



This PDF is governed by copyright law, which prohibits unauthorised copying, distribution, public display, public performance, and preparation of derivative works.

THIS CHAPTER
IS AN EXCERPT
FROM

Terms for Endearment: Business, NGOs and Sustainable Development

EDITED BY

Jem Bendell

FIRST PUBLISHED

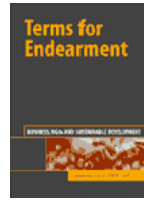
July 2000

ISBN

978-1-874719-28-1 (hbk)
978-1-874719-29-8 (pbk)

MORE DETAILS AT

www.greenleaf-publishing.com/ngo



© 2000 Greenleaf Publishing Limited

SUSTAINABILITY • RESPONSIBILITY • ACCOUNTABILITY

Greenleaf Publishing, Aizlewood's Mill, Nursery Street, Sheffield S3 8GG, UK
Tel: +44 (0)114 282 3475 Fax: +44 (0)114 282 3476
info@greenleaf-publishing.com <http://www.greenleaf-publishing.com>



COMPLEMENTARY RESOURCES

The win–win rationale for partnership with NGOs

Steve Waddell

Organizational Futures, USA

Many eyebrows were raised in 1997 when an activist environmental group, called the Conservation Law Foundation (CLF), and the multi-billion dollar US power utility, AES, made a joint bid for the \$1.1 billion power-generating capacity of the New England Electric Company. After all, the two organisations were better known as adversaries than partners. In proposing to become joint owners of the region's largest power utility, the two had different goals, but they united in action. AES was focused on traditional business expansion, whereas CLF's goal was to shut down the dirtiest electricity-generating plants of the grid. By joining with CLF, AES was demonstrating its commitment to the public policy priority of cleaning up the environment. By joining with AES, CLF was gaining an opportunity to be at the board table to directly affect the policies that generate pollution. Although the partnership was outbid, it was considered a very competitive proposal.

The AES–CLF proposal was unusual. However, it contains core elements of a new type of intense working relationship that large corporations are establishing with civil society groups such as non-profit, non-governmental organisations (NGOs), or community-based interest groups. These are relationships that are not based in the gift systems of philanthropy, nor the obligations systems behind the concept of corporate social responsibility. Rather, these are relationships that address core corporate business goals and are developed by people from core functional units such as marketing, product development, strategy and planning, and product delivery.

These types of relationship are being driven, usually implicitly rather than explicitly, by the inherent ability of civil society organisations to *do* things that business corpora-

tions cannot—and vice versa. This ability is inherent in the structure and orientation that comes with being a civil society or a business organisation—the three *organisational sectors* of business, government and civil society have distinct roles in our societies. This means that they also play distinct roles in collaborations and partnerships. By joining forces, the organisations do what other partnerships aim to do: combine their resources and strengths, and offset their weaknesses. However, in *intersectoral* partnerships the roles of the different organisations are particularly complex because the organisations have such different goals, cultures, and even ways of perceiving the world. These differences can make communication problematic as words take on different meanings—for example, ‘goal’ in the corporate sector is associated with quantified outcomes that are critical to measuring targets, whereas for civil society groups it can have a vaguer meaning associated with longer-term objectives.

Despite these difficulties, business–civil society collaborations are increasing in number and sophistication as the significance of the rewards are better understood. However, to tap these rewards the distinct roles of business and civil society in partnerships must be better understood. This chapter aims to deepen understanding by reviewing collaborations from a corporate perspective: what they can bring to core corporate functions. It ignores corporate foundations, community relations, and public relations as supportive functions that are driven in most cases by the philanthropic tradition. Rather, this chapter focuses on relationships clearly driven by a ‘win–win’ or ‘mutual gain’ perspective. The following sections summarise eight different functions that NGOs are providing for businesses, in different industries around the world (see Table 14.1).

▲ Risk management and reduction

In various chapters the role of NGOs in creating risk for corporations is discussed. Business has been ‘beaten up’ in public by NGOs for such things as fleeing industrial inner cities, failing to ensure that suppliers apply human rights standards, or polluting the environment. In recent years companies operating in the oil, sportswear, timber, banana and biotechnology industries have been particularly affected. With environment (Hoffman 1997a) and in the US banking industry (Waddell 1997d) a cycle of corporate response to this type of NGO pressure can be identified: (1) initial resistance to NGOs and a response only as a public relations strategy; (2) government legislation obliging that business be responsive; (3) a more proactive framework adopted by business such as corporate social responsibility; and often a last stage (4) with identification of how to respond to the NGO-mobilised concerns in ways that recognise them as new business opportunities.

This final response recognises that the connection between NGOs and risk has a flip-side, namely that NGOs can help corporations reduce risks associated with specific projects or general operations. This is because the NGOs represent stakeholders outside of the core corporate structure, and provide a type of early warning network of potential

Corporate goal	NGO function
Risk management and reduction	<ul style="list-style-type: none"> <input type="checkbox"/> Providing stakeholder views as early warning of possible problems <input type="checkbox"/> Integrating business and community goals <input type="checkbox"/> Creating and enforcing popularly supported standards, codes, etc.
Cost reduction and productivity gains	<ul style="list-style-type: none"> <input type="checkbox"/> Negotiating community benefits and role <input type="checkbox"/> Supporting transparent processes <input type="checkbox"/> Educating publics <input type="checkbox"/> Leveraging non-tax status <input type="checkbox"/> Accessing altruistic energy
New product development	<ul style="list-style-type: none"> <input type="checkbox"/> Providing knowledge about communities and their resources <input type="checkbox"/> Lobbying for regulatory change <input type="checkbox"/> Providing knowledge about technical issues <input type="checkbox"/> Providing linkages to non-commercial creativity
New market development	<ul style="list-style-type: none"> <input type="checkbox"/> Aggregating small and poor markets to profitable size <input type="checkbox"/> Extending a trusting public image <input type="checkbox"/> Creating demand through new business development <input type="checkbox"/> Providing delivery support <input type="checkbox"/> Educating communities about new approaches
Human resource development	<ul style="list-style-type: none"> <input type="checkbox"/> Teaching and training about specific communities <input type="checkbox"/> Providing inspirational outlets for employees and boosting morale <input type="checkbox"/> Monitoring standards
Production chain organising	<ul style="list-style-type: none"> <input type="checkbox"/> Organising all the chain players for total quality improvement strategies
Building barriers to entry	<ul style="list-style-type: none"> <input type="checkbox"/> Building a distinctive image <input type="checkbox"/> Linking to a distinctive market
Creativity and change	<ul style="list-style-type: none"> <input type="checkbox"/> Providing alternative viewpoints to reveal unrecognised assumptions and develop new integrative strategies

Table 14.1 NGO functions in business strategies: intermediaries and transformers

problems with corporate activities. They also provide opportunities to reduce risk in more proactive ways.

Perhaps two of the best examples of corporations building relationships with civil society organisations in order to reduce general risk come from South Africa and the Philippines. Both those countries in the 1970s and 1980s had governments with low legitimacy with the general population. Partly out of concern that, when change swept out those governments, business would be swept out too, businesses joined together to create the Philippine Business for Social Progress (PBSP) and the predecessors of today's National (South Africa) Business Initiative. These organisations were instrumental in constructing dialogue with groups outside of those favoured by the governments, deepening understanding of the social situation, and creating broader social networks. This was achieved by making grants to NGOs to undertake specific activity such as community economic development or education, and through meetings with NGOs (including the Catholic Church) categorically aimed at building ties and relationships.

Sometimes general operating risk reduction takes corporations beyond marketing and into public education—something NGOs are better at doing. The major banking concern, Citigroup, saw the lack of understanding about some basic financial issues, such as the role of the Central Bank and interest rates in controlling inflation in some South American countries. Therefore, together with some NGOs, it created general programmes with materials to teach about such issues in schools.

Another way to reduce risk is to identify standards and processes to deal with problems and challenges that a business operation may pose. One of the longest NGO–business traditions in this regard is with labour unions and processes to establish a collective agreement. These standards are often very contentious, but new negotiating forums are emerging that hold some promise. One such forum addressing human rights has developed the Global Sullivan Principles, written with the convening support of the United Nations, which brought together NGOs such as Amnesty International, and businesses including General Motors and Colgate-Palmolive. Increasingly, these standards include roles for NGOs as monitors and auditors of corporate behaviour and corporate subcontractors.

NGOs can also be a good source of information that is useful in both risk management and corporate planning, which corporations would otherwise find difficult to obtain. Sometimes this develops into formal relationships, such as with the brokerage firm Salomon Smith Barney, which needs information about human rights issues to assess investment risks and obtains it in part by sponsoring research newsletters and reports prepared by the human rights organisation, *Vérité*.

▲ Cost reduction and productivity gains

This risk reduction activity also provides good examples of how relationships with civil society organisations can actually reduce costs for a project by building NGO relationships. For example, in San Diego, USA, the cost of housing projects in the inner city are

notoriously expensive because of theft and vandalism. In response, the construction companies, bankers and an NGO representing the poor in San Diego, developed a project that built a 140-unit housing complex from a community-building perspective that ensured long-term maintenance of the investment and loan repayment through strong social structures. By integrating the community and business goals into the project, the community felt ownership of it and protected it from vandalism and theft (Waddell 1997a). The lender, Bank of America, has built a profitable strategic core competency around funding such community-building housing projects not just with the local San Diego NGO, but with similar NGOs in many communities across America.

Relationships with NGOs can also produce cost savings for corporations by their ability to mobilise volunteer energy. Volunteers can reduce project costs and make projects viable from a profitability perspective that would otherwise be impossible. What under business control would be considered exploitative, under collaboration and real partnership with NGOs becomes a civil society process to gain access to market resources. That is the approach being used to build water and sanitation systems in places as different as South Africa (Palmer 1998; Waddell 1998a) and Argentina (Fiszbein and Lowdin 1998), where NGOs have been given a central role in consortia that have undertaken the projects.

Yet still another way NGOs can help reduce costs is through their potential for enhancing transparency and reducing corruption. NGOs in general place a higher emphasis on transparency than business or government, largely because a membership-based organisation that depends on volunteer support has a much greater need to be transparent itself. For example, in the case of road building in Madagascar which intimately involved local NGO road user associations, it was estimated that reducing corruption reduced costs for company bids for road rehabilitation and construction by as much 25% (Waddell 1998b). Some businesses team up with education NGOs with the motive of reducing costs through more indirect ways. For example, Citigroup Bank supports the US NGO called Classrooms Inc. to improve teaching about information technology, in part based on the bank's need to increase usage of electronic banking systems which are much less costly than in-branch banking.

▲ New product development

More corporations are recognising that NGOs have a particularly important role in research and development (R&D). This derives in part because of NGOs' knowledge about their communities, their ability to inspire commitment and reduce costs, their longer time-horizon, and the benefits of their tax status.

Community knowledge is critical in creating new products for particular demographic and psychographic profiles. Corporate-NGO relationships are bound to become increasingly important as competition and globalisation leads corporations to focus more on the low-income communities of developing countries. Unilever, one of the

world's largest and most global manufacturers of household products, has tapped NGOs' knowledge as it takes a lead in developing new products for very low-income communities in India, Brazil and elsewhere.

Some of the earliest large-scale collaborations between NGOs and business to create new products began in the 1970s in the US banking industry (Waddell 1997a, 1997c, 1997d). Under pressure from the federal and state governments to improve services for the low-income bracket, many bankers have developed important, ongoing advisory groups with community-development, religious and other NGOs. These groups advocate for their communities and this, when the relationships are successful, produces new profitable products that integrate government programmes, include NGOs as peer groups to ensure repayment, and more closely respond to the characteristics and needs of poorer communities. In North Carolina, such an initiative was developed to address needs of migrant workers, one of the most difficult types of market for banks. And Bankers' Trust, which caters to the very wealthy, is working with NGOs such as the Accion international micro-finance network to produce a new product that provides reputable options for the bank's clients who wish to make charitable donations or social investments.

In this new product development process with NGOs, marketing departments move away from their reliance on telephone surveys and focus groups. These customer research vehicles actually provide quite shallow information, since the conversations are ad hoc and short. Moreover, they depend on people having good language skills and telephones. In contrast, conversations with NGOs on new product developments are ongoing. This means that the NGOs learn more about the business of the corporation and what it is actually capable of doing, and can participate in a much deeper dialogue about continually improving products based on community feedback. NGOs often take the initiative to suggest new products that prove good business ideas.

Sometimes NGOs find themselves with particular assets that can make them very attractive partners in emerging businesses. For example, The Nature Conservancy (TNC), a US-based environmental organisation with affiliates throughout Latin America, has focused on assembling land for eco-reserves throughout the Western hemisphere. In Belize, TNC, a local NGO, and a large British travel company, Abercrombie & Kent, aim to build a small eco-tourism site on one of the world's largest tropical rainforest reserves owned by the local NGO. The industry will provide jobs and increasing revenues as the local NGO becomes a substantial shareholder in the project; all of this creates added reason for local people to ensure the ongoing protection of the reserve.

In some cases NGOs mobilise community resources and influence to create what are essentially new products. This type of energy has often proven critical in pressuring government regulators and quasi-public utilities to become more flexible in the type of product that companies can provide. This is essentially what happened in the cases of water and sanitation projects referred to earlier, and in several locations it has been important in opening up new types of business for power utilities. In developing countries, poor communities cannot pay for such utilities based on traditional building approaches that are usually imported from developed countries. Revising these approaches and standards can produce new building processes and products to meet this market's particular needs and capacity.

The corporate–NGO collaborations often have an R&D aspect that is being integrated into common business practice. For example, there is significant intertwining between commercial pharmaceutical companies and universities, where the universities focus more on long-term and exploratory research and the pharmaceutical companies on the application. Another interesting example is the US theatre and entertainment industry. Commercial theatre is focused on profit, whereas the non-profit theatre is more mission-driven and focused on issues, innovation and excellence. A sophisticated menu of legal arrangements has been developed to support the transfer of financial resources from the commercial to non-commercial theatres, where the latter play an R&D role in developing entertainment products. Large entertainment corporations, such as Disney, have now directly entered the commercial theatre market and are developing relationships with non-commercial houses to develop products that can be films or television shows. Costs are a significant factor in these types of R&D relationship, since non-commercial theatres have much lower overheads and save on tax costs (Cherbo 1999).

▲ New market development

NGOs' ties with poor and marginalised communities are a particularly important asset for businesses that aim to provide goods and services for them, and as Unilever has concluded, most companies should be considering the poor as a target market. Traditional delivery structures, such as bank branches, pharmacies and sales forces often are simply too expensive for companies to provide profitable services. But sometimes the biggest problem is a lack of understanding about communities and their potential. Harvard's Michael Porter has been particularly vocal about pointing out that, although individual incomes are low, within poor communities there is often more buying power per square foot than in ones where individuals are much more wealthy (Porter 1995). NGOs in these communities can help to address these issues through their own knowledge about communities and their ability to organise them.

A particularly critical role of NGOs is their ability to aggregate small markets into a scale that is meaningful for a business. This is part of the key to Grameen Bank's success in Bangladesh where it developed micro-finance lending as part of its banking strategy. Rather than use tellers and staff to monitor loans, micro-finance aggregates people into groups of five or more, with members supporting one another as they develop their businesses. This peer-lending model, growing out of local social dynamics, was first analysed in the early 1960s (Gertz 1962) and has been developed by Accion International's network to the point that it has generated a new, for-profit bank and is accessing money markets with competitive returns. Major banks are now seeing these types of activity as critical to building a base for their commercial markets, and are actively supporting micro-finance NGOs that know how to develop low-income communities in more cost-effective ways than corporations. For example, Citigroup has made this a key part of its strategy to reach its goal of 100 million customers by 2010; it reasons

that it has to literally create new markets and customers, and is aggressively partnering with NGOs involved in micro-finance internationally with the insight that these NGOs are creating future bank customers.

Sometimes NGOs take a very direct role in creating demand for a company's products, because that demand can also contribute to community economic development. Such an example is unfolding in Brazil since Latin America's largest stainless steel producer, Acesita, was privatised in 1994. As commonly occurs, the privatisation was accompanied with a large number of lay-offs; however, Acesita created a foundation to, in part, address these resulting employment issues. The foundation has picked up on the fact that almost all of the stainless steel production was exported, since there were no intermediate stainless steel processors in the country. By working with the retirees association (which includes laid-off workers), a local NGO Artisans Institute has been developed to train people in manufacturing stainless steel products. These small manufacturers are creating the first significant domestic demand for the raw stainless steel product.

▲ Human resources

NGO-business relationships are proving beneficial to human resource concerns for two particular groups: those people directly hired by corporations, and those working with subcontractors. Employees are being trained by NGOs on topics and in skills that have been developed by NGOs over many years. Sometimes this is in skills in working with the poor and marginalised, and with people in specific communities. Language and culture present barriers not just for individuals, but for entire groups of people with whom the business sector often has trouble working; often the problem is that corporate employees simply do not understand how to speak with people who do not belong to their own social group. Low-income community-based NGOs are teaching bankers in the US about the informal barriers faced by the poor, such as imposing formal bank branches that are physically intimidating. And Pact, an international development NGO, provides its expertise to Cabot, an American chemical company, in developing community programmes in South-East Asia; Pact's presence also gives the programmes a higher degree of credibility and connects Cabot to Pact's own community network.

NGOs are proving adept at identifying and developing people to work in business environments. In the United States where there is a labour shortage, corporate human resource departments are partnering with NGOs and building better systems for the task of identifying and preparing people for work who have been unemployed or left outside of the mainstream workforce; NGOs have better networks, skills and knowledge appropriate for the task. Since 1991 such a partnership between the hotel group Marriott International and an NGO called Pathways to Independence has produced remarkable results, with 70% of Pathways' graduates still employed after a year and the hotel chain estimating that for every \$1 it spends on the programme it is saving \$4, by lowering staff turnover and absenteeism (Kanter 1999).

NGO connections with business employees also develop through volunteer programmes that can have goals to build social connections, skills and employee morale. A 1999 survey of American corporations found that 81% of respondents use volunteer programmes to support core business goals, up from 31% in 1992 (Points of Light Foundation 1999). Volunteer programmes are increasingly common with lower-level employees, too. Both the billion-dollar American boot company, Timberland, and the international energy and communications company, Enron, have concluded that volunteering provides an important morale boost for their employees. Timberland gives time off for community work, and Enron has built its 'giving programme' in part around organisations supported by its employees. The esteem of volunteers for their employer increases, and the community work increases employees' self-esteem.

The vertical disintegration of many firms through subcontracting has led to human resource problems that NGOs are helping to address. The scandals of child labour being used to produce soccer balls and below-subsistence wages for subcontracted clothing manufacturers are among the high-profile and unintended outcomes this corporate restructuring has generated. Traditional human resource strategies to avoid such problems are impossible to apply to subcontractors. Agitation for improved working standards by NGOs has provoked some heated exchanges and is producing some interesting results. Some NGOs are now working with corporations to assist in defining standards, monitoring them and enforcing them. This is generating a new industry of monitoring and auditing, such as with the SA 8000 initiative developed by the Council on Economic Priorities and the US President's task force on human rights and labour issues for American companies with overseas operations. Vérité is a leading NGO that specialises in providing an interface between corporations, local subcontractors and local communities to address human resource issues. Vérité's international network provides an attractive vehicle for international corporations to promote standards with a consistent approach, with Vérité providing monitoring support both directly and by building capacity with local NGOs to provide the services.

▲ Production chain organising

As the geographic expanse of production chains grows with globalisation, traditional production chain linkages are often proving inadequate. Many production chains that were previously within the structure of vertically integrated firms are dissolving as 'companies have gone about . . . slicing and dicing themselves into pieces' (Wysocki 1999). New ways to build and manage production chains with NGOs are evolving under these pressures. As always, all the links have to meet the three key outcomes of quality, quantity and timeliness.

One capability of NGOs that is bringing them more centrally into some production chains is their ability to work with low-income communities. In many cases the chain includes small producers, such as farmers, who are relatively poor and without access to

global markets. For example, in the Philippines, Dolefil (the Philippine subsidiary of the Dole Food Company) and a farmers' NGO have negotiated an agreement to improve the quality of rice production so that Dole can sell it to the discriminating Japanese market. In this arrangement a government research institute provides quality seeds, Dolefil guarantees a floor price for the farmers, and the NGO trains the farmers in improved production techniques, processing and packaging—profits are shared equally between the NGO and Dole's subsidiary (Ledesma 1999). In the past, government might have taken a lead in farmer training, but NGOs are found to be more effective due to their local focus, lack of large bureaucracy, and knowledge of local communities.

Sometimes NGOs take a lead in developing the entire production chain and improving its quality. This role for NGOs emphasises their ability to work with the poor and is combined with a broader community-building quality that inspires volunteer commitment and trust in a chain that can be pulled apart through competitive pressures. In India in the state of Karnataka a surprising example of this type of NGO–business collaboration is developing in a network headed by an NGO, the Center for Technology Development (CTD). It has created five different industry nodes, each with their own NGO lead organisation, in new materials (such as new metals), informatics (two nodes), food processing and agriculture; there is a small venture capital fund as well. The NGOs themselves are intersectoral, combining large businesses such as Hindustan-Lever, governments, research institutes and NGOs. An analysis of the work of the food processing and agriculture NGOs concluded that together their mission can be defined as ensuring continual quality improvement in the entire food industry production chain (Waddell 1997b). This includes working with research institutes to develop the seeds and growing technologies most appropriate for the local climate, small farmers and their NGOs to ensure appropriate application of the technologies; a farmer's co-op to improve transportation of goods, sorting and quality; a women's small business incubator organised as an NGO to establish new food businesses; Hindustan-Lever, which provides access to markets and large-scale food processing systems; and Indo-American Hybrids to assist in development of new greenhouse technologies and production. CTD and its NGOs are led by retired Indians who held very senior positions during their worklife; they volunteer their time, often many days a week, with the goal of supporting 'the upliftment' of Indians.

▲ Building barriers to entry

Relationships with NGOs can provide corporations with a distinctive network that makes entry by other companies into its market very difficult. The relationships produce a product or service that people buy because it includes the relationship with the NGO. When products are otherwise difficult to distinguish (particularly highly transactional ones such as banking or telephone services), these networks can be an important factor.

This strategy has been most commonly developed through the affinity or cause-related marketing concept. This concept was popularised through a 1993–96 partnership between

an NGO called Share Our Strength, and American Express in a *Charge against Hunger* campaign. The campaign generated more than \$21 million dollars for the NGO, increased public awareness about hunger and increased use of the American Express card and their participating merchants. A study revealed that nearly two-thirds of Americans, approximately 130 million consumers, would be likely to switch brands or retailers to one associated with a good cause (Cone/Roper 1999). This strategy has grown into big business with sponsorships of major sporting events such as the Olympics, and arts events, such as Edinburgh's international festival. Companies talk about 'earned visibility' because they get their name associated with public events and non-profit organisations; Enron in the US, for example, set a 1999 target of \$10 million in earned recognition.

Traditionally, these relationships have been transactional—they simply access the NGO's reputation and, when mailing lists are purchased, the names of members. In these situations there is little difference from other commercial transactions and the relationships can be quite short-term. However, more long-term strategies that build much more integrated actions are beginning to be developed. Cone Communications, a leader in the field of cause-related marketing, reported in 1999 that

companies such as Wal-Mart and McDonald's are breaking through the clutter of cause promotion in the marketplace by developing comprehensive programmes that are an integral part of their brand's identity. These companies are witnessing win-win-win business-related impacts on their employees, customers and communities (Cone/Roper 1999).

Deeper and more interesting relationships are becoming a cornerstone of some businesses' strategy. In this era of globalisation and the increasingly large scale of corporate operations, this strategy holds particular attraction for medium-sized businesses that cannot easily compete in the arenas of price and service/product range. For these businesses, the long-term and local focus of NGOs can make them particularly valuable partners to develop competitive advantages. The long-distance phone company, Working Assets, in the United States and Citizens Bank in Canada are particularly good examples of developing NGO relationships as part of their core strategy. Working Assets is tiny compared to the telephone giants, as is Citizens compared with the banks, but both have managed to carve themselves niches by unequivocally attaching themselves to NGOs such as Amnesty International. For the NGO these arrangements involve affinity-type financial arrangements, although the relationships are typically more long-term. A global competitor could strike a similar deal with Amnesty, but, because of their much broader and numerous types of relationship they have less credibility in being 'a phone company with a conscience', as Working Assets proclaims.

A yet deeper level of relationship with NGOs in a specific community can produce enormous social capital for the business and even greater barriers to market entry for competitors (Waddell 1997a, 1997c). For example, VanCity, a \$6 billion Canadian financial institution, continues to build strong ties with a number of community organisations, such as ones representing the disabled; the focus is not just on the NGOs, of course, but, as was described earlier on the aggregated market that they represent, on members and families. For VanCity these relationships are growing to be quite integrated and

symbiotic, as VanCity develops products more targeted to such audiences and a unique combination of structures including a foundation, community development bank, construction company, and retail banking/insurance/trust arm. When the synergies of these relationships, structures, and products are effectively developed, they represent a very powerful barrier to entry for global firms.

▲ Change and creativity support

Perhaps there is no mantra as strong today as one about the need and pressure for change and innovation. One of the greatest powers in generating innovation is uncovering assumptions that are so embedded in the way an organisation works that they are not even recognised. An outsider who can independently challenge traditions can be a particularly good agent for revealing these assumptions and supporting the development of new ways of operating. Given their different world-views, this can be a particularly useful product of NGO–business collaboration. Management guru Rosabeth Moss Kanter has been so impressed by this that she describes the product as corporate social *innovation*, in contrast to corporate social *responsibility* (Kanter 1999). Of course the trick is to manage the interactions so that they can successfully reveal the assumptions and generate new approaches; this means avoiding being superficial and ‘nice’, or simply descending into a pitched battle.

One assumption that development NGOs are challenging is that the poor do not constitute a viable market. Strategy expert C.K. Prahalad, working with Unilever as the company increases its emphasis on developing-country customers, identifies five assumptions that need to be challenged: (1) the poor are not our target; (2) the poor cannot afford products; (3) only developed markets will pay for new technology; (4) the bottom of the market is not important for our long-term interests; and (5) the intellectual excitement is in the developed markets (Prahalad 1999). Challenges to these assumptions can be seen in many of the examples already given. For example, in the United States, banking has increased its profitability by moving out of its clubby branches and into the streets, with staff meeting NGOs and their members—but this required challenging basic bank assumptions about the profit potential of the low-income market.

In the NGO–business collaborations, often the traditional assumption about the role of outside ‘experts’ to design, build and manage systems is being challenged through more participative processes involving and developing local leadership. This can be seen in new approaches to water and sanitation systems with local committees taking leadership; with roads in Madagascar where the emerging lead organisations are mass-membership community-based road user associations; and in the eco-tourism models, where local people are taking leadership roles in developing sophisticated tourist facilities.

NGOs’ thinking outside the traditional business box has often created opportunities for businesses that can really listen to critiques and respond effectively. This is perhaps

best exemplified with environmental NGOs whose critiques have vastly reduced costs and improved production processes. Increasingly, these critics are being invited inside, such as with The Environmental Defense Fund, which is now working with BP-Amoco to help the company meet its own internal voluntary greenhouse gas reduction targets. Sometimes the presence of an NGO in a collaboration means that a company must reassess its core business. For example, in the Madagascar road-building study, the road contractors that were most successful moved from being road builders to being educators about road building and builders of a system to build and maintain roads. And in the mid-1990s Microsoft realised that it had to change its tactics with the elderly, whom it noticed use computers least but may well find them of greater benefit than most. The company decided the best approach was to work with NGOs representing the elderly such as the American Association of Retired People. But this required Microsoft to develop a capacity-building educational approach such as that used by NGOs, rather than a marketing strategy emphasising advertising and promotions. At other times, listening to NGOs can generate a whole new industry such as eco-tourism, which can be seen as a response to increasing concern about, and interest in, issues developed by environmental NGOs.

▲ Summarising the role of NGOs in business strategy

The preceding examples were grouped into eight sections, based on the function that the NGO provides for the business partner (see Table 14.1). These functions derive from a key characteristic of NGOs: they are intermediaries, building bridges between different worlds (Brown 1991, 1993; Burt 1992; Evans 1995; Westley and Vredenburg 1991). Through business collaborations, NGOs are providing a means for linking the economic and production-oriented world of business with the social and value-generating one of civil society. At one level, this translates into providing linkages to low-income people and interest groups that the comparatively wealthy, expensive and elite world of business has difficulty connecting with and understanding. At another level, this means making business aware of issues not immediately involved in production, such as the environment, poverty, inequality and social justice. The transactional corporate culture and the greater pressures of production time in a corporate world mean that it is impossible for corporations to achieve the same reflective depth, connections and understanding that the relationship civil society culture and longer time-horizons of a civil society world encourage. For the NGO communities, when this intermediary role works it means that they can access business resources in a way that is appropriate for them.

In this chapter I have described examples where, by linking with NGOs, businesses have extended their reach into a network of complementary resources. However, unlike relationships between business organisations, these are not resources that will remain accessible through traditional business growth strategies such as mergers, acquisitions, take-overs or simple competitive dominance. Using these traditional growth strategies simply ignores the fact that the value of NGOs and their function is wrapped up in both

their independence and their 'NGO-ness'. Corporations, given their profit-related goals, are inherently less capable of building trust and working with and organising communities than are civil society groups. Anything that undermines these characteristics of NGOs would therefore remove the complementarity of business–NGO collaboration.