathan P. Doh is the Rammrath Chair in International Business, Director of the Center for Global Leadership, and Professor of Management at the Villanova School of Business. His research on international business strategy and corporate social responsibility has been published in journals such as *Academy of Management Review*, *Strategic Management Journal, Organization Science,* and *Journal of International Business Studies*. He is co-editor or author of six books, including *NGOs and Corporations: Collaboration and Conflict* (with Michael Yaziji, Cambridge University Press, 2009). *Bartley Hall Rm 2079, 800 Lancaster Ave., Villanova, PA 19085 USA. Tel: 610-519-7798; fax: 610-519-6566; e-mail:* jonathan.doh@villanova.edu

Jennifer Oetzel is an Associate Professor of International Business in the Kogod School of Business at American University. Her research focuses on business strategy in emerging markets and managing political risk, particularly violent conflict risk. Jennifer's work has recently been published in the *American Business Law Journal*, *Journal of Business Ethics*, *Journal of World Business*, *International Business Review* and *Development Policy Review. Kogod School of Business, American University, 4400 Massachusetts Ave., N.W.Washington, D.C. 20016. Tel: (202) 885-1905; fax: (202) 885-1992; e-mail:* oetzelj@american.edu

Michael Yaziji is a Professor of Strategy and Organization at IMD International. His current research focus is on relationships among corporations, NGOs and government. His most recent publications are the article, 'Time to Rethink Capitalism?' in *Harvard Business Review* (2008) and the book *NGOs and Corporations* (with Jonathan Doh) published by Cambridge University Press (2009). *IMD, 3 Chemin de Bellerive, 1000 Lausanne, Switzerland. Tel: +41 79-580-6243; e-mail:* michael.yaziji@imd.ch