

UNDERSTANDING THE ROLE OF CROSS- SECTOR STRATEGIC ALLIANCES IN THE AGE OF CORPORATE SOCIAL RESPONSIBILITY

AN ANALYSIS OF PRIVATE AND NONPROFIT SECTOR RELATIONS

Master of Arts in Law and Diplomacy Thesis

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ABSTRACT

The issue of corporate social responsibility is one of increasing interest for business, nonprofit, and governmental leaders. While it is generally understood that socially conscious practices lead to the improvement in environmental quality, human rights, and overall social well-being, the underlying challenge lies in striking a balance between social and economic longevity. Within most developed countries, and a growing number of developing countries, the three sectors of society (public, private, and nonprofit) traditionally fulfill separate and complementary societal roles. However, over the past two decades, the delineation between the three sectors' responsibilities has blurred, and there is an increasing need and pressure from the general public for changes in the roles of each sector.

This paper specifically analyzes the importance of cross-sector alliances between the nonprofit and private sectors and the various levels at which a collaboration can be achieved. It argues that as a result of shifting sectoral roles, strategic alliances between these two sectors are more important now than they have ever been. The paper draws on existing alliance theories and suggests a set of core and secondary characteristics, which are necessary components for any cross-sector alliance. Additionally, this paper applies the postulated model to three case studies to analyze and compare the application of the fundamental characteristics. The paper concludes with recommended future research topics.

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CHAPTER 1. THE CORPORATE SOCIAL RESPONSIBILITY MOVEMENT AND CROSS-SECTOR STRATEGIC ALLIANCES

Introduction

The issue of corporate social responsibility is one of increasing interest for business, nonprofit, and governmental leaders. While it is generally understood that socially conscious practices lead to the improvement in environmental quality, human rights, and overall social well-being, the underlying challenge lies in striking a balance between social and economic longevity. Within most developed countries, and a growing number of developing countries, the three sectors of society (public, private, and nonprofit) traditionally fulfill separate and complementary societal roles: the government is responsible for maintaining regional peace, security, functional public institutions, while also providing social services such as healthcare, infrastructure, social security, and education; the private sector is considered the engine responsible for economic growth; and the non-profit, or third, sector fills in the gaps between the public and private sector. However, over the past two decades, the delineation between the three sectors' responsibilities has blurred, and there is an increasing need and pressure from the general public for changes in the roles of each sector. These changes primarily stem from a shift in growing demands for goods and service by consumers and decreased funding capabilities from the public sector.¹ Within the private sector, increased consumer demand and intra-industry competition has led business leaders to analyze new methods through which existing and new markets can be targeted. While services and goods offered by the private sector are growing, public sector provisions of social services are decreasing. Growing fiscal deficits and subsequent budget cuts have forced governments to reduce welfare and services provided for citizens. Consequently, this has increased the pressure for the nonprofit sector to fulfill an ever-increasing demand for providing newer, more sophisticated, and varied social services—education, healthcare, and environmental programs are the three areas most commonly included in this demand.² The obtuse catalyst underlying the shift in roles among the three sectors is *economic*; yet the acute problems

¹ Simon Heap, *NGOs Engaging with Business: A World of Difference and a Difference to the World*, (Oxford: INTRAC, 2000), 110.

² Lester M. Salamon, S. Wojciech Sokolowski, and Helmut K. Anheier, *Social Origins of Civil Society: An Overview*, (Baltimore, MD: The Johns Hopkins Center for Civil Society Studies, 2000).

resulting from the shift are entirely *social*. Consumers recognize the transfer of economic influence from the government's hands into the private sector, and as a result, have started to place a greater emphasis in private sector social responsibility. Over the past 20 years, the corporate social responsibility movement has worked towards incorporating social and economic issues to create new and innovative solutions that simultaneously allow for continued profit-making and the improvement of social well-being within society.³ This shift creates new synergies between sectors—particularly between the private and nonprofit sectors.

This paper specifically analyzes the importance of cross-sector alliances between the nonprofit and private sectors and the various levels at which a collaboration can be achieved. It argues that as a result of shifting sectoral roles, strategic alliances between these two sectors are more important now than they have ever been. Increasing demand for nonprofit organizations to provide social services coupled with the need for private businesses to expand their social involvement and increase the longevity of their businesses, creates a partnership opportunity from which both sectors' needs can be met. In spite of potentially different alliance motivations between the two sectors, the citizen is the common target; nonprofits develop missions and programs to fight for specific social causes or to fulfill specific needs to protect citizens, while private businesses produce specific products and services targeted to fulfill the needs and demand of consumers. While the motivations for targeting citizens differ, it cannot be ignored that the longevity of any business, organization, or society, is the support of citizens. Citizens are consumers of goods and services, which sustain the growth of the private sector, and citizens are also direct recipients of the majority of nonprofit sector activity.⁴ Over the past 50 years, the spheres of influence among citizens, nonprofits, and private businesses have become increasingly integrated—this is evidenced by the shift in corporate philanthropy trends.

³ Thomas Clarke, "Balancing the Triple Bottom Line: Financial, Social and Environmental Performance," *Journal of General Management*, 26 (4) (2001): 16.

⁴ Human healthcare and education are the top two nonprofit services in the United States, Europe, and developing countries. Lester M. Salomon, S. Wojciech Sokolowski, and Regina List, *Global Civil Society Comparison: An Overview*, (Baltimore, MD: Johns Hopkins Press, 2003).

Figure 1: Integration between Citizens, the Private-, and Nonprofit Sectors

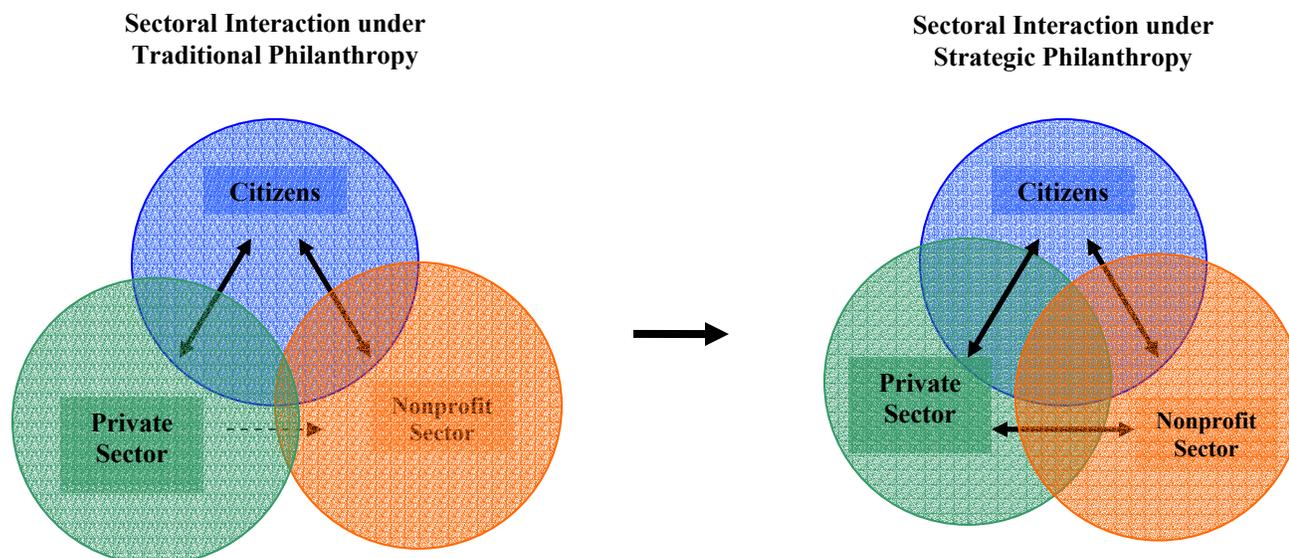


Figure 1 illustrates that the independent interaction between citizens and the nonprofit sector and citizens and the private sectors results in the inevitable interaction between the two sectors. The traditional philanthropic relationship between the corporations and nonprofit organizations is almost entirely dependent on annual financial and in-kind gifts and only involves limited interaction between the sectors. However, with increased consumer awareness and simultaneous demand for more social services, alternative philanthropic strategies have taken center stage. Alternative philanthropy trends have prioritized direct corporate involvement with social and community programs and therefore created stronger rapport with nonprofit organizations; as indicated in Figure 1, such a shift has created a more equal interaction among citizens, nonprofits, and private corporations. Alternative philanthropy has led to a variety of different trends; corporate statesmanship and strategic alliances are the two most common trends.⁵ On the one hand, corporate statesmanship—corporate foundations and internalized social development offices—allows for greater involvement between private and social institutions but maintains the traditional separation between donor and recipient. Cross-sector strategic alliances, on the other hand, attempt to deepen the interaction between sectors. Collaborative philanthropic relationships are considered much more progressive because they require a *mutual* commitment and understanding between the two partners. The overarching benefit of cross-sector alliances is

⁵ Henry Rosso and Associates, “Corporate Philanthropy,” *Achieving Excellence in Fund Raising*, Eugene R. Tempel, ed., Second Edition, (San Francisco: Jossey-Bass, 2003), 281.

that they allow for each partner to operate in their realm of influence and strengths and mutually benefit from the complementary strengths of the partner. This paper attempts to support the argument that strategic alliances are in fact an important philanthropic trend that not only furthers community development, but simultaneously furthers private and nonprofit sector productivity and growth. This argument is achieved by defining and analyzing the fundamental attributes of a successful strategic alliance model. Moreover, this paper identifies three unique levels of alliance to identify the fundamental attributes and to illustrate the versatility and dynamism within the field of cross-sector strategic alliances.

Intention of the Analysis

Strategic alliances between the nonprofit and private sector have become more common over the past decade.⁶ Currently, there is a wide breadth of research pertaining to strategic alliances among private sector corporations; however limited research has been conducted specifically pertaining to cross-sector alliances. While some of the research focusing on the intra-private sector alliances can be applied to cross-sector collaborations, not all of it is applicable.⁷ A few fundamental benefits overlap between the two types of alliances, such as transferring new skills and knowledge, achieving competitive advantage, improving performance, following industry trends, and seeking new markets. However, intra-private sector alliances differ from cross-sector alliances in their general motivations and end goals (see Appendix 1).⁸ While market positioning, business performance, and bottom line growth are the underlying motives for private sector alliances, cross-sector collaborations combine social and economic motivations to achieve a more diverse range of goals such as community development, reputation enhancement, financial funding, and social

⁶ Ida E. Berger, Peggy H. Cunningham, and Minette E. Drumwright, "Social Alliances: Company/Nonprofit Collaboration," *Social Marketing Quarterly*, 5 (3) (1999): 49.

⁷ Walter W. Wymer, Jr. and Sridhar Samu, "Dimensions of Business and Nonprofit Collaborative Relationships," in *Nonprofit and Business Sector Collaboration*, (New York: The Hawthorne Press, 2003), 4; Peter Lorange and Johan Roos, *Strategic Alliances: Formation, Implementation, and Evolution*, (Cambridge: Blackwell Business, 1993); Karthik Iyer, "Learning in Strategic Alliances: An Evolutionary Perspective," *Academy of Marketing Science Review*, 2002 (2002).

⁸ See Appendix 1; Emanuela Todeva and David Knoke, "Strategic Alliances and Corporate Social Capital," Jutta Allmendinger and Thomas Hinze, eds. *Sociology of Organizations: Kölner Zeitschrift für Soziologie und Sozialpsychologie*, (May 2001); S. Agarwal and S. Ramaswami, "Choice of Foreign Market Entry Mode: Impact of Ownership, Locations, and Internationalization Factors," *Journal of International Business Studies*, 23; Ellen R. Auster, "Macro and Strategic Perspectives on Inter-organizational Linkages: A Comparative Analysis and Review with Suggestions for Reorientation," *Advances in Strategic Management*, 10 (2); Lorange and Roos.

responsibility. Inevitably, the variation in intentions and outcome goals limits the applicability and transferability of intra-private sector strategic alliance research to cross-sector alliances.

General cross-collaboration research has been conducted to examine why strategic alliances are important and how they are developed; however very little research has been conducted to discern between the different levels of alliances or to determine the range of intentions that different types of alliances may have.⁹ Because the field of cross-sector strategic alliances is relatively new, much of the existing literature focuses on reasons *why* corporations should engage in collaborations.¹⁰ The limited amount of analytical cross-sector research has focused on the categorization of alliance typologies, partner selection methodology, and alliance motivations. One such analysis was conducted by marketing researchers Walter Wymer and Sridhar Samu to categorize the *various types of cross-sector alliances*. Wymer and Samu constructed a typology of business–nonprofit relationships that categorizes strategic alliances based upon four factors: management, motivation, commitment, and risk levels. The categorization provides a comprehensive insight into the various types of existing cross-sector alliances, but it does not address the fundamental attributes shared among alliances.¹¹ The study focuses primarily on the business and financial transactions associated with the alliances and places less emphasis on the social benefits associated with alliances such as knowledge transfer and relational development. Additionally, the typology does not suggest that a dynamic and evolutionary process exists between the different categories.

On the other hand, cross collaboration expert, James E. Austin, addresses the dynamic nature of cross-sector partnerships, which identifies the *evolutionary stages* of strategic alliances. Austin argues that there are three stages through which charitable relationships between private and nonprofit sector partnerships pass: the initial stage, a transitional stage,

⁹ James E. Austin, “The Age of Ethical Alliances,” *The Financial Times*, (December, 19, 2000); Wymer and Samu; Shirley Sagawa and Eli Segal, *Common Interest, Common Good: Creating Value Through Business and Social Sector Partnerships*, (Cambridge, MA: Harvard Business School Press, 2000); and Heap.

¹⁰ *Guide to Engaging with NGOs*, Business for Social Responsibility, (San Francisco: Business for Social Responsibility Education Fund, 2001); Sagawa and Segal, *Common Interest, Common Good*; Richard Steckel, Robin Simons, Jeffrey Simons, and Norman Tanen, *Making Money While Making a Difference: How to Profit with a Nonprofit Partner*, (Illinois: High Tide Press, 1999).

¹¹ The authors identify six types of cross-sector collaboration: corporate philanthropy, corporate foundations, licensing agreements, sponsorships, transaction-based promotions, and joint issue promotions. *Ibid.*

and an integrative stage.¹² A number of similar studies have been conducted for intra-private sector alliances; however Austin is the first to directly apply this research to cross-sector alliances. Findings from earlier intra-private sector alliance studies support Austin's evolution theory by suggesting that successful alliances undergo a number of changes in scope, function, and strategic rationale over the partnership's lifetime.¹³

While the study by Wymer and Samu does not suggest that the six types of alliances correspond with the evolutionary process proposed by Austin, this paper suggests that the two fields of research complementarily overlap. The initial stage in Austin's theory corresponds to traditional philanthropic activities of annual cash and in-kind gift donations; Austin notes that there is limited interaction and reciprocity between the two sectors within the primary alliance stage. Wymer and Samu's identification of corporate philanthropy and corporate foundations fall within the initial parameters of the evolutionary process (see Appendix 2).¹⁴ The second, transitional, stage encourages more interaction between the sectors; however, the alliance does not affect the overall structures and operations of the partners involved. Partnerships with limited partner interaction and a predominantly financial motivation such as licensing agreements, sponsorships, and transaction-based promotions fit into this category.¹⁵ Austin's final stage suggests that there is a much higher level of interaction and integration between the two partners, which corresponds with Wymer and Samu's joint issue promotions and joint venture categories.

The overlap between the two fields of research identifies the overarching categorical issues associated with the variety of existing cross-sector collaborations. The research identifies the dynamism of alliances and the evolutionary processes that can occur within a partnership. Austin appropriately stresses the importance of mutually beneficial relationships and the importance of value creation. He identifies some of the key features involved in an alliance as clarity of purpose; congruency of mission, communication, continual learning, and commitment.¹⁶ These features tend to focus more on the inter-relational qualities of an alliance, while Wymer and Samu focus on the transactional attributes. While the overlap

¹² Austin, 3.

¹³ David Lei, John W. Slocum, Jr., and Robert A. Pitts, "Building Cooperative Advantage: Managing Strategic Alliances to Promote Organizational Learning," *Journal of World Business*, 32 (3) (1997): 204; George S. Day, "Advantageous Alliances," *Journal of the Academy of Marketing Science* 23 (4) (1995): 297; Iyer, 6.

¹⁴ Wymer and Samu, 9.

¹⁵ Ibid.

¹⁶ Austin, 2.

between Austin's and Wymer and Samu's findings provide a typology of alliances, the evolutionary process, and fundamental features within an alliance, the research is limited to processes and categorization. This paper fills in the gap between these two studies through further identification of commitment levels among partnerships within the transitional and integrative stages of strategic alliances and the associated inter-relational characteristics.

Methodology

Research for this paper was conducted using secondary sources. The purpose of this research is to expand upon existing cross-sector alliance research to better understand the dynamism of the field. The paper proposes a simple model to demonstrate the fundamental attributes associated with alliances; the model suggests that while some of the attributes, such as trust and understanding of intentions are essential, there are additional variables that must exist, which may be altered to fit the specific needs and mission of an alliance. The paper introduces three different levels of collaboration and briefly examines the role each level plays in improving social services and economic development: dialogue-based, cause-related marketing, and multinational-multilateral alliances. The case studies further support the theory of alliance evolution proposed by James Austin as all three cases operate at the transitional and interactive stages of Austin's evolutionary process. Additionally, the paper argues that regardless of the levels of collaboration or the intentions of the alliance, the fundamental attributes of trust and understanding of partner intentions must exist.

Section one of the paper provides a background of the role of the private and nonprofit sector, as well as a brief history of corporate philanthropy and the corporate social responsibility movement. Section two provides a definition of a cross-sector strategic alliance and identifies the fundamental attributes of strategic alliances by applying a simple model based on trust and the understanding of intentions among partners. The third section provides a brief analysis of three case studies; the cases address strategic alliances from Austin's transitional or integrated stages of partnership. Each case study varies in the level of commitment, the timeframe of the alliance, and the overarching goals of the partnership. The case studies apply the proposed model presented in section two to illustrate the various levels of complexity within alliances, the strengths and weaknesses of each type of alliance, and the overall contribution each makes to address the needs of the players and stakeholders

alike. The case studies also illustrate that strategic alliances have the potential to reach a variety of spheres of influence at personal, local, or international levels. The diversity of the selected case studies provides the reader with an understanding that strategic alliances exist at a variety of levels.

The final section identifies potential areas for future cross-sector strategic alliance research and suggests concluding recommendations for future alliance development. The overall intent of this paper is to understand the range of existing and potential cross-sector relationships and to identify the fundamental attributes associated with their success in contributing equally to improve social and community development in addition to producing financial and performance benefits within the two sectors.

CHAPTER 2. THE NEED FOR INTERACTION AMONG SECTORS

With the increasing prevalence of international markets and competition, increased budgetary pressure on governments, and increased demand for social program expansions, boundaries between the traditional societal sectors—public, private, and nonprofit—are blurring together. Traditionally, in a democratic environment, the role of the public sector is to provide its citizens with social services such as education, health, and environmental protection in addition to political obligations such as rule of law, representative governance, and national security, while the private sector is viewed as an engine of growth designed to increase the economic livelihood and production within the country. The nonprofit sector, also known as the third sector, has evolved overtime to fill in the gaps created between the public and private sector.

However, over the past decade, the shift in roles and divisional boundaries among sectors has created new pressures and challenges. On the one hand, the government, with an increased current account deficit and overburdened budgetary constraints, has drastically decreased its budget allocations dedicated to education and health, and as a result has eliminated a large portion of social services upon which citizens heavily rely. In the example of the United States, the *Washington Post* reported that, “President George W. Bush's [2006] budget plan calls for elimination or drastic reduction 68 federal programs that he has never targeted before, including vocational-education grants, emergency medical services for children, and assistance to local law enforcement agencies.”¹⁷ On the other hand, the private sector prominence and profits have grown at unprecedented rates. The increased prevalence of the corporate presence has not only increased the sector’s influence over economic and social policies, but it has also placed private sector activities under close public scrutiny,

¹⁷ While many of the examples and statistics provided within this section are based on the United States, similar trends are visible in other developed and developing countries (i.e. government budget constraints, strategic philanthropy trends, and increased pressures for nonprofit organizations to increase services). One particular reason for the focus on the United States is that historically, and presently, the U.S. private and nonprofit sectors are recognized as the pioneers of philanthropic trends. Only recently has the role of the nonprofit sector in Europe become more dependent on external funding (as is later noted in the paper); and while the European nonprofit sector is beginning to engage in greater fundraising efforts, it is taking its lead from philanthropy trends from the United States. Similarly, developing countries are also taking their cues from the United States. Branches or subsidiaries of U.S.- and European-based corporations have engaged in some overseas cross-sector collaborations, however, it is still in a relatively nascent stage. Peter Baker and Christopher Lee, “Previously Untargeted Programs at Risk,” *Washington Post*, February 12, 2005.

which has resulted in social pressure for corporations to act more responsibly regarding community and environmental issues.

Out of the three sectors, however, the nonprofit sector faces the biggest challenge. While the government can cut social services and funding, and the private sector is at liberty to grow profits without legal obligation to engage proportionately in philanthropic activities,¹⁸ the nonprofit sector is not only under pressure to pick up the slack of federal social service program cuts, but has to do so under extremely restricted operating budgets.¹⁹ The end result is that nonprofits are constantly looking for ways to diversify their offered services and to enhance their funding base through new and existing opportunities. While the above example highlights specific challenges facing the United States, these challenges and changing roles among sectors are similar across the globe; declining levels of government support for social services, growing influence and wealth among private sector businesses, and increased public demands for expanded social services are common trends throughout developed and developing countries alike.

The overall shift in sector roles has created an overlap in social and economic responsibilities between the private and nonprofit sectors. The increase in corporate social responsibility pressures for the private sector coupled with a mounting pressure for nonprofits to expand programming with limited funding creates a new arena in which innovative solutions are being approached. One solution that continues to gain momentum is cross-sector alliances, which provide the nonprofit sector with enhanced funding prospects and the private sector with new opportunities to engage in more visible and interactive charitable giving and local community development. Additionally, while cross-sector alliances are not entirely new, the way in which they are conceived, implemented, and maintained continues to evolve.

Key Players Involved in Strategic Alliances

Before delving any further into strategic alliances, it is important to identify the players and to highlight each sector's strengths and weaknesses. What is evident is that the nonprofit and private sectors possess unique qualities that contribute to enhancing cross-

¹⁸ Robert Hinkley, "How Corporate Law Inhibits Social Responsibility," *Business Ethics: Corporate Social Responsibility Report*, January/February (2002): 57.

¹⁹ Sagawa and Segal, *Common Interest, Common Good*, 6.

sector partnerships; they also have weaknesses that strengthen the potential complementarity between the two partners. Understanding both the strengths and the weaknesses within each sector allows for a greater potential to achieve stronger, more successful alliances. As scholar Easwar Iyer suggests, "...capabilities can be combined to mutual advantage and that the success of the alliance depends on [each] of the partner..."²⁰ Additionally, Iyer notes that "pooled advantages can stem from each organization's strengths compensating for the other's weaknesses or...enhancing their combined strengths."²¹ Specific to cross-sector alliances there are even greater differences between partners. The following section attempts to address these issues in greater detail.

Defining the Nonprofit Sector

The nonprofit sector in particular, while relatively new in the global arena, continues to grow at an exponential rate.²² While it is difficult to calculate the exact number of operational nonprofits, it is estimated worldwide that nearly 19.7 million people are employed by the nonprofit sector, and between 1990 and 1995 nonprofit employment increased by 23 percent compared to 6 percent for the economy as a whole.²³ This growth is in part a result of the nonprofit sector working as a mechanism that balances between a nation's dependence on the market and dependence on the state and the increasing demands that this role is required to address.

One particular challenge of compiling exact figures and data is that the concept of the nonprofit or nongovernmental sector is vague and difficult to define. A study conducted by Johns Hopkins University concluded that within the nonprofit sector, "considerable variations exist in the scale, composition, and financial base of the nonprofit sector among countries."²⁴ This ambiguity presents difficulty in analyzing the overall societal

²⁰ Easwar Iyer, "Theory of Alliances: Partnership and partner characteristics," *Journal of Nonprofit and Public Sector Marketing*, 11(1) (2003): 43.

²¹ Ibid, 44.

²² David Brown, Sanjeev Khagram, Mark Moore, and Peter Fromkin, "Globalization, NGOs, and Multi-Sectoral Relations," The Hauser Center for Nonprofit Organizations and the Kennedy School of Government, Harvard University. Working Paper No. 1 (2000): 5.

²³ "Measuring Sincerity: The Nonprofit Sector in a Changing Economy," *OECD Observer*, August 2003. <www.oecdobserver.org> (accessed February 20, 2005). and; Lester M. Salamon, S. Wojciech Sokolowski, and Helmut K. Anheier, *Global Civil Society At-a-Glance*, (Baltimore, MD: Johns Hopkins University, 2002).

²⁴ Salamon, Sokolowski, and Anheier, *Social Origins of Civil Society: An Overview*, 6.

contributions the nonprofit sector makes. However, as it is necessary to articulate the classification of this sector, this paper will rely on the general definition provided by the World Bank:

[Nongovernmental Organizations are] private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development.²⁵

While this definition describes the focus of the nonprofit sector in terms of its overall mission and focus, it is also necessary to understand the defining structure of organizations within the sector. Based on an additional definition provided by the World Bank:

The term NGO can be applied to any nonprofit organization which is independent from government. NGOs are typically value-based organizations which depend, in whole or in part, on charitable donations and voluntary service. Although the NGO sector has become increasingly professionalized over the last two decades, principles of altruism and voluntarism remain key defining characteristics.²⁶

Other important concepts that define the organizations involved in the nonprofit sector include organizations that exist solely to promote their mission statement, do not intend to generate profit or personal financial gain, and do not exist to serve their members' self-interests.²⁷ With these concepts in mind, it is clear that the nonprofit sector encompasses a wide range of organizations serving a variety of roles, but all with the intention of serving civil society.

History of the Nonprofit Sector in the United States. Within the United States alone, over 1.25 million nonprofit organizations exist, 70 percent of which are less than 30 years old.²⁸ Due to the social significance of the nonprofit sector, it is important to examine the sector in

²⁵ World Bank website, "Nongovernmental Organizations and Civil Society/Overview," <http://wbln0018.worldbank.org/essd/essd.nsf/NGOs/home>, June 2001.

²⁶ Ibid.

²⁷ Asian Development Bank, "The NGO Sector," <http://www.adb.org>.

²⁸ World Resources Institute, "Snapshots of NGO Sector Growth," *World Resources 2002-2004: Decisions for the Earth: Balance, Voice, and Power*, (New York: UNDP, UNEP, World Bank, and WRI, 2004), http://pubs.wri.org/pubs_content_text.cfm?ContentID=1902.

a historical context. Although the existence of private voluntary organizations can be traced to prior to the turn of the century, their sustained involvement in relief and development work, first in the North and eventually in the developing world, is essentially a post-World War II phenomenon.²⁹ Historically, the United States has been viewed as the grandfather of the nonprofit sector. In 1835 Alexis de Tocqueville was the first to write about the significance of associations in America and their invaluable role in democracy.³⁰ As a country wary of overstated governmental control, the United States left much of the civil society development in the hands of voluntary associations and organizations. A strong middle class and emphasis on a voluntary civil society greatly contributed to the growth of the nonprofit sector. As stated by economist Burton Weisbrod, “the role of nonprofit institutions in the United States is certainly considerable; their special role is justified on the grounds that they supply uniquely valuable services.”³¹ The nonprofit sector is certainly valued for the services they provide, however, the issue of funding is a perennial concern that places serious constraints on what organizations can achieve.

One way in which the United States government aids nonprofits is through the provision of tax breaks in exchange for organizations’ charitable services.³² Registered nonprofit organizations qualify for tax-exempt status under the Internal Revenue Code because they are organized for the specific purpose of providing a charitable service for public as stated under United States tax code 501(c). Although there are legal distinctions among nonprofit organizations and different reporting requirements, all are exempt from paying federal income taxes.³³ The tax code that governs earned income by nonprofits specifies that any profits made by an organization must be related to the core mission and cannot be deemed a “trade or a business.”³⁴ This is to say that as long as a nonprofit engages

²⁹ While the first nonprofit corporation in the United States was Harvard University, established in the mid-1600s, the real growth of community-based development and social service organizations did not become well-known until the beginning of the 20th century. Steckel, et al., 5.

³⁰ Alexis de Toqueville, *Democracy in America*, (New York: Alfred A. Knopf, Inc, [1835], 1945).

³¹ Burton A. Weisbrod, *To_Profit or Not to Profit: The Commercial Transformation of the Nonprofit Sector*, (Cambridge, UK: Cambridge University Press, 1998), iv.

³² Similar tax codes exist in other countries, however the particularities differ considerably.

³³ “General Nonprofit Information,” National Center for Charitable Statistics, <http://nccsdataweb.urban.org/FAQ/fDetail.php?category=48&itemID=409#general>, (accessed February 4, 2005).

³⁴ Steckel et al., 6.

in a profit-seeking activity related to its mission, it is not required to pay taxes on the proceeds.

The National Geographic Society is a unique example of a nonprofit organization that has combined both profit and nonprofit activities to further fund its nonprofit arm. Taxable branches of the organization still provide funding to the organization's core mission, "to increase and diffuse geographic knowledge while promoting the conservation of the world's cultural, historical, and natural resources."³⁵ While the Society is technically a nonprofit organization designated to enhancing its mission, its organizational and accounting structures share more similarities with private sector businesses than they do with other nonprofits. However, very few nonprofit organizations are able to duplicate the Society's profit-making success and, as a result, heavily depend on charitable contributions from smaller membership bases, foundation and government grants, and corporate philanthropy. Because so few nonprofits are able to achieve what the National Geographic Society has as a single entity, alliances with private sector businesses can also help to accomplish many of the same goals.

Strengths and Weaknesses of the Nonprofit Sector. The nonprofit sector has a number of unique qualities which lend themselves to help progress economic and community development. Nonprofits have the distinct advantage of touching society at the grassroots level where the public and private sectors often fall short. Because of the grassroots involvement, they have the ability to adapt quickly to new situations and can use new and experimental methodology in tackling a social issue. The nonprofit sector is often a successful intermediary between communities, corporations, and government. In an advocacy role, the sector plays an invaluable part in advocating important issues and approaches in community and economic development.³⁶ Nonprofits are able to address controversial topics involving education, health, environment, and poverty, which may be otherwise contentious issues for both the public and private sector to address. In other words, the nonprofit sector has the advantage of acting as a watchdog to maintain civil balance between the three sectors as well as a grassroots provider of social service mechanisms and programs.

³⁵ National Geographic Society mission statement, <http://www.nationalgeographic.com/donate/aboutus.html>, (accessed February 16, 2005).

³⁶ Asian Development Bank, "The NGO Sector," <http://www.adb.org>, (accessed February 16, 2005).

While the nonprofit sector is invaluable in its role to maintain civil society, the sector possesses distinct weaknesses that thwart maximum efficacy. The most prominent challenge for nonprofits is that they are oftentimes constrained by limited technical capacities, limited managerial and organizational capacities, and relatively small resource bases. Limited funding and strong competition between various organizations create an unstable environment under which nonprofits have to operate. Poor management and inefficient communication with other actors are also common weaknesses.

The relationship between the nonprofit sector and government may also lead to constraints if there is a weak middle class or overbearing government involvement in civil society.³⁷ The third sector's relationship with the private sector has been, until only recently, based solely on limited philanthropic outreach and charitable donations, however greater private sector involvement and cross-sector collaboration have led to new and innovative solutions to nonprofit funding limitations.

The relationship between the sector's strengths and weaknesses clearly varies among countries and, in particular, between Western and nonwestern nations. In general, outside of the United States, the nonprofit sector is still evolving; some countries continue to rely heavily on government funding or private foundation grants, while others rely on service and membership fees. Regardless, the fundraising movement is not nearly as prevalent as it is in the United States. In Western Europe, for example, while there is a very strong middle class, the rise of the social welfare state after World War II considerably diminished the role of philanthropy and individual giving. The recent decline in government subsidies, however, is changing all of this, and the nonprofit sector is starting to forge new fundraising strategies.³⁸

A recent study conducted by the Johns Hopkins Comparative Nonprofit Sectors program found that in developing countries, where government funding is extremely limited, nonprofit organizations targeting the poorest percentile of the population rely primarily on international government and foundation grants.³⁹ Additionally, developed countries, such as

³⁷ Ibid.

³⁸ Eugene Tempel, "Across the Pond: European Giving Taking Formal Shape," *The Nonprofit Times*, (17) 23, (2003): 1.

³⁹ The study shows that the majority of nonprofit organizations in developing countries target education and health care services. As a result, these organizations are able to depend on fees as the primary source of income. What the study goes on to illustrate, however, is that the population that receives the services (as they are able to pay for the services) are not the poorest households. Instead program participants are the middle class households who neither want to use public education and health facilities, nor are able to pay for

the United States, that have a strong middle class have a greater opportunity to engage citizens in fundraising campaigns. Developing countries, on the other hand, have very small middle classes, and charitable giving is practically non-existent, which adds significantly to the resource limitations and challenges facing the nonprofit sector. These examples illuminate the differences in nonprofit sector development and nonprofit funding constraints. What is common throughout the nonprofit sector is that, traditionally, the private sector has extremely limited or no formal interaction with the nonprofit sector; however, this too is starting to change.⁴⁰

Defining the Private Sector

The current debate surrounding the extent to which corporations should contribute to society and interact with nonprofits organizations is longstanding. Some skeptics question the underlying motives of corporations adopting social responsibility measures, while some business leaders question the suitability of social responsibility for corporations. However, as the debate continues, it is clear that the role of the private sector is metamorphosing into something bigger than bottom-line strategies. Activists and nonprofit organizations agree that corporations have a greater responsibility to uphold; rather than simply providing high profit returns to shareholders, they are accountable to stakeholders as well. Business advocates and corporate legal practitioners argue, however, that it is not in the original mandate of corporations to address social and environmental protection, and that the sole purpose of a company, its *raison d'être*, is profit-making for shareholders. Such advocates often refer to the opinion of Milton Friedman to bolster this argument:

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a socially responsibility other than to make as much money for their stockholders as possible. This is a

private services. As a result, there are a limited number of nonprofit organizations solely dedicated to targeting the poorest quintile of the population due to the lack of funding possibilities. Salomon, Sokolowski, and List, *Global Civil Society Comparison: An Overview*.

⁴⁰ According to the Non Profit Sector Group of the Aspen Institute, only 20 percent of annual nonprofit funding comes from traditional philanthropy and of that only 5 percent of philanthropic charity is donations from the private sector. Joseph Galaskiewicz and Michelle Sinclair Colman, "Collaboration between Corporations and Nonprofit Organizations," *Nonprofits Pushing Sector Boundaries: Identifying Key Issues for Research, Policy, and Practice*, (Washington, DC: The Aspen Institute, 2003), 9-10.

fundamentally subversive doctrine. If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is?⁴¹

Irrespective of these arguments, it would be hard to argue against the fact that as the private sector has expanded, so has its power and influence among both the government and society. Corporations are no longer isolated from government policy and social advocacy, but instead are in a position to recreate their missions, strategies, and overall conduct to include socially—as well as profit-driven business decisions. The extent to which a corporation is accountable to society remains uncertain, however, there is a growing trend within the private sector of becoming more socially aware and involved. However, the debate between bottom-line and social responsibility has existed since the inception of the corporation in the late nineteenth century.

History of the Corporation in the United States. In order to understand what needs to be changed in regards to the social responsibility of the private sector, it is important to understand the origin of the corporation and the basis of its current mandate. As John Kenneth Galbraith noted in *The Age of Uncertainty*:

The institution that most changes our lives, we least understand or, more correctly, seek most elaborately to misunderstand. That is the modern corporation. Week by week, month by month, year by year, it exercises a greater influence on our livelihood and the way we live than unions, universities, politicians, and government.⁴²

In the early 1800s, during the Industrial Revolution, capital demands for funding large private projects, such as private railway systems, surpassed the capacity of what traditional bank loans and individual partnerships could provide. More investment was needed and multiple private investors were the next target sought. By 1862, British Parliament passed a law making it possible for companies to establish themselves without

⁴¹ Milton Friedman, *Capitalism and Freedom*, Chicago: University of Chicago Press (1965), 133.

⁴² John Kenneth Galbraith, *The Age of Uncertainty*, (New York: Houghton Mifflin Company, 1977), 65.

parliamentary permission.⁴³ Soon thereafter, the United States and Canada established similar legal parameters stating that “companies should pursue exclusively the interests of their shareholders.”⁴⁴ This approach to corporate legal regulation (known as shareholder capitalism) is extremely limited in scope and differs from legal regulation in the Continental Europe and Japan (stakeholder capitalism), which states a company’s obligation to include , shareholder and stakeholder interests; this inclusion commonly results in stakeholders assuming positions on a company’s board of trustees. The United States, Britain, and Canada, however, do not comply with such regulations, and, as a result, contemporary corporate action oftentimes disregards the impacts of profit-making decisions on stakeholders.

Additional laws associated with shareholder capitalism, such as corporate personhood and limited liability, were adopted to encourage further economic development. These laws grant corporations constitutional rights, such as the right to free speech and the right to protection from unlawful search and seizure, and they protect shareholders from liability when corporations cause environmental harm, violate human rights, or become bankrupt.⁴⁵ While such regulations originally were intended to encourage individuals to take business risks and generate greater economic growth, over time such regulations have caused a disconnect between a company’s actions and its external effects. Corporate social responsibility activist Robert Monks argues that, “corporations do not create these results intentionally. No corporation wants to cause poverty, pollution, disability, unemployment, and corruption. Rather, corporations want to make profits. But in the pursuit of profits, corporations may find that antisocial behavior pays...”⁴⁶ To further complicate the alleviation of such “antisocial behavior,” international mobility of corporations makes the enforcement of current U.S. domestic regulation difficult, and international laws are not strong enough to be enforced consistently across borders. As a result, private sector businesses can take advantage of gaps in national and international law to work with suppliers or create their own factories in countries that offer much lower operational costs.

⁴³ “Special Report: Lots of it about—Corporate Social Responsibility,” *The Economist*, December 14, 2002, 365(8303): 74.

⁴⁴ *Ibid.*, 75.

⁴⁵ “The Corporation Inside and Out,” (Vancouver: The Aurora Institute, 2002): 7.

⁴⁶ Robert Monks, *The New Global Investor*, (Oxford: Capstone Publishing Ltd, 2001), 47.

Unfortunately, lower operational costs are typically a ramification of the local government's lack of legal regulation of human rights standards or environmental policies.

In the absence of formal enforcement, however, social checks are starting to hold corporations more accountable. Social pressures from consumers and investors are a strong impetus for recent strides in the corporate social responsibility movement. For example, there are an increasing percentage of large state- or privately-operated pension funds (approximately \$2 trillion in the United States alone) who are strong corporate shareholders. The new capacity of pension fund operators inadvertently positions the voice of the stakeholders around the boardroom table.⁴⁷ This shift in shareholder interests—representation similar to traditional “stakeholder capitalism” in Continental Europe—and the increase in consumer awareness is making corporations sit up a little straighter and take notice of ways in which to incorporate the social as well as economic interests of the new shareholders.

Strengths and Weaknesses of the Private Sector. The private sector maintains a unique role in society by providing economic development opportunities which the public and nonprofit sectors can not offer. The primary strengths of the private sector are its wealth of resources, the diversity of products and services offered, and the management and financial efficiency. The fundamental mission of traditional private sector business (providing shareholders with annual profits) creates a competitive environment that necessitates continual innovation in operations, strategies, and technological resources. A successful business that provides returns to its investors year after year not only provides a successful return to shareholders, but it increases the company's accessibility to more assets.

Private sector businesses operating in today's global arena must maintain a competitive advantage via innovation and the provision of desirable goods and services. In order to do so they must work effectively and efficiently to continuously strive for excellence. Measurement and organizational evolution are fundamental strengths of private sector businesses. Federal Express is a prime example of a business that strives for excellence through the amalgamation of efficiency, technological, organizational, and service

⁴⁷ Ibid, 9.

innovation.⁴⁸ Federal Express is known for the value it places on performance measurement. Continual performance measurement provides a strong understanding of the efficiencies and deficiencies within the organizational structure of the company. Such vigilant performance awareness allows for the company to quickly and effectively evolve to address operational weaknesses and deficiencies. However, constant measurement not only takes a large quantity of resources, but a high degree of technological innovation and investment; the access of this technology is a particular strength to private sector companies.⁴⁹

Additionally, access to research and development (R&D) is another fundamental strength for the private sector as it increases the diversity of services and products available to consumers, which translates into improved probability for increased profits. Innovation and investment are directly affiliated. Without investment, a company does not have the capacity to innovate; and without innovation, a company will not maintain a competitive advantage and generate sufficient profits to invest. The constant introduction of new products and services keep companies competitive and successful. Therefore, it can be said that investments in R&D are essential for private corporations; the United States private sector alone invests over \$123 billion annually to R&D.⁵⁰ From a global perspective, according to the Pharmaprojects 2004 Annual Review, “over \$75 billion was spent on global healthcare R&D..., much of it on pharmaceuticals and supporting science and technology...”⁵¹ Increased investment in human capital such as employee training and development is another means by which the private sector fosters innovation. According to Robert Grossman, professor of Management Studies, “as much as 80 percent of a company's

⁴⁸ Laura Struebling, “Measuring for Excellence,” *Quality Progress*, December 29(12) (1996): 25.

⁴⁹ Such high-tech systems such as the Federal Express measurement system are often unattainable for smaller private sector business. However, this type of performance measurement is still unique to the private sector as a whole.

⁵⁰ The *U.S. Corporate R&D Report* divided and ranked R&D annual investments among eight industry categories: information and electronics, medical substances and devices, motor vehicles and other surface transportation equipment, basic industries and materials, machinery and electrical equipment, chemicals, and aircraft and space vehicles. Carl Shepard and Steve Payson, “U.S. Corporate R&D: Top 500 Firms by Industry Category,” Office of Technology Policy, Technology Administration, and U.S. Department of Commerce; and Division of Science Resources Studies, National Science Foundation, (1999): 14; and Bronwyn H. Hall, “Financing Private Sector Development in Research and Development,” University of California, Berkeley, (2002): 22.

⁵¹ Ian Lloyd, “Pharmaprojects 2004 Annual Review,” <http://www.pjbpubs.com/pharmaprojects/index.htm>, (accessed February 28, 2005).

worth is tied to human capital.”⁵² This is to say, that the private sector has the advantage of being able to invest large amounts of resources into the growth of employees.

It is clear that the financial capabilities of private sector industries allow for businesses to commit huge levels of resources to further business development, an advantage of which the nonprofit sector can only dream. The trend of private sector profit accumulation is not likely to change any time soon; increased budget pressures have forced the public sector to reduced in-house resource expenditure and increased private sector contracting.⁵³ While this has led to a great deal of controversy, it has also led to a growing financial profit and greater opportunities for the private sector.

However, private sector financial/economic strength comes at the expense of other factors. According to an article by former corporate securities attorney, Robert Hinkley, the private sector is weakened as much as it is strengthened by its direct mission to make money for shareholders.⁵⁴ Hinkley’s argument suggests that legal constraints under corporate law hinder the potential for corporate-profit spillover effects into society as a whole. The myopic view of corporate mandates has created a disconnect between the private sector and society. A predominant focus on bottom-line performance often comes at the expense of community and social relations. A 2003-2004 survey by the Center for Corporate Citizenship at Boston College in collaboration with the U.S. Chamber of Commerce and the Hitachi Foundation, found that 82 percent of the surveyed executives acknowledge the importance of social and environmental responsibility to the bottom-line; however the transition from acknowledgement to implementation does not produce proportional results.⁵⁵ Arguably, the lack of legal accountability for social responsibility allows for the majority of corporations to remain outside the social sphere.

A comparison between the strengths and the weaknesses of the private sector and nonprofit sector illustrates that many of the strengths of one sector are the weaknesses of the other. On the one hand, while the nonprofit sector has a strong commitment and interaction with communities via social development programs, the private sector oftentimes lacks these

⁵² Robert J. Grossman, “Blind Investment,” *HR Magazine*, January 50(1) (2005): 5.

⁵³ Ed Gibson, “Admitting a Bad Influence: Contracting the Public Service,” *International Journal of Public Administration*, June, 27(7): 481.

⁵⁴ Robert Hinkley, “How Corporate Law Inhibits Social Responsibility,” *Business Ethics: Corporate Social Responsibility Report*, January/February (2002): 4.

⁵⁵ Philip Mirvis and Bradley Googins, “The Best of the Good,” *Harvard Business Review*, December 82(12) (2004): 20.

qualities. On the other hand, the private sector has a strong resource base, which provides for greater efficiency, adaptability, and investment capability; however, shortage of resources is regarded as the primary hindrance for growth within nonprofit organizations. Interestingly, the legal parameters constructed by the government under which each sector operates, dictate the role of each sector; corporate law mandates that “directors and officers of a corporation...exercise their powers with a view to the interests of the corporation and the shareholders.”⁵⁶ Conversely, legal 501(c) status requires that certified nonprofit organizations are limited to profit making only as it pertains to the organizations’ social missions.⁵⁷ This paper does not analyze the direct effects of sectoral legal parameters; however, it should be acknowledged that such parameters influence the fundamental motivations and roles of both sectors.

The complementarity between the two sectors has evolved over time and as a result of societal needs and trends. While some of these trends are the result of political and legislative initiatives, the majority have stemmed from the demands of citizens. The middle class, as both a citizen and a consumer, has had a strong impact on the role of businesses and nonprofit organizations today.

Role of the Middle Class in Building Strategic Alliance Incentives

The middle class plays an important role in the dynamics and incentives behind private and nonprofit sector alliances. Within the United States and other developed countries, household consumption of goods and services is a driving force behind the motivation and growth of private sector businesses. According to the Economic Intelligence Unit 2004 report, within the United States, services accounted for 67 percent of gross national product (GNP), while retail services alone make up over one-third of the GNP of the United States.⁵⁸ However, according to further reports from the Economic Intelligence Unit, the income gap between the rich and the poor is becoming more disparate; in 2002, the poorest 20 percent of households within the United States received 3.5 percent of total

⁵⁶ Hinkley, 4.

⁵⁷ Steckel et al., 6.

⁵⁸ “Economic Performance,” *United States Country Profile, 2004*, Economic Intelligence Unit, 41, http://db.eiu.com/report_dl.asp?mode=pdf&eiu_issue_id=1907436190, (accessed February 13, 2005).

household income, while the richest 20 percent of households received almost half—such trends are apparent throughout the world in both developed and developing countries.⁵⁹

In spite of the growing income disparity, as a whole the United States population has the highest consumption rates in the world. According to the U.S. Department of Commerce, in 2003 the personal consumption expenditure per capita was over \$26,000 or approximately 70 percent of the annual GNP per capita.⁶⁰ From these figures it is clear that the service industry within the United States is heavily reliant upon high levels of economic activity among domestic public consumers. However, the increased income disparity between the rich and the poor quintiles in addition to the increased competition among companies subsequently demonstrates that private sector growth strategies have had to readjust to accommodate targeting new consumer markets.

The Consumer and the Private Sector. Private sector growth is directly dependent on increased consumption, and, as a result, it is a direct advantage for the private sector to generate a positive reputation with potential consumers. Corporate market research shows that, in fact, many consumers who purchase private sector goods are reliant on nonprofit or federal social services.⁶¹ Recognition of the importance of reputation among shifting consumer demographics is evidenced by the philanthropic trends of several S&P500 corporations. A study conducted by the Reputation Institute and Harris Interactive concluded that, “there is a powerful correlation between reputation and the public’s intentions to buy a company’s products and services [and] recommend them to other people...”⁶²

Wal-Mart Corporation is an excellent example of this new shift in corporate marketing strategies. The corporation is one of the largest discount retail chains in the

⁵⁹ Ibid.

⁶⁰ “Survey of Current Business,” United States Department of Commerce, <http://www.bea.doc.gov/bea/pubs.htm>, (accessed February 14, 2005).

⁶¹ Within the United States, the primary dependency on social services is associated with health care and education. This social service dependency is also the case in most developing countries; however, the level of consumption is significantly less. Corporate philanthropy in an international context is primarily associated with the direct benefits to employees and the directly resulting increases in corporate productivity.

⁶² Ronald Alsop, “A Good Corporate Reputation Draws Consumers and Investors,” *The Wall Street Journal Books*, November 22, 2004. <www.thereputationinstitute.com>, (accessed March 3, 2005).

world⁶³ and has also made itself one of the world's leading philanthropic donors—the corporation strategically exercises corporate statesmanship and distributes contributions through the Wal-Mart Foundation.⁶⁴ Their corporate philanthropy strategy focuses on “a grassroots style of giving” that enables the company “to support organizations that are improving the quality of life right in their local communities.”⁶⁵ The community organizations are those with which Wal-Mart customers (and employees) are affiliated, and, as a result, the corporation's grassroots philanthropy not only supports local economic and community development, but also provides a strong public relations campaign throughout over 5,000 communities.⁶⁶ However, while Wal-Mart may create strong followers among some communities and populations, the corporation has also generated a strong global backlash due to its cost-cutting strategies with overseas suppliers.

A 2004 Corporate Citizenship Study conducted by Cone Inc. documented 11 years of consumer views and impressions of corporate citizenship in America. The survey demonstrated the growing emphasis consumers place on corporate social responsibility and the effectiveness, from a corporation's perspective, of visible philanthropic activity. For example, in 1993 only 26 percent of Americans could identify a company that stood out in their mind as a strong corporate citizen; however 80 percent of the Americans surveyed could do so by 2004.⁶⁷ However, the study also noted that while consumers are willing to reward companies with good corporate citizenship reputations, they are more likely to punish companies that portray a lack of corporate citizenship—90 percent of those surveyed said they would consider switching *away* from a company's products or services if the company behaved illegally or unethically; whereas 86 percent said they would switch *to* a company's

⁶³ As of February 28, 2005, the Company had 1,353 Wal-Mart stores, 1,713 Supercenters, 552 SAM'S CLUBS and 85 Neighborhood Markets in the United States. Internationally, the Company operated units in Argentina (11), Brazil (149), Canada (44), Germany (91), South Korea (16), Mexico (697), Puerto Rico (54), and the United Kingdom (283). Wal-Mart, Investor Relations, <<http://investor.walmartstores.com/phoenix.zhtml?c=112761&p=irol-irhome>>, (accessed March 3, 2005).

⁶⁴ “50 Largest Corporate Foundations according to Total Giving,” Researching Philanthropy, The Foundation Center, <http://fdncenter.org/research/trends_analysis/top50giving.html>, (accessed March 5, 2005).

⁶⁵ “Grassroots Giving: Our Community Involvement Policy,” Wal-Mart Foundation, <<http://www.walmartfoundation.org/wmstore/goodworks>>, (accessed March 3, 2005).

⁶⁶ This figure is based on the sum of the total number of stores reported by Wal-Mart. See footnote 57 for country specific locations.

⁶⁷ 2004 Cone Corporate Citizenship Study, Cone Inc., http://www.coneinc.com/Pages/pr_30.html (accessed January 3, 2005).

products or services if they met or exceeded corporate citizenship expectations.⁶⁸ Interestingly, Wal-Mart was the most frequently mentioned company to stand out as a positive corporate citizen. Cone Inc. suggests that “Wal-Mart’s promotion of their community philanthropy is breaking through to some as corporate citizenship.”⁶⁹ However, other studies have suggested that Wal-Mart is also experiencing a backlash due to recent negative publicity regarding employee-related lawsuits and workers’ rights at international suppliers manufacturing plants.⁷⁰ In spite of public criticism, Wal-Mart has been rated as “the most admired company in America” in *Fortune* magazine’s 2003 and 2004 issues. However, this has come with great effort as the company has employed a proactive combination of social, political, and legal strategies to manage a potentially contentious environment that could threaten future growth and financial success.⁷¹

The implementation of such proactive mitigation strategies by one of the world’s largest corporations illustrates the extreme influence that consumers have on the financial success and future growth of a company. The increase in negative corporate publicity through media and consumer awareness groups has heightened the awareness of corporations and their role as corporate citizens both domestically and abroad. Corporations are also becoming more aware of the interaction that many citizens have with nonprofit organizations, either as volunteers, members, or recipients of services. This has made some corporations keen to work with the nonprofit sector to simultaneously participate in philanthropic activities and establish a positive social reputation with key consumer groups.

The Citizen and the Non-profit Sector. As economist Barrington Moore, Jr. noted, “...the creation of the nonprofit sector is the middle class.”⁷² The more developed the middle class, the stronger the nonprofit sector is likely to be. It should, however, be noted that the development of a middle class is reliant on social, economic, and political issues; and in a Western society, the development of a nonprofit sector followed as a result of a strong

⁶⁸ Ibid, 3.

⁶⁹ Ibid.

⁷⁰ Thomas A. Hemphill, “Rejuvenating Wal-Mart’s Reputation,” *Business Horizons*, January/February 48(1) (2005): 11.

⁷¹ Ibid, 12.

⁷² Barrington Moore Jr., *The Social Origins of Dictatorship and Democracy*, (Boston, MA: Beacon Publishers, 1967), 22.

middle class. As Moore argues, in the United States, for example, the role of the middle class brought on the evolution of the nonprofit sector. Currently, individuals, either through membership fees or annual charitable donations, comprise over 75 percent of the nonprofit sector funding (\$179.36 billion).⁷³ However, with the decrease in federal funding for social services, a greater percentage of the population, particularly lower- and middle-income households, are forced to look towards nonprofit organizations for support.

This perpetual dependency relationship between the nonprofit and the middle class is complex. While the success of a nonprofit sector is still linked directly to the strength of the middle class, the nonprofit continues to rely on federal funding and private sector philanthropy as a source of income; in 2003 corporations contributed 5.3 percent (\$13.46 billion) of the gross annual contribution totals, which is an increase of \$2.6 billion from 2000.⁷⁴ Corporate philanthropy, although important for immediate funding opportunities, is also a key source through which nonprofit organizations can reach a larger middle class population for future individual contributions and memberships.

The middle class plays an important for both the private sector, as consumers, and the nonprofit sector as donors. This is an increasingly international trend as corporations expand their reach into more and more countries, which has led to the growth of a middle class population in some urban areas of China, India, and Latin America. While the middle class population in the United States and Europe is more involved in nonprofit and corporate citizenship movements, there is the potential for this movement to catch on in developing countries. In the meantime, corporations based in the United States and Europe are still feeling the pressure to maintain responsible corporate citizenship abroad as it affects domestic consumer trends and company reputation.

Within the United States, in particular, there is a deep-rooted relationship between the private and the nonprofit sector. Legal, social, and political mechanisms have generated an evolving courtship between the two sectors, which has resulted in both positive and negative impacts on community and economic development. The fundamental differences between the two sectors' origins and missions create a juxtaposed and complicated relationship; this is highlighted by the differences in the strengths and weaknesses of each sector. The evolving

⁷³ "Giving USA 2004 report," American Association of Fundraising Counsel, http://www.aafc.org/press_releases/trustreleases/americansgive.html, (accessed February 13, 2005).

⁷⁴ Ibid.

sophistication within the sectors as well as the relationship between the sectors is evident; improved technology, operating systems, and efficiency continue to propel private sector growth, while the nonprofit sector is also growing and increasing its social and developmental impact on grassroots, national, and international levels. The expansion of these two sectors in addition to the contraction of government involvement has increased the incentives for private and nonprofit sector partnerships even more. Increased public need for social services coupled with increased public consumptive demands creates an environment—tenuously balanced between social and economic pressures—within which the two sectors must operate. However, many organizations are beginning to regard this as an exciting position in which new philanthropic and entrepreneurial frontiers can be reached.

From within the defined sector roles and the related strengths and weaknesses, a unique complementarity between the private and nonprofit sectors is evolving to create a long-standing relationship between the two. Additionally, the impact of the middle class on both of these sectors further encourages interaction. The traditional link is via private sector charitable giving, however philanthropic trends are shifting to facilitate more dynamic and interactive cross-sector arrangements which provide reciprocal exchanges between partners.

History of Philanthropy

While the trends of corporate philanthropy have evolved over the past century, corporate charitable giving has and continues to be a voluntary act. A corporation has no legal obligation to give back to society in any capacity other than profits to its immediate shareholders.⁷⁵ However, social norms and pressure have impacted corporate behavior and as a result, corporations engage in philanthropic activities. Although it is clear that corporate philanthropy is still considered by many observers to be discretionary or optional, it is often the clearest way in which corporations can publicize their social performance to the general public.⁷⁶ However, a recent survey conducted by *Business Week* noted that an accurate assessment of corporate philanthropic activities is a major challenge. “There is no

⁷⁵ While the specific wording may differ among jurisdictions, United States Business Corporation Act adheres to the following mandate, “...the directors and officers of a corporation shall exercise their powers and discharge their duties with a view to the interests of the corporation and of the shareholders...” Hinkley, 8.

⁷⁶ Donna J. Wood, “Corporate Social Performance Revisited,” *Academy of Management Review*, 16(4) (1991): 695.

requirement for public disclosure of corporate contributions; thus [data are based on] voluntary disclosure of contributions.”⁷⁷

Debate surrounding the role of corporate philanthropy has existed since the inception of the corporation in the mid-nineteenth century. As author and scholar Kim Nevin Gattle notes, “The early constraints on corporate philanthropy emanated from the fear of power. The ability to contribute was misinterpreted as the ability to control—to manipulate social goals for the benefit of the corporation rather than for the public good.”⁷⁸ As a result, the history of corporate philanthropy reflects periods of independence and government regulation which correspond with the “business’ willingness to monitor itself.”⁷⁹ Corporations recognized early on that community and employee well-being directly benefited the corporation’s own economic performance. However, communities were wary of corporate intentions and social involvement as communities recognized a distinct difference in the trustworthiness of government and corporate social engagement. As an intermediary, the government could be trusted to use taxes collected from corporations to provide an equitable distribution of services for the *general* public. As a result, federal legislation restricted corporate power by confining the role of corporate giving to projects that were a direct benefit to the enterprise.⁸⁰

In fact, at one time the use of any corporate funds for philanthropic purposes was completely illegal. As corporate philanthropy historian Archie Carroll notes, “what is theoretically intriguing is how corporate philanthropy evolved from being illegal to being the top of the ‘pyramid of corporate social responsibility’”⁸¹ Prior to 1917, when Texas was the first state to pass legislation permitting corporate philanthropy, a corporation did not have the legal right to give money or in-kind donations to a charitable cause *unless* it directly

⁷⁷ Michelle Conlin, Jessi Hempel, Joshua Tanzer, and David Polek, “The Corporate Donors Business Week's first annual ranking of America's most philanthropic companies,” *Business Week*, December 3860 (2003): 92.

⁷⁸ Kim Nevin-Gattle, “Predicting the Philanthropic Response of Corporations: Lessons from History,” *Business Horizons*, May-June 39 (3) (1996): 15.

⁷⁹ Walter A. Haas, “Corporate Social Responsibility-A New Term for an Old Concept with New Significance,” in Brian O'Connell, ed., *America's Voluntary Spirit* (New York: The Foundation Center, 1983), 392.

⁸⁰ Nevin-Gattle, 20.

⁸¹ Archie B. Carroll, “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders,” *Business Horizons*, 34(4) (1991): 42.

benefited the company.⁸² The prohibition of charitable giving was intended to ensure that corporate funds did not act outside of the direct interests of corporate stakeholders. Some states' legislations modified these stringent guidelines to permit charitable giving, which permitted contributions that directly benefited the corporation—however, directly beneficial contributions explicitly excluded charitable gifts to academic institutions. As a result, corporations donated to causes that directly benefited the company employees.⁸³

Most historians point to the support of the Young Men's Christian Association (YMCA) by the railroad companies in the late nineteenth and early twentieth century as the beginning of corporate philanthropy.⁸⁴ During that time, the YMCA—originally an English movement that included religious work among laborers—extended its services across the United States. With the expansion of national outreach, railway workers joined the YMCA as a means for inexpensive accommodations while they were working on the railroad away from home. The railroad companies identified the services of the YMCA as invaluable to the industry's success, and as a result, donated money to the organization to ensure that these accommodations remained available to the railroad employees.⁸⁵ Arguably, such contributions were recognized as immediately beneficial to the railroad companies—both for the well-being of the employees and as a huge cost-saver to the industry; however, the contributions were mutually beneficial to the YMCA organization.

While the railway industry was legally unable to allocate additional philanthropic funds to other charities less-related to the industry's well-being, it is unclear as to whether the companies would have done so in the absence of prohibitive legislation. Regardless, the growth of industry and the increase in corporate impact and influence in communities within the United States triggered a greater public demand for corporate commitment and social responsibility. It was clear post-World War I that there was a considerable increase in social service demands and an inability of federal funding to meet it. The subsequent growth in private sector wealth was an immediate source of additional funding by which social services

⁸² Sophia Muirhead, "The Roots: Contributions and the Railroad Companies," *Corporate Contributions: The View from 50 Years*, The Conference Board (1999), 14.

⁸³ *Ibid.*, 13.

⁸⁴ Henry Rosso and Associates, "Corporate Philanthropy," *Achieving Excellence in Fund Raising*, in Eugene R. Tempel, ed., Second Edition, (San Francisco: Jossey-Bass, 2003), 281.

⁸⁵ Muirhead, 12.

could be supported. The passing of the Internal Revenue Act of 1935 reflected the growing need for greater corporate social involvement. The Act allowed companies to deduct up to five percent of their pretax earnings for charitable donations. However, because corporate law is determined under state and not federal legislation, the Act did not elucidate the legality of corporate donations. The intent of the Roosevelt administration, through the Internal Revenue Act of 1935, was to support state legalization of corporate donations.⁸⁶ By 1951 26 states and the territory of Hawaii had statutes permitting some degree of corporate philanthropy.⁸⁷

Moreover, the 1953 New Jersey Supreme Court case of *Smith vs. Barlow* was a determining factor in present-day corporate philanthropy. The New Jersey based company, A.P. Smith Manufacturing Co., contributed \$1,500 to Princeton University for general maintenance purposes. A shareholder argued that this contribution was an illegal contribution as it was outside of the direct interests of the company.⁸⁸ The New Jersey Supreme Court, however, ruled that the contribution was in good faith, and the ruling in favor of A.P. Smith Manufacturing Co. legitimized the distribution of corporate money to services and charities outside of the realm of direct corporate interests. Furthermore, as historian Barry Karl suggests, “the language of the ruling recognized the large transfer of wealth into corporate hands that had occurred in American society since the birth of the modern corporation. Their increased stature required them to assume the modern obligations of good citizenship in the same manner as humans do.”⁸⁹ Not only did corporate law recognize corporations as legal entities with the same rights as a person, but a new human face of moral and social responsibility was added to the corporate image.⁹⁰ As previously noted statutes to encourage further economic development, such as corporate personhood and limited liability, were adopted into corporate legislation. The 1953 Supreme Court ruling

⁸⁶ Rosso et al., 289.

⁸⁷ Nevin Gattle, 25.

⁸⁸ Muirhead, 17.

⁸⁹ Barry D. Karl, “Corporate Philanthropy: Historical Background,” in Brian O’Connell, ed., *America’s Voluntary Spirit* (New York: The Foundation Center, 1983), 379.

⁹⁰ As previously noted, corporate personhood and limited liability were adopted to encourage further economic development. These laws grant corporations constitutional rights, such as the right to free speech and the right to protection from unlawful search and seizure, and they protect shareholders from liability when corporations cause environmental harm, violate human rights, or become bankrupt. The convergence of legal and social personhood creates further responsibility for the private sector to uphold.

instituted an official convergence of legal and social corporate personhood and a public perception that social responsibility was now not simply a benevolent act of altruism, but a necessary corporate duty.

By the early 1980s corporate philanthropy studies suggested three primary types of corporate philanthropy: through-the-firm giving, corporate statesmanship, and profit-motivated giving.⁹¹ These categories recognized the evolutionary process of philanthropy over the past 30 years and identified the associated levels of corporate giving. To this point, scholars Rajan Varadarajan and Anil Menon make a keen observation that corporate philanthropy evolved from strictly voluntary responses, to a stronger awareness of responsibility and pressure to engage, to the current understanding that social involvement is a productive investment for the well-being of not only society at large, but for the well-being of the corporation itself.⁹² Building upon the original philanthropic motivations of the railroad industry, corporations recognized several advantages directly and indirectly related corporate giving strategies.

The first stage of corporate philanthropy—through-the-firm giving—is defined as a voluntary process by which a corporation donates a certain amount of money to selected charities. Such giving is considered the most direct and risk-free philanthropy. In the late 1950s and early 1960s corporations annually contributed to a selected organization and encouraged employees to directly donate a percentage of their wages to this cause. Ultimately, this strategy often linked the corporation with an organization to which the majority of employees related. National organizations such as the United Way and American Red Cross were common recipients of traditional, corporate philanthropy. Presently, traditional philanthropic activities certainly exist, oftentimes through companies less visible to the public. However, the trend of passive philanthropy is becoming less common as new, more dynamic strategies develop, which are beneficial to the well-being of the community, nonprofit organization, and corporation.

Corporate statesmanship, the second stage of corporate giving, developed in the 1970s when larger corporations established their own philanthropic foundations. This stage

⁹¹ Louis W. Fry, Gerald D. Keim, and Roger E. Meiners, “Corporate Contributions: Altruistic or For-Profit?” *Academy of Management Journal*, (25), (1982): 94.

⁹² P. Rajan Varadarajan and Anil Menon, “Cause-Related Marketing: A Co-alignment of Marketing Strategy and Corporate Philanthropy,” *Journal of Marketing*, (52) 3, (1988), 58.

of philanthropy was unique because the level of annual corporate giving was no longer directly associated with the level of annual corporate profits. In the past, corporate giving fluctuated between periods of prosperity and economic hardship as corporations considered philanthropy as a low priority on the company balance sheets. However, with greater recognition of the direct benefits of giving, corporations developed means through which donation levels remained stable and thus accepted the role of corporate statesmanship. More importantly, corporations were interested in contributing to causes—such as education, health services, and economic development projects within communities—that directly benefited employees (or potential employees) and targeted consumer groups. During this stage, a few pioneer efforts were established to create partnerships between community organizations and companies. Through foundation programs and in-house community/economic development programs the commitment to addressing human capital growth via corporate giving marked the accomplishments of corporate statesmanship.

By the 1990s, contributions to programs associated with human capital led corporate leaders to search for new ways in which corporate giving could strategically work for the corporation's overall mission of increasing shareholder profits. The trend of mergers and acquisitions, in addition to internal downsizing, necessitated strong justification for corporate giving decisions. This pressure to maintain economic performance as well as strong social reputations presented an opportunity for corporations to develop more integrated partnerships with nonprofit organizations. Some critiques (and proponents) of this movement term this type of strategic philanthropy as “profit-motivated giving;” that is, corporate giving that will ultimately benefit the corporation. Motivations to shift into strategic philanthropy were not only a reaction to immediate, internal economic pressures, but also the notion that such partnerships could enhance the company's reputation and name recognition among consumers; foster synergy and motivation among employees; and potentially reduce research and development costs.⁹³

Today, corporate philanthropy exists at all three of these stages. Traditional philanthropy, in which the corporation provides annual cash donations to nonprofit organizations, is the least engaged and least dynamic of the three, however, a number of

⁹³ The reduction in research and development costs would be specifically related to pharmacology-, medical-, or technology-related industries that partnered with universities that had strong related departments and existing research facilities.

corporations—particularly smaller businesses and less visible corporations that face less degree of public scrutiny (industries that supply services and goods to other industries rather than to public consumers)—tend towards traditional corporate giving. Corporate statesmanship, through the establishment of foundations and internal community/economic development programs is more dynamic as the corporation is specifically involved in the selection of social programming, and it is a trend that is steadily increasing. According to the 2004 Foundation Center report, the top 50 corporate foundations hold over \$7 billion in assets and contributed over \$1.5 billion dollars to national and international nonprofit organizations.⁹⁴ Foundations and internal programs are more likely to exist in larger, publicly scrutinized corporations such as apparel, retail, and pharmaceutical companies.

While the amount of money contributed to the nonprofit sector via traditional philanthropy and corporate statesmanship exceeds that of contributions associated with strategic philanthropy, the “new” philanthropy enables a greater depth and variety of exchanges between corporations and nonprofits. Strategic philanthropy is a challenging new field in which only a small percentage of corporations operate. Not only do strategic alliances between nonprofits and corporations open new funding opportunities, they also encourage knowledge transfers, and greater public exposure for both entities.

The shift from predominantly domestic to global arena has also shifted philanthropic trends. Strategic philanthropy overseas is growing in popularity as effective corporate giving is easier to implement with the guidance of existing nonprofit and charity organizations. The most recent corporate philanthropy survey conducted by *Business Week* reports that, “U.S. companies have more reason than ever to fund charitable causes overseas...At least 22 percent of corporate revenues come from abroad.”⁹⁵ Many companies reported that strategic philanthropy in communities abroad helps overall profit-making by providing workers’ families and communities access to better health care and education, building employee loyalty and enhancing the company’s reputation. Additionally, social recognition of corporate responsibility in international communities also bolsters the company’s consumer

⁹⁴ “50 Largest Corporate Foundations according to Total Giving,” Researching Philanthropy, The Foundation Center, http://fdncenter.org/research/trends_analysis/top50giving.html, (accessed March 5, 2005); and “50 Largest Corporate Foundations according to Asset Size,” Researching Philanthropy, The Foundation Center, < http://fdncenter.org/research/trends_analysis/top50assets.html>, (accessed March 5, 2005).

⁹⁵ Jessi Hempel, Lauren Gard, Michelle Conlin, David Polek, and Joshua Tanzer, “The Corporate Givers,” *Business Week*, November 3910 (2004): 100.

loyalty in new markets abroad as well as existing domestic markets. Increasing consumer awareness in product selection and social issues creates a fertile ground in which strategic philanthropic partnerships can burgeon. As Sophia Muirhead appropriately suggests, “the shift toward strategic philanthropy harkens back to the early days of corporate contributions when companies were legally permitted to contribute only to causes related to their business function.”⁹⁶

⁹⁶ Muirhead, 19.

CHAPTER 3. DEFINING CROSS-SECTOR ALLIANCES

Cross-sector alliances between the private and nonprofit sectors have grown in recent years as businesses have shown an increased interest in working with nonprofit organizations.⁹⁷ Collaborative relationships are particularly appealing for three reasons: they allow each partner to operate within their strengths, they are dynamic and flexible, and they are reciprocal. Players have the flexibility to select strategic partners, design unique alliances tailored to fit specific intentions, and create intended outcomes that fit both partners' needs. As Shirley Sagawa and Eli Segal note, "[Cross-sector] exchanges are a new paradigm for business and the social sector; one that eliminates barriers between the sectors while preserving their core missions."⁹⁸ For the purpose of this paper, the definition of a cross-sector alliance is:

A dynamic relationship between two entities from different sectors of society who are engaged and committed to a partnership with agreed upon goals, intentions, and strategies, which lead to a mutually beneficial and understood outcome that furthers both the breadth and the depth of each entity's individual performance.

In general, alliances can be defined as any type of relationship between two or more entities where there is a mutual dependence and interaction.⁹⁹ Alliance partnerships can be between anyone: individuals, institutions, governments, or even geographic regions. More specifically, however, this paper addresses cross-sector alliances between nonprofit and private sector entities, which narrows the definition of an alliance to only include connections between two specific entities (individuals or institutions) from separate sectors of society. The definition proposed in this paper combines three significant points postulated in previous strategic alliance studies. The defining components extracted from the studies are: the

⁹⁷ Lisa Berlinger, "Assessing the Effectiveness of Cross-Sector programs in an Age of Devolution: A Call for Cross-Discipline Research and Action," Proceedings from the 1997 Annual Conference of the Association for Research on Nonprofit Organizations and Voluntary Action, Washington, DC (1997); and Ida E. Berger, Peggy H. Cunningham, and Minette E. Drumwright, "Social Alliances: company/Nonprofit Collaboration," *Social Marketing Quarterly*, 5 (3) (1999): 49.

⁹⁸ Sagawa and Segal, *Common Interest, Common Good*, 3.

⁹⁹ Easwar, 40.

⁹⁹ Shirley Sagawa and Eli Segal, "Common Partnership and Partner Characteristics," *Journal of Nonprofit and Public Sector Marketing*, New York: Haworth Press, 11(1) (2003): 42.

importance of mutual understanding and dependency, enhancement of both the breadth and depth of each partner's performance, and alliance dynamism.¹⁰⁰

Scholars James Anderson and James Narus define an alliance as “a working partnership in which there is mutual recognition and understanding that the success of each firm depends in part on the other firm/firms.”¹⁰¹ While this definition limits the scope to inter-sectoral alliances between firms, the notion of mutual understanding and dependency is fundamental for creating a balanced partnership for cross-sector alliances as well.

Another definition provided by strategic alliance scholar, Easwar Iyer, suggests that an alliance is created to strengthen the performance of each partner through either *compensation* for existing weaknesses or *enhancement* of existing strengths among partners.¹⁰² This articulation is very important in defining cross-sector alliances because it recognizes not only the potential growth in *breadth*, but the potential growth in *depth* of an alliance. The breadth of an alliance can be perceived as the *existing* strengths of an entity enhanced through a partnership. The depth of an alliance, on the other hand, can be defined as the development of *new* strengths for a partner. Growth in breadth is commonly found in any strategic alliance—this is because it is easier to identify attributes that already exist in terms of human or capital assets. The depth of an alliance is less common in intra-private sector alliances because it is inevitably more difficult, and riskier, to envision something that does not yet exist. Interestingly, a cross-sector alliance primarily focuses on the depth rather than the breadth of the partnership. For example, on the one hand, it is more likely that in an intra-private sector alliance, the two partners who are in the same industry, such as pharmaceuticals, possess very similar skills sets, knowledge bases, and organizational structures. The potential benefit and gain from the partnership would be related to the *breadth* of their research, consumer outreach, or industry development as it *specifically pertains to the pharmaceutical industry*. That is, the partners can expect to achieve outcomes that cast a much wider net by focusing on existing skills and knowledge.¹⁰³ On the other hand, if a pharmaceutical corporation allies with a human rights organization, it can be

¹⁰⁰ Easwar, 50; Anderson and Narus; and Austin.

¹⁰¹ Anderson and Narus, 43.

¹⁰² Easwar, 43.

¹⁰³ William McCutchen and Paul M. Swamidass, “Motivations for Strategic Alliances in the Pharmaceutical/Biotech Industry: Some new findings,” *The Journal of High Technology Management Research*, 15 (2004), 75.

inferred that the skill sets, knowledge bases, and organizational structures will differ considerably.¹⁰⁴ However, such differences create a potential to expand the knowledge base and expertise of each partner into new and complementary operational and organizational realms, which provide greater depth to each partner's existing base. This is to say that while the pharmaceutical company has not gained any further knowledge regarding the pharmaceutical industry, it has increased its knowledge in social realms that could improve internal performance and/or structural organization as well as external reputation.¹⁰⁵

Finally, the third defining characteristic of a cross-sector strategic alliance is identified by Harvard Business School professor, James Austin. He illustrates that cross-sector alliances have a unique characteristic of being extremely flexible and dynamic.¹⁰⁶ Not only is each alliance unique in its particular goals and intentions, but it has the ability to evolve over time to continue to meet the needs of both partners. The dynamism and flexibility of strategic alliances demonstrates the evolutionary process that a philanthropic relationship between a private business and a nonprofit business can achieve. For the past 15 years, The Timberland Company shoe manufacturer and City Year, a national youth community service organization, developed a partnership that has constituted “a new paradigm” for interaction between the private and nonprofit sectors.¹⁰⁷ The partnership evolved from a traditional philanthropic, one-time charitable donation of uniforms to an interactive, full-fledged partnership with Timberland employee volunteer programs, overlapping board of trustee members, and an ongoing commitment to maintain the partnership for an indefinite amount of time.¹⁰⁸ Because cross-sector alliances are still a relatively new concept, partners have the luxury of maintaining an open and flexible relationship that not only can evolve, but is expected to do so over time.

Each of these three key attributes—the importance of mutual understanding and dependency, enhancement of both the breadth and depth of each partner's performance, and

¹⁰⁴ “Human Rights and the Private Sector International Symposium Report,” Novartis Foundation for Sustainable Development. November 27, 2003.

¹⁰⁵ Ibid.

¹⁰⁶ James E. Austin, *The Collaboration Challenge: How Nonprofits and Businesses Succeed Through Strategic Alliances*, (New York: Jossey-Bass, 2000), 26.

¹⁰⁷ James E. Austin and Jaan Elias, “Timberland and Community Involvement,” Harvard Business School Publishing, (1996).

¹⁰⁸ Ibid, 5.

alliance dynamism—combine to create a new strategic philanthropy that opens up a new realm of growth possibilities among both sectors.

Reasons for Alliances to Exist

In the post-World War II era, the business and social sectors have evolved at an extremely fast pace. The increasing growth in demand for goods and services provided by both the private and nonprofit sector is indicative of a change in global economic composition as well as a growing disparity between material consumption and social need. Overall, alliances are based on motives and fundamental incentives, and in order for any type of partnership to exist, there is a need for underlying motivations. In a democratic and free market society, it is fair to say that the primary motive to any alliance is the expectation that the partnership will produce some advantages in either strategic positioning, knowledge transfer, or financial outcomes which are superior to those that each separate entity could have produced independently.¹⁰⁹ According to alliance researcher, Karthik Iyer, “alliances are viewed by partners as vehicles that provide opportunities to learn to enhance their strategies and operations.”¹¹⁰ James Austin and Ezekial Raficco suggest that “a basic element [of a cross-sector alliance] is the recognition that there can exist a wide range of motivations across the partners and a mix of motivations for each partner.”¹¹¹

Private Sector Incentives

Generally speaking, alliances—and corporate giving in general—are good for business. The private sector recognizes that with improved technology and infrastructure, businesses are able to cast a much wider net to target a much larger consumer market. However, the private sector is also learning that increased influence and presence comes with an increased consumer expectation for business accountability and social responsibility. Consequently, businesses have started to look towards strategic alliances with nonprofits as a way to not only mitigate consumer criticism, but to capitalize on positive public relations. The market capitalization of a company builds on the capacity to generate earnings of two

¹⁰⁹ Easwar, 42.

¹¹⁰ Iyer, 10.

¹¹¹ James E. Austin and Ezequiel Reficco, “Motivation and the Cross-sector Alliance,” *Harvard Business School Working Knowledge for Leaders*, January 10, 2005, <<http://hbswk.hbs.edu/item.jhtml?id=4564&t=bizhistory>> (accessed February 13, 2005).

types of assets: physical and intangible. Physical assets, such as land and manufacturing facilities, represent only a small fraction of present-day company valuation. However, as Björn Stigson of the World Business Council for Sustainable Development notes, “intangible assets, such as brand, reputation, credibility, trust, and the ability to interact and work in partnerships with stakeholders can account for up to 75 percent of a company’s market capitalization.”¹¹² A study conducted by researchers Sandra Waddock and Samuel Graves indicated that strong social involvement by corporations resulted in a “virtuous cycle” which benefited from and contributed to an overall strong financial valuation of the corporation.¹¹³ Another benefit associated with cross-sector collaborations is the increased access to information and operational risk reduction.¹¹⁴ Oftentimes, nonprofit organizations (particularly in emerging market countries) have access to demographic, legislative, or cultural information that is not otherwise available via government or private sector channels. Such information can improve market share through efficient consumer targeting and ethical business practices regarding human and labor rights issues and reduce or mitigate entry and operational risks.¹¹⁵ The incentive of knowledge transference between partners has been identified as “a short-circuit method for acquiring critical tacit knowledge.”¹¹⁶

Businesses also recognize the internal benefits of social responsibility. Engagement with nonprofit organizations can not only enhance skills training for employees but it can also improve employee retention.¹¹⁷ The organizational structures of private and nonprofit sectors tend to differ in a number of ways; even the core mission of each sector differs. Employee interaction between private and nonprofit partners can provide a unique training opportunity and perspective that would otherwise not be available through intra-sector interaction. Additionally, private sector involvement in community development and

¹¹² Björn Stigson, “Walking the Talk: The Business Case for Sustainable Development,” Speech to the Annual General Meeting of the Sustainable Performance Group, May 7, 2003, Ken Conka and Geoffrey Dabelko Eds., *Green Planet Blues: Environmental Politics from Stockholm to Johannesburg*, (Boulder, CO: Westview Press, 2004).

¹¹³ Ibid, 12; and Sandra Waddock and Samuel Graves, “The Corporate Social Performance: Financial Performance Link,” *Strategic Management Journal*, 18 (4) (1997): 305.

¹¹⁴ Todeva and Knoke; and Austin and Reficco.

¹¹⁵ *Guide to Engaging with NGOs*, Business for Social Responsibility, (Business for Social Responsibility Education Fund, 2001): 12.

¹¹⁶ Gary Hamel, “Competition for Competence and Inter-Partner Learning within International Strategic Alliances,” *Strategic Management Journal* 12(Summer) (1991): 94.

¹¹⁷ “Human Rights and the Private Sector International Symposium Report,” Novartis Foundation for Sustainable Development. November 27, 2003.

volunteer activities improves the overall productivity and enthusiasm of corporate employees. According to a Council on Foundations report, corporate employees involved in community activities through their jobs were 30 percent more likely to want to continue working for the company.¹¹⁸ Employee enthusiasm tends to increase worker productivity, and the low employee turnover rates reduce the operational costs of the company and increase the productivity of current employees.¹¹⁹

Further evidence demonstrates that corporations involved in long-term partnerships with nonprofit organizations begin to embrace the relationship as a part of the corporate identity, which can improve upon existing operational structures and organizational frameworks. The case study of Timberland and its longstanding partnership with City Year, illustrates the depth of benefit provided to and by both partners. Timberland capitalized on its partnership through public relations campaigns, endorsed employee volunteerism, and redesigned its operational strategies to integrate the partnership into a larger percentage of corporate activities and performance goals.¹²⁰ While the Timberland/City Year partnership is among the most interactive strategic alliances, it demonstrates that the private sector has a number of highly lucrative incentives that go beyond social obligation and can strategically improve overall corporate financial performance.

Nonprofit Sector Incentives

Nonprofit organizations tend to have missions with social purpose, and consequently the general motives for entering a strategic alliance are predominantly altruistic in nature.¹²¹ As the nonprofit sector has evolved internationally, the relations between nonprofit and private sectors have changed. Inarguably, cross-sector alliances benefit nonprofit organizations because they can diversify potential revenue sources and reduce nonprofit dependency on public sector funding.¹²² Many nonprofits see the additional benefit of partnering with corporations as potential levers for promoting global causes such as human

¹¹⁸ “Measuring the Value of Corporate Citizenship,” Council on Foundations, (1996), <www.cof.org> (accessed March 23, 2005).

¹¹⁹ Austin, 22.

¹²⁰ Austin and Elias.

¹²¹ Austin and Reficco, 2.

¹²² Austin and Reficco, 6.

rights, labor rights, health, or environmental issues.¹²³ Increased NGO presence instills a power to influence private sector behavior, both negatively—via negative public attention and watchdog/advocacy work—or positively. Strategic alliances give the nonprofit sector an opportunity to positively influence corporations by establishing productive partnerships that provide mutually beneficial outcomes through relationship development, knowledge transfers, awareness building, operational restructuring, and managerial and employee skill development.

The nonprofit partner benefits from knowledge transference between sectors. Specifically, nonprofits benefit from learning private sector efficiency and operational models. Employee training is another benefit derived from cross-sector alliances as they learn new skills from private sector partners. The additional business and management training perpetuates the overall efficiency of the operational structure for the organization, which could lead to cost reduction and greater productivity in non-affiliated programs and departments. This not only improves the internal organizational efficiency within a nonprofit, but also improves credibility from external stakeholder groups, such as other funding sources as well as increased membership and program participants.¹²⁴

In general, nonprofits engaged in cross-sector alliances have a number of financial, social, and political benefits that are not otherwise attainable via traditional interactions with funders, organization members, communities, or local governments. Needless to say, there are a number of unique attributes and benefits that can be mutually attained. Strategic alliances have the advantage of being tailored to fit specific motivations and goals.¹²⁵

Mapping Fundamental Attributes of a Cross-Sector Strategic Alliance

Limited research pertaining to alliance variables exists within the realm of cross-sector alliances; however, a number of studies on intra-private sector alliances suggest that, “Because strategic alliances involve coordinating two or more partners to pursue shared

¹²³ Galaskiewicz and Colman, 16.

¹²⁴ *Guide to Engaging with NGOs*, Business for Social Responsibility, 18.

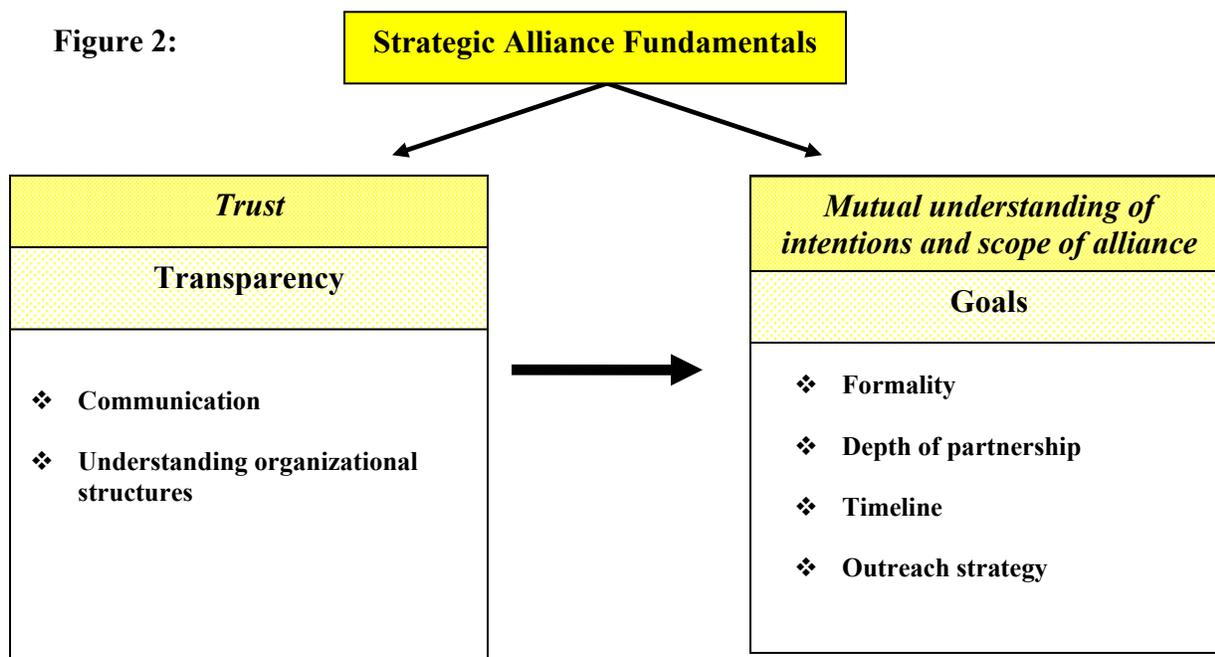
¹²⁵ It should be noted that a number of the publications on cross-sector alliances focus on the importance of finding the right partners and the steps to finding a partner. This paper does not address this issue and bases its analysis on existing alliances between two partners appropriately paired. For more detail regarding partner identification and selection see Austin, *The Collaboration Challenge*; Steckel, et al.; *Guide to Engaging with NGOs*, Business for Social Responsibility.

objectives, satisfactory cooperation is vital to their success.”¹²⁶ The model presented in Figure 2 attempts to identify the key components of an alliance and the secondary characteristics, which allow for the flexibility and dynamism within cross-sector collaborations. The model applies some of the findings from intra-private sector studies to cross-sector alliances. It suggests that in order to maintain “satisfactory cooperation” among partners, there are two key components: 1) trust and 2) a mutual understanding of intentions. An established element of trust and understanding of what each partner intends to commit to an alliance and what each partner intends to achieve from the alliance is essential to any partnership. Due to the fundamental differences between partners in a cross-sector alliance these two components are particularly important. Trust and an understanding of each partner’s intentions provide the foundation for any alliance, while the secondary variables provide the flexibility and dynamism. This is to say that the secondary characteristics specified in Figure 2 are essential to any alliance; however, the level of emphasis placed on each may vary. The model also illustrates that the relationships between trust and transparency and intentions and goals are not as flexible as the other secondary characteristics. Studies show that in order to attain a strong and consistent level of trust within the relationship, a high level of transparency should be maintained regardless of adjustments to the other variables.¹²⁷ Transparency is still considered a secondary characteristic because it can be altered somewhat depending upon the level of formality within the alliance—this is to say that formal contracts between partners in short-term alliances can sometimes decrease the necessary levels of transparency while still achieving the same outcome. Secondly, understanding the *goals* for each partner ultimately establishes a working framework for the alliance and is therefore an essential component of understanding partner *intentions*. Without goals the issues of formality, depth, time horizons, and outreach are more difficult to define. Each strategic alliance will have very different goals, and therefore will emphasize the various secondary characteristics differently; however, it is essential for alliance goals to exist.

¹²⁶ T.K. Das and Bing-Sheng Teng, “Between Trust and Control: Developing Confidence in Partner Cooperation in Alliances,” *Academy of Management Review*, 23 (3) (1998): 491; Y.L. Doz, “The Evolution of Cooperation in Strategic Alliances: Initial conditions or Learning Processes?,” *Strategic Management Journal*, 17 (Summer Special Issue) (1996): 59; R.M. Kanter, “Collaborative Advantage: The Art of Alliances,” *Harvard Business Review*, 72 (4) (1994): 99.

¹²⁷ Kanter, 99.

Figure 2:



Trust

Reading the model from left to right, trust is depicted as the key component for any successful cross-sector alliance. In order to maintain trust throughout the collaboration, it is necessary for the partners to operate transparently in all matters associated with the partnership. In order to do this, the partners need to establish regular communication and an understanding of one another’s organizational structures. Inevitably, trust is a key element to any partnership (social, economic, or political); however, when dealing particularly with cross-sector collaborations, it is even more important because the alliance is operating between two very different organizational structures and under two very different missions. Trust is difficult to define specifically due to its intangible nature; however, studies have shown that trust is a key ingredient to any successful relationship.¹²⁸ In regards to strategic alliances, scholars have interpreted the concept of trust in a variety of ways. On the one hand, scholars have broadly referred to trust as “one’s belief and expectation about the likelihood of having a desirable action performed by the trustee.”¹²⁹ On the other hand, some have narrowly defined trust “in terms of one’s assessment of others’ goodwill and

¹²⁸ Das and Teng, 491.

¹²⁹ Morton Deutsch, *The Resolution of Conflict: Constructive and Destructive Processes*, (New Haven, CT: Yale University Press, 1973); Sim B. Sitkin and N.L. Roth, “Explaining the Limited Effectiveness of Legalistic ‘Remedies’ for Trust/Distrust,” *Organization Science*, 4 (1993): 369.

reliability.”¹³⁰ For the purpose of this paper, trust is defined as, “positive expectations about another’s motives with respect to oneself in situations entailing risk.”¹³¹ This definition regards risk as a fundamental reason for why trust is so important, and it has been argued that only in risk-prone situations is trust a relevant factor.¹³² Additionally, the definition for this paper suggests that trust relates more to the expectations about the *intentions* of the partner rather than the *outcomes*.¹³³

Studies show that by maintaining transparent and regular communication between partners, there is a greater likelihood that trust will be maintained. There are three reasons why communication is so important to establishing trust between partners. Firstly, open and timely communication allows for partners to voice immediate concerns and differences, which mitigates future mistrust and disagreement.¹³⁴ Secondly, communication helps partners gain further evidence of one another’s trustworthiness and credibility. A study conducted by Boston College researchers, W. E. Douglas Creed and Raymond Miles, emphasizes the importance of “proactive information exchanges” between partners.¹³⁵ Further studies by management professors Paul Hart and Carol Saunders suggest that established and consistent communication leads to “information symmetry,” which, over time, creates a trusting environment between partners.¹³⁶ Finally, communication provides the basis for continued interaction between partners and helps develop common values and

¹³⁰ L.L. Cummings and Phillip Bromiley, “The Organizational Trust Inventory,” in Roderick M. Kramer and Tom R. Tyler, eds., *Trust in Organizations: Frontiers of Theory and Research*, (Thousand Oaks, CA: Sage Publications, 1996): 310; P.S. Ring and A.H. Van de Ven, “Structuring Cooperative Relationships Between Organizations,” *Strategic Management Journal*, 13 (1992): 485; and C.F. Sabel, “Studied Trust: Building New Forms of Cooperation in a Volatile Economy,” *Human Relations*, 46 (1993): 1137.

¹³¹ Das and Teng, 491; S.D. Boon and J.G. Holmes, “The Dynamics of Interpersonal Trust: Resolving Uncertainty in the Face of Risk,” in Robert A. Hinde and Jo Groebel, eds., *Cooperation and Pro-social Behavior*, (Cambridge, England: Cambridge University Press, 1991); S. C. Currall and T.A. Judge, “Measuring Trust Between Organizational Boundary Role Persons,” *Organizational Behavior and Human Decision Processes*, 64 (1995); and R.C. Mayer, J.H. Davis and F.D. Schoorman, “An Integrative Model of Organizational Trust,” *Academy of Management Review*, 20 (1995).

¹³² L.T. Hosmer, “Trust: The Connecting Link Between Organizational Theory and Philosophical Ethics,” *Academy of Management Review*, 20 (1995); C. Johnson-George and W.C. Swap, “Measurement of Specific Interpersonal Trust: Construction and Validation of a Scale to Assess Trust in a Specific Other,” *Journal of Personality and Social Psychology*, 43 (1982).

¹³³ Das and Teng, 494.

¹³⁴ *Ibid*, 504.

¹³⁵ W.E. Douglas Creed and Raymond E. Miles, “Trust in Organizations: A Conceptual Framework Linking Organizational Forms, Managerial Philosophies, and the Opportunity Costs of Controls,” in Roderick M. Kramer and Tom R. Tyler, eds., *Trust in Organizations: Frontiers of Theory and Research*, (Thousand Oaks, CA: Sage Publications, 1996), 18.

¹³⁶ Paul Hart and Carol Saunders, “Power and Trust: Critical Factors in the Adoption and Use of Electronic Data Interchange,” *Organization Science*, 8 (1) (1997): 27.

understanding of partner intentions.¹³⁷ The communication channels, however, may differ among alliances; it may be between two identified employees, a delegated committee, a newly appointed board of overseers, or an entirely new department dedicated to the alliance relationship. Regardless, the communication systems need to be designed to meet the expectations and demands of both internal and external alliance components.

Additionally, communication must be coupled with an understanding of how each partner's internal organization is structured. If the two partners are constantly in contact, but do not understand the similarities and differences between their managerial and operating structures, it is very difficult to maintain effective communication or transparency of activities. Moreover, private businesses and nonprofit organizations need to be willing to adapt behavioral patterns to create a more symmetrical fit within the partnership. Marketing researchers Jan Heide and George John note that, "trust is earned from partners if one adapts to the needs of cooperation in partnerships."¹³⁸ Skills training and open communication channels are two methods through which this can be achieved.

Understanding Partner Intentions

The second fundamental component of the model is understanding the intentions of each partner; this is essential because the intentions create a tangible framework that extends the trust between partners and applies it to reach intended goals. As author Karthik Iyer notes, "Understanding the motives of the partners forms the initial basis for partnership compatibility..."¹³⁹ Without a proper understanding of initial intentions, an alliance may be based on assumptions and develop an inappropriate framework. Furthermore, strategic alliance scholars, T. K. Das and Bing-Sheng Teng, suggest that by understanding the individual intentions, it is easier for partners to form necessary control mechanisms, which continue to develop confidence in partner cooperation.¹⁴⁰ Similar research by Richard Leifer and Peter Mills suggests that control within a strategic alliance is "a regulatory process by

¹³⁷ Richard Leifer and Peter K. Mills, "An Information Processing Approach for Deciding upon Control Strategies and Reducing Control Loss in Emerging Organizations," *Journal of Management*, 22 (1) (1996): 121; and Anoop Madhok, "Revisiting Multinational Firms' Tolerance for Joint Ventures: A Trust-Based Approach," *Journal of International Business Studies*, 26 (1) (1995): 118.

¹³⁸ Das and Teng, 506.; and Jan B. Heide and George John, "Do Norms Matter in Marketing Relationships?" *Journal of Marketing*, 56 (2) (1992): 38.

¹³⁹ Iyer, 6.

¹⁴⁰ Das and Teng, 505.

which the elements of a system are made more predictable through the establishment of standards in the pursuit of some desired objective or state.”¹⁴¹ The secondary characteristics associated with partner intentions can be applied as mechanisms for control. The model presented in Figure 2 identifies five primary understandings that need to be acknowledged and agreed upon in the preliminary stages of alliance building: the goals of the alliance, formality and depth of the relationship, the timeline of the partnership, and the type of program outreach. By understanding partner intentions, control mechanisms can help reduce the level of risk and uncertainty of an alliance, which ultimately increases the level of trust between partners. Strategic alliance partnerships are unique because the application and priority of each specific intention can differ significantly among alliances. However, in every alliance the level of emphasis placed upon each characteristic is dependent upon the mutual understanding between the partners.

Goals of an Alliance. The goals of a partnership are the most fundamental intentions associated with strategic alliances. Studies indicate that goals of partners form another dimension of learning as they outline the overarching motivation and commitment of each partner; without goals, a partnership will fall short.¹⁴² Understanding individual alliance goals and defining mutual goals help partners sketch out a fundamental alliance framework. The goals of a strategic alliance between the Nature Conservancy and Georgia Pacific versus Yoplait yogurt and the Susan B. Komen Breast Cancer Foundation will differ considerably.¹⁴³ The goals can range anywhere from the desire to exchange organizational ideas or training in specific fields of expertise to lobbying for specific legislation, developing a branding relationship and fundraising, or redefining the overall structure of social responsibility for entire businesses. Micro- and macro-goals can be equally attainable; however without a clear understanding of what these goals are and the way in which they are to be achieved, an alliance will create unnecessary mistrust and uncertainty among partners, which could ultimately lead to a failure. If partners have a strong understanding of one

¹⁴¹ Leifer and Mills, 117.

¹⁴² Iyer, 9.

¹⁴³ Edwin R. Stafford and Cathy L. Hartman, “Environmentalist-Business Collaborations: Social Responsibility, Green Alliances, and Beyond,” *Advertising Research: The Internet, Consumer Behavior and Strategy*, George Zinkman, ed., (Chicago: American Marketing Association, 2000): 22; and “Yoplait Save Lids to Save Lives,” *Think Before you Pink*, <http://www.thinkbeforeyoupink.org/Pages/InfoMktgCampaigns.html>, (accessed February 12, 2005).

another's goals, there is less risk of surprise and conflict. This could also lead to more flexibility in the alliance as it reduces the levels of control.¹⁴⁴

Depending upon the overarching goals set within the alliance, and levels of trust between partners, the formality and depth of the partnership can vary. A recent study concluded that while “formality is an important part of any inter-organizational relationship, it is generally accepted that informal understandings based on trust may prove even more powerful than contracts in assuring a successful relationship.”¹⁴⁵ Another study suggests that contracts, in particular, may be too rigid to accommodate the dynamism associated with strategic alliances. “While formal...contracts offer some specific benefits...their use is not universal. The complex and dynamic nature of alliances make dependence on detailed written contracts difficult to develop and maintain.”¹⁴⁶ The study concludes that social contracts may serve a more critical role in relationship development and the long-term success or evolution of an alliance. However, other studies find that higher levels of formality assist the development of trust and confidence between partners.¹⁴⁷ Cross-sector alliances, while they do not face the same financial and competitive risks as intra-private sector alliances, do have to contend with differing fundamental missions and approaches to situations between the two partners. As a result, alliances may find confidence in designing higher levels of formality via contracts to outline mutual goals, measurement mechanisms, a timeline, and intended outcomes. For some alliances the level of formality may also decrease overtime as confidence and trust between the partners evolve.

Depth of an Alliance. The depth of an alliance corresponds with the level of formality; formality can range anywhere from verbal agreements, to social contracts among management or contractual arrangements. As noted at the beginning of this paper, cross-sector alliances tend to focus on the depth of the alliance benefits rather than the breadth of the benefits between partners. However, the extent of the depth to which partners involve themselves within an alliance is dependent upon the level of formality. For example, it is

¹⁴⁴ Michael F. Wolff, “Building Trust in Alliances,” *Research Technology Management*, 37 (3) (1994): 15.

¹⁴⁵ Henry Adobor, “Trust as Sensemaking: The Microdynamics of Trust in Interfirm Alliances,” *Journal of Business Research*, 58 (2005) (2003): 330.

¹⁴⁶ John B. Cullen, Jean L. Johnson, and Tomoaki Sakano, “Success Through Commitment and Trust: The Soft Side of Strategic Alliance Management,” *Journal of World Business*, 35 (3): 254.

¹⁴⁷ Steven S. Lui and Hang-yue Ngo, “The Role of Trust and Contractual Safeguards on Cooperation in Non-equity Alliances,” *Journal of Management*, 30 (4) (2004): 471.

unlikely that an informal alliance will include the intentions of undergoing fundamental changes within either organization's structure as this is associated with high levels of risk with minimal coordination. However, an extremely formal arrangement that provides a much more detailed set of intentions could allow for greater involvement between partners and the internal structures of the companies. Depending upon the intended depth of a partnership, structural adaptation between partners' behavior and organizations may be necessary. "Partners start recognizing how their differences in structure and processes may need to be overcome, or even constructively combined, to make cooperation more efficient."¹⁴⁸

Formality. The depth of commitment between partners may not only depend on the level of formality but the type of formality. Formality within an alliance is often broken down into two types: social (informal) and written (formal) contractual agreements. Social contracts are important in cross-sector alliances because they are based on collaboration and relationship development and therefore tend to be more dynamic. "Social contracts bind the key contacts who manage the alliance together. These relationships illustrate the importance of cooperation, trust, and loyalty."¹⁴⁹ Informal contracts are likely to target the relational risk associated with cross-sector alliances more successfully than formal contracts because they are based upon inter-relational issues rather than operational issues. Researchers T. K. Das and Bing-Sheng Teng note that "the greatest difficulty [for alliances] lies in the management of inter-firm dynamics, as inter-firm relationships in alliances go substantially beyond that of daily business transactions."¹⁵⁰ Cross-sector alliances pioneer new frontiers that do not limit themselves to transactional and financial intentions. As a result, less formal agreements may serve a more beneficial purpose than they would in traditional intra-private sector alliances.

On the other hand, formal contracts between partners may be useful under two conditions: financial intentions and a lack of partner trust. First, if the alliance is based primarily on financial intentions; and second, if there is a low level of trust and confidence between partners. Financial motivations may not exist for every partnership; however, it is

¹⁴⁸ Yves Doz, "The Evolution of Cooperation in Strategic Alliances: Initial Conditions or Learning Processes?" *Strategic Management Journal* (17) (Summer) (1996): 69.

¹⁴⁹ Cullen, Johnson, and Sakano, 260.

¹⁵⁰ T.K. Das and Bing-Sheng Teng, "Relational Risk and its Personal Correlates in Strategic Alliances," *Journal of Business and Psychology*, 15 (3) (2001): 452.

necessary to address the issue. Typically there are two levels of financial intentions within any alliance: how much is each partner willing to put into the alliance, and how much is each partner expecting to gain through the alliance. Financial issues are more profoundly linked with intra- private sector alliances because the underlying alliance motivations inevitably link back to the bottom line. In cross-sector alliances neither partner may have direct financial goals. The private sector partner instead may have intentions to influence future financial profits via reputation or new market entry. For example, cause-related marketing campaigns may not specifically raise a large profit during a campaign, but rather generate media-attention, free publicity, public awareness, and positive brand recognition among targeted consumers.¹⁵¹ Informal dialogue-based alliances are also unique in the sense that they do not incorporate any sort of financial goals. Similarly, nonprofit sector partners, while often interested in earning additional funding from alliances, may focus more on knowledge transfer, furthering a social cause, or sharing resources such as employees for volunteer work or managerial and organizational expertise which could help the nonprofit organization run more effectively and accomplish more within the organization's mission. Regardless of what the specific financial goals for either partner may be, it is essential that the intended commitment levels and financial intentions are made clear in the development stages of the alliance. By understanding the intended financial commitment and outcomes for each partner, there is a greater likelihood that the trust and transparency between partners will remain strong and consistent.

Secondly, if the element of trust between partners does not exist social contracts may not be adequate to ensure a successful alliance. Understanding the relationship between social and formal contracts is important. Business management professors, Steven Lui and Hang-yue Ngo state that “contractual safeguards and trust are important control mechanisms that reduce risk and facilitate cooperation in a partnership.”¹⁵² Formal contracts, while traditionally used in the private sector, may not be the most beneficial control mechanism for cross-sector alliances. A study on the use of contracts in strategic alliances indicated that “more productive alliances exhibited strong informal social contracts regardless of whether

¹⁵¹ Varadarajan and Menon, 67.

¹⁵² Lui and Ngo, 474.

of not formal written contracts were included...”¹⁵³ However, a number of studies conclude that if the trust between partners is not sufficiently established, then one is likely to install *ex ante* contractual safeguards as monitoring devices to ensure that the required cooperation and confidence levels will be met.¹⁵⁴ Overall, the use of formal and informal contracts between cross-sector partners can vary. However, understanding partner goals is necessary in order to create effective levels of formality that ensure appropriate mechanisms for trust and cooperation.

Timeline. Because strategic alliances are so flexible by nature, an alliance can operate for any length of time; however the time horizon is typically linked directly to the underlying goals outlined by the alliance partners.¹⁵⁵ The relationship between the goals and the timeline of an alliance is paramount. If the goals are limited to a single event, then the most effective time horizon for the alliance will be short-term; dialogue-based alliances and cause-related marketing alliances typically focus on a limited timeline. However, alliances that incorporate more in depth goals or focused on a multi-tiered collaboration will design a framework with a longer time horizon. Additionally, the evolutionary processes postulated by James Austin suggest that timelines for alliances can be extended as the relationship between partners deepens.¹⁵⁶ Formality and timelines are important to look at together; a less defined time arrangement may work if the goal of the partnership is to simply exchange ideas and viewpoints; however, if there is any sort of formal commitment either involving employees, finances, or organizational restructuring, a timeline is essential. Understanding the amount of commitment needed in order for an alliance to reach its goals is essential for a successful outcome. Additionally, a clear timeline can be used as a measurement mechanism which can create a more transparent and accountable relationship; if a partner is not maintaining its goals under the set timeline, or if the life of the project is overextended and

¹⁵³ Cullen, Johnson, and Sakano, 260.

¹⁵⁴ Lui and Ngo, 474; Das and Teng, “Between Trust and Control: Developing Confidence in Partner Cooperation in Alliances”; A. Yan and B. Gray, “Negotiating Control and Achieving Performance in International Joint Ventures,” A Conceptual Model,” *Journal of International Management*, 7 (2001): 1479.

¹⁵⁵ *Guide to Engaging with NGOs*, Business for Social Responsibility.

¹⁵⁶ Austin, 49.

no longer achieving its original goals, then the trust between partners may dissolve. Timelines also prevent stagnation or unpleasant endings to partnerships.¹⁵⁷

Outreach Strategy. Finally, the outreach strategy of any alliance is important as it defines the relationship between the partnership and the public. Whom does the partnership want to target through the outreach strategy? The strategy of reaching employees, community members, consumers, or interest groups would differ considerably. The case studies presented in the next section illustrate the importance of identifying the appropriate target population for a specific alliance, but from a general perspective, outreach works well as long as the partners agree upon their target audience and the strategy by which they will reach the target. Dialogue-based outreach strategies and cause-related marketing strategies would have entirely different outreach strategies, as their fundamental goals differ.

This model transfers lessons provided through intra-private sector alliance research and applies it to cross-sector alliances. It demonstrates that the linkage between the two components of trust and understanding the alliance's intentions builds an essential foundation for a successful alliance. By setting a solid foundation there exists a flexibility, which allows for the alliance to alter the secondary characteristics to accommodate each partner's goals. The case studies highlighted in the next section illustrate how various alliances have applied the alliance characteristics to accommodate very different goals. The case studies apply the model presented in Figure 2 and provide a brief background and description of the alliance, and they interaction between partners as it pertains to the cross-sector strategic alliance model proposed in this section.

¹⁵⁷ *Guide to Engaging with NGOs, Business for Social Responsibility.*

CHAPTER 4. MAPPING THE RANGE OF STRATEGIC ALLIANCES LEVELS

By examining three types of strategic alliances (dialogue-based alliances, cause-related marketing alliances, and multilateral/multinational enterprise relations), this section illustrates that while all three alliances are extremely different in their goals, timelines, and formality, the fundamental qualities presented in the strategic alliance model—trust and understanding of intentions—exist within all three partnerships. Based upon the original definition of cross-sector strategic alliances, the case studies examined in this section have been specifically selected to demonstrate that cooperative cross-sector alliances have tremendous flexibility and are available for almost any business and nonprofit interested in engaging in a strategic alliance. The three cases were not specifically selected based upon the success their outcomes, but rather the success of their intentions, development, and vision. Additionally, the cases illustrate the diversity of cross-sector partnerships and provide an opportunity to examine the relationship between the key components of the alliance model.

The first alliance—dialogue-based alliance—is the most fundamental level of an interactive cross-sector alliance. Dialogue is the foundation to any successful partnership as it establishes cooperation and relational development.¹⁵⁸ This case study focuses on the importance of inter-relational partnerships among individuals. It argues that in fact trust and communication are the most fundamental attributes of a partnership. The case study examines the African Leadership Initiative, which is a forum through which African political, business, and civic leaders convene to discuss issues surrounding leadership, politics, values, and society. The case argues that by understanding the different perspectives between leaders, it allows for a more open and knowledgeable interaction among sectors. While the African Leadership Initiative does not specifically recognize itself as a formal means for strategic alliance development, this case study argues that informal alliances through social contracts of trust and understanding create the foundation from which long-lasting and strong relationships between leaders can evolve.

The second case study examines a formal approach to an alliance between a private and nonprofit sector business. Specifically, the case study addresses a new trend: cause-

¹⁵⁸ Doz, 59.

related marketing. While there are hundreds of examples of cause-related marketing relationships within the United States, this paper focuses on one of the first formal cause-related marketing relationships in Columbia between Cogra/Unilever and the Children of the Andes Foundation. The formal relationship between the two entities addresses the importance of shared commitment to specific causes and end results as well as the importance of understanding the true feasibility of the partnership. The case pays particular attention to the transactional, rather than the inter-relational, emphasis of this type of alliance. While the cross-sector partners both share a particular social cause, the agreement is based upon financial goals and a limited timeline that has a definitive end.

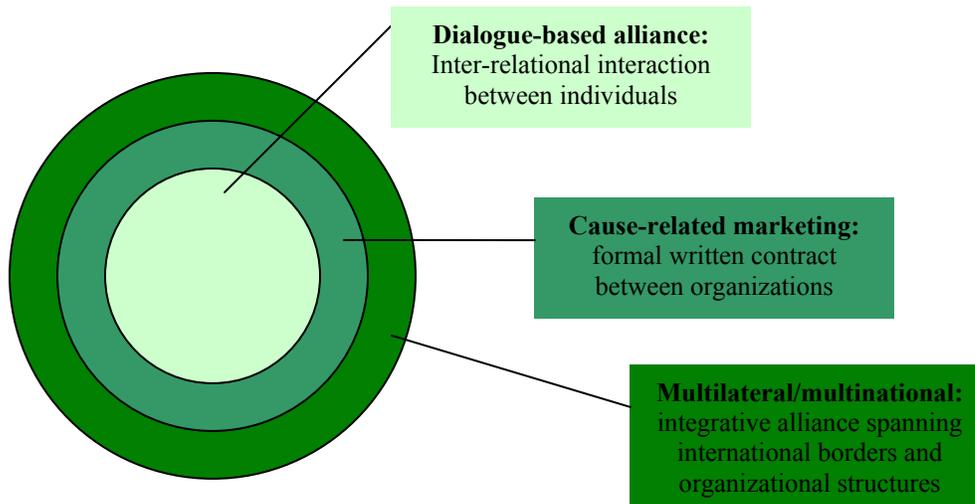
The third case examines the relationship between two much larger, international entities: the multinational enterprise and the multilateral institution. The case study of Novartis International, AG and the United Nations Global Compact examines the complexities and importance of alliances on a much larger level. The partnership is at the most integrative level and illustrates the huge degree of financial and relational commitment required to integrate new knowledge and approaches into the structure of a such a large corporation. Due to the depth of commitment and breadth of its impact, this type of collaboration is limited to very large entities; consequently, the intentions, approach, and scale of the alliance are extremely different from dialogue-based alliances and cause-related marketing partnerships.

Overall, the three case studies support Austin's evolutionary process theory and illustrate the different levels of commitment within the interactive stages of his model.¹⁵⁹ The selection of case intentionally provides the reader with examples that range from individual to multinational relationships; from informal dialogue-based agreements to formal written contracts between partners. This is illustrated in Figure 4: the dialogue-based alliance—the most socially oriented alliance—focuses on the core elements of the strategic alliance model and maintains relationship between individuals. The cause-related marketing partnership shifts the alliance out further to include entire organizations and manipulates the formality of the alliance to accommodate the limited time horizon, the lack of relational development, and the financial intentions of the alliance. Finally, the multilateral/multinational alliance expands upon the relational and formal commitments of the other cases

¹⁵⁹ Austin, 15.

to expand across international borders and adopt new organizational structures within the corporation. This case study exemplifies the level of depth, expanse, commitment, and integration possible within an alliance.

Figure 3: Alliance Commitment Levels



In summary, the cases demonstrate that cross-sector collaborations can be sufficiently flexible in order to accommodate specific frameworks and goals while still maintaining the desired intentions of alliance partners.

Dialogue-based Alliance – the African Leadership Initiative

Background

The contours of the African political, economic, and social maps are changing as the roles of the government, businesses, and civil society shift. African governments have adopted free market economies without having a clear understanding of the necessary shifts in their roles and behavior, while the private sector, which is notorious for its profiteering and unethical business strategies, is failing to subscribe to the globally emerging norms of inter-sectoral cooperation and corporate social responsibility. Subsequently, nonprofit organizations have grown at an exponential rate to meet the deepening demand for social aid and services. In spite of their growing presence, however, civil society leaders tend to lack an understanding of the need for partnership and cooperation among the three sectors to

sustain social progress and peace. However, a small vision and a new initiative are working to change all of that, one leader at a time.

After more than 20 years of development work in Africa, Peter Reiling—the former president and CEO of TechnoServe—recognized that the African continent as a whole lacks leadership and a common vision of the future that effectively combines globalization and traditional culture.¹⁶⁰ It was clear to him that, in spite of billions of dollars of international development aid, Africa continues to struggle with many serious problems including some of the worst track records associated with health, environment, and poverty issues. According to the 2004 United Nations Human Development Index 32 out of the 36 countries ranked as the least developed countries in the world are located on the continent of Africa.¹⁶¹ Compared to other developing regions in the world, Africa is the least developed in interstate trade, infrastructure, and cooperation; and it is home to the most corrupt governments in the world.¹⁶² It was clear to Reiling that an initiative to bring together and strengthen African leaders was necessary; and in 2000, the African Leadership Initiative (ALI) was founded through his vision and under the direction of the Aspen Institute.¹⁶³

The basic framework of the African Leadership Initiative is an offshoot of an Aspen Institute leadership program in the United States—the Henry Crown program, which “seeks to establish the next generation of community-spirited leaders, providing them with the tools necessary to meet the challenges of corporate and civic leadership in the 21st century.”¹⁶⁴ ALI was designed to implement the same successful leadership development program in Africa; in particular ALI intended to provide an opportunity for young leaders from all three sectors of society to come together to discuss leadership issues such as, morality, ethics,

¹⁶⁰ TechnoServe is an international nonprofit organization dedicated to helping men and women in poor rural areas of the developing world to build businesses that create income, opportunity and economic growth for their families, communities and countries. With thirty-four years of experience in Africa and Latin America, TechnoServe currently works in 10 countries with a staff of 270, 90% of whom are local business professionals. <www.technoserve.org>.

¹⁶¹ *United Nations Human Development Report, 2004*, UNDP, http://hdr.undp.org/reports/global/2004/pdf/presskit/HDR04_PKE_HDI.pdf (accessed March 24, 2005).

¹⁶² *Global Corruption Report 2004: Political Corruption*, Transparency International, <http://www.globalcorruptionreport.org/> (accessed March 24, 2005).

¹⁶³ The Aspen Institute, founded in 1950, is an international nonprofit dedicated to fostering enlightened leadership and open-minded dialogue. Through seminars, policy programs, conferences and leadership development initiatives, the Institute and its international partners seek to promote nonpartisan inquiry and an appreciation for timeless values. <www.aspeninstitute.org>.

¹⁶⁴ Henry Crown Fellowship Program, The Aspen Institute <<http://www.aspeninstitute.org/index.asp?i=40>> (accessed March 25, 2005).

decision making, and values through the application of classic and contemporary literature and the Socratic dialogue method.¹⁶⁵ The African initiative, however, differs from the Western model in that it has the specific aim of achieving a strong regional leadership network and building sustainable cross-sector communication between leaders.

The program is funded through foundation grants, individual philanthropy, and corporate sponsorship, which allows for the selection of participants to be based solely on merit. Selected participants are required to commit to 16 days of seminar and leadership development activities spread over a three-year period. The extensive duration of the program is intended to provide the seminar class with a greater opportunity to form cohesive and sustainable relationships that build upon inter-personal trust and communication. The participants are nominated by local and community leaders; the final class of 20 participants is carefully selected by a committee of African and Western business, government, and civil society leaders. ALI nominations are based on the following criteria: 1) nominated fellows are between the ages of 25 and 50 years old; 2) they have achieved significant success in their fields of endeavor; 3) they have demonstrated their potential for leadership at the highest levels of corporate, government, or civic responsibility; 4) they possess a breadth of experience and level of maturity that will enable them to contribute effectively to the fellowship experience; and 5) they come from diverse backgrounds in terms of occupation, ethnicity and gender.¹⁶⁶

Overall, the aim to develop a group of strong, future African leaders depends upon developing fundamental thought processes, vision, trust, and communication. The initiative attempts to achieve this aim through four specific goals: 1) to identify and address the personal leadership strengths and weaknesses of each participant; 2) to understand the challenges the leaders faces as participants in a rapidly globalizing society; 3) to share and refine each leader's respective vision of the society they would like to live in; and 4) to lead

¹⁶⁵ The use of literature to initiate dialogue is a successful tool adopted by the Aspen Institute intended to help remove pre-existing tensions and biases among participants from different sectors and professional fields. The seminar reading selections include excerpts by Plato, Socrates, de Tocqueville, Machiavelli, and Martin Luther King, Jr., as well as a selection of contemporary African writers. The Socratic dialogue method seats participants in a circle and gears discussion between participants with little interaction from the moderators. The moderators are intended to ask questions but provide few answers. The answers are derived from the participants' personal interpretations of the issues included in the seminar readings.

¹⁶⁶ African Leadership Initiative, www.africaninitiative.net, (accessed March 25, 2005).

by example in building this envisioned society.¹⁶⁷ According to the follow-up assessment conducted by the Aspen Institute and TechnoServe, “these seminars were a success—proving that the Aspen methodology is transferable to Africa and spurring serious discussion on the respective roles of business, government and civil society in economic and social development.”¹⁶⁸

Analysis

ALI is an example of how strategic alliances can exist at an extremely fundamental level. The ALI program is unique in that it targets future leaders to specifically address cross-sector tensions and issues through individuals rather than organizations. As the overall mission of the program states, “the aim of the program is to develop motivated, effective, and responsible young leaders across Africa who are capable of guiding their countries as they struggle to align the demands of globalization with local visions of ‘a good society.’”¹⁶⁹ In order to do so, the Initiative attempts to generate a “cadre” of values-based, community-spirited, young African leaders. The program believes that in order to foster strong leaders, it is particularly important to instill strong trust, communication, and transparency levels among leaders. ALI works to achieve these goals by taking leaders outside of their traditional roles and placing them in a neutral environment to discuss philosophical, rather than practical, issues. By removing an individual from his or her predetermined roles and responsibilities, the playing field is leveled to only thoughts and concepts, rather than current political, business, and social issues. Doing so thus provides a non-threatening environment in which barriers can be broken down and where trust can develop. When applying the characteristics postulated in Figure 2, it is clear that the program focuses only on developing the fundamental attributes of a strategic alliance, with minimal regard to the secondary characteristics.

¹⁶⁷ Ibid.

¹⁶⁸ 2001 African Leadership Initiative follow-up report,” African Leadership Initiative, www.africaninitiative.net, (accessed March 25, 2005).

¹⁶⁹ African Leadership Initiative, www.africaninitiative.net, (accessed March 25, 2005).

Figure 4:

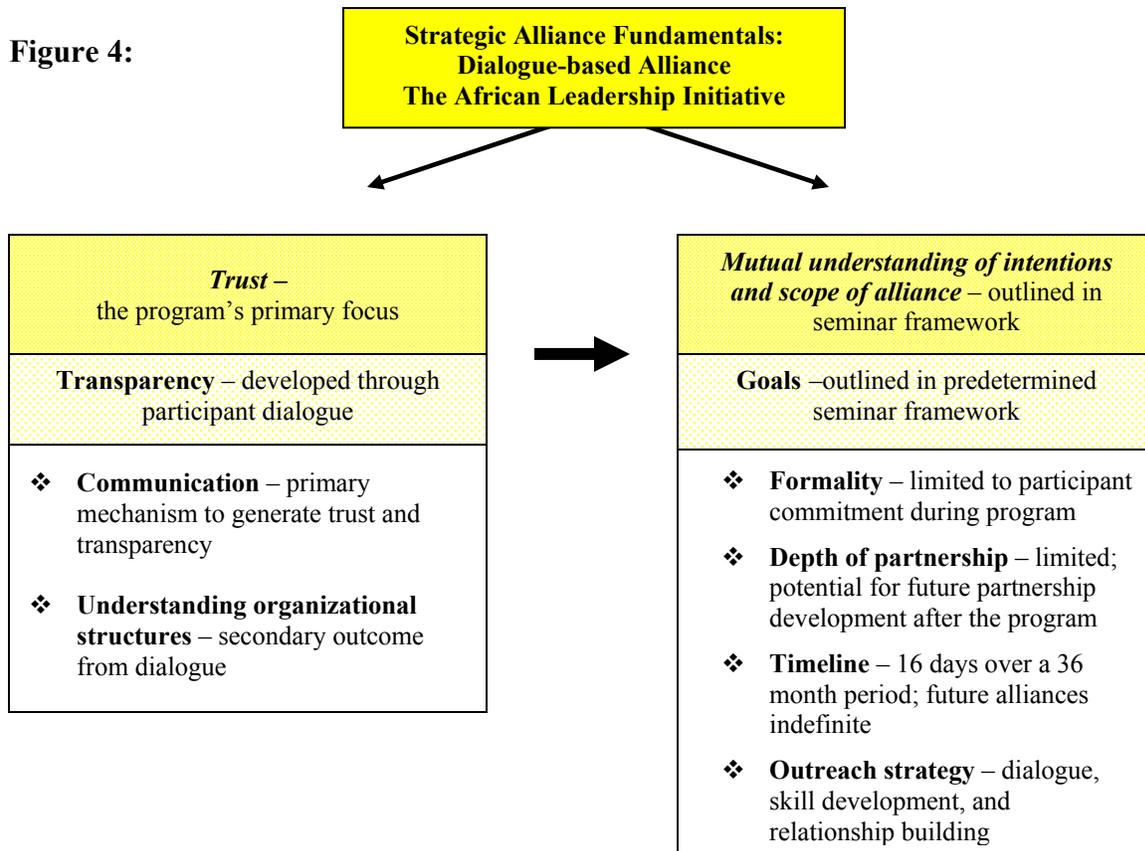


Figure 4 and the program description above illustrate that trust is the fundamental attribute developed in this alliance. Trust is developed as a means to mitigate high relational risk levels in future, professional relationships among participants. Because relational risk is based upon inter-relational issues rather than operational issues, it is necessary to establish trust between partners—this is particularly the case in Africa where the corruption levels are so high.¹⁷⁰ The model also places a strong emphasis on the secondary characteristics associated with trust development: transparency and communication. The ALI framework bases its entire leadership development process on communication between participants. By basing the seminar on philosophically-based readings, the participants are forced to remove themselves from their everyday roles and address conceptual issues rather than tangible issues, which require a greater degree of thought, processing, and inter-active dialogue. The approach has a profound effect on the relationship development between participants because it forces them to continually interact and talk through difficult concepts.

¹⁷⁰ Das and Teng, 452.

Because the program is intentionally established as a neutral and non-threatening environment, the intentions of the program and the participants are extremely straightforward and basic. According to the mission of ALI, the primary intention of the program is to develop strong African leaders through trust, dialogue, and networks. The formality of the program is defined as the participants' commitment of attendance to and active participation in the 36 month program; no further formal requirements are stated. The outreach strategy is also dictated through the initial framework of the program, as it focuses on the participation of participants in the seminar dialogue and leadership activities.

The depth of the partnerships among individuals is uncertain and can differ among participants. However, over the course of the three years, it is clear that through continual communication and trust development, the relational depth among the Fellows increases. The informality of the program's expectations allows for a wide range of outcomes in terms of short- and long-term partnerships. While the program attempts to catalyze future interactions between participants, the program does not require it; it is merely intended as a conduit through which leaders can engage in a neutral, cross-sector roundtable discussion that fosters further understanding and appreciation of new ideas and perspectives.

Conclusion

Overall, the ALI program is an alliance based purely on fundamental knowledge transfer through communication, trust development, and relational development. The program's fundamental objective of leadership development through the fundamental attributes associated with any strategic alliance is a necessary attempt at tackling current cross-sector political, economic, and social issues. The critique of the program as a strategic alliance, however, is that it does not guarantee the sustainability and longevity of the relationship development and future cross-sector collaboration. For the purpose of this paper, however, the case study provides a perfect example of how basic a successful strategic alliance can be. The African Leadership Initiative is categorized as a transitional alliance within the evolutionary process theory postulated by James Austin; however, because the alliance is based strictly on social interaction, it is not included under the research conducted by Wymer and Samu (see Appendix 2). Regardless, the case provides evidence that by focusing on inter-personal communication and trust development develops the propensity for

sustainable and long-term alliances in the future. Additionally, future alliances can either continue to foster knowledge transference and socially motivated interaction, or can provide a strong foundation from which partnerships with greater financial and integrative commitments can develop.

Cause-related marketing: Cogra/Unilever and Children of the Andes Foundation

Cause-related marketing alliances are extremely different from dialogue-based alliances because they are based upon transactional and financial motivation with limited or no socially contracted interaction. However, this case study demonstrates another way in which cross-sector strategic alliances have impacted corporate and nonprofit interaction.

Background

Cause-related marketing (CRM) entered the corporate philanthropy scene in the early 1980s when corporations started to re-assess the mutually beneficial potentials of cross-sector relations. Over the past 25 years, CRM has been a successful strategy to merge corporate profit maximization and social philanthropy. Marketing expert, Barbara Cone, CEO of Cone Communications, defines cause-related marketing as “a discipline that ties a company and its products and services to an issue.”¹⁷¹ This strategy repositions corporate philanthropy as a business venture instead of a tax-deductible, charitable act. CRM provides an opportunity for corporations to not only “give” money to a specific social cause or issue, but to earn a profit in the meantime. The first example of cause-related marketing is attributed to the 1983 American Express campaign to support the restoration efforts for the Statue of Liberty in New York City; American Express pledged a one-cent donation for each use of the American Express card and a one-dollar donation for each new card issued during the third quarter of 1983.¹⁷² Since then, CRM has grown exponentially as a corporate

¹⁷¹ Gayle Gifford, “Cause-related Marketing: Ten Rules to Protect Your Nonprofit Assets,” *Nonprofit World*, 17 (6) (1999): 11.

¹⁷² Michael J. Polonsky, Richard Speed, “Linking Sponsorship and Cause Related Marketing: Complementarities and Conflicts,” *European Journal of Marketing*, 35 (11/12) (2001): 1361; and Warren Smith and Matthew Higgins, “Cause-related Marketing: Ethics and the Ecstatic,” *Business and Strategy*, 39 (3) (2000): 306.

marketing and philanthropic trend. According to a study in 2002, corporations in the U.S. alone spend an estimated \$700 million annually on cause-related marketing programs.¹⁷³

Cause-related marketing, while certainly a type of cross-sector strategic alliance, is unique because it focuses primarily on the transactional and formal contractual aspects of the partnership rather than the relational and social contractual aspects. Corporations regard CRM as a way to ultimately improve sales by building brand image, strengthening corporate social reputation among consumers, targeting new consumers, and increasing consumer loyalty.¹⁷⁴ As a result, both the private sector and nonprofit sector partner should regard this alliance not as a philanthropic gift, but instead as a business transaction. In essence, a corporation is buying the goodwill of a nonprofit cause to enhance the reputation and image of either a particular product or a company as a whole, while the nonprofit organization is willing to “sell” its goodwill for a specified corporate “donation.”¹⁷⁵ CRM provides the corporation with a social-marketing mechanism and simultaneously provides the nonprofit organization an additional source of funding apart from traditional philanthropic gifts and grants. Additionally, both entities recognize CRM relationships as an effective way to disseminate information and build public awareness of products and causes alike.

While CRM was conceptualized 25 years ago in the United States, the marketing trend has since taken off worldwide, particularly with international subsidiaries or partners of U.S.-based corporations. This analysis highlights one of the first cause-related marketing partnerships in Colombia between the South American subsidiary of European-based Unilever, Cogra Lever, and a local nonprofit organization, *Fundación Niños de los Andes* (the Children of the Andes Foundation). Cogra Lever is one of the largest distributors of personal hygiene and food products in South America. They are a direct subsidiary of the UK-based corporation Unilever and distribute hundreds of products to markets throughout the continent.¹⁷⁶ While Cogra Lever holds a large portion of the South American market, increased competition from other local and international distributors has created a greater demand for new strategies to gain consumer loyalty and tap into new consumer markets. The *Fundación Niños de los Andes* is an indigenous nonprofit organization founded in 1980 by a

¹⁷³ Kevin T. Higgins, “Marketing with a Conscience,” *Marketing Management*, 11 (4) (2002): 1.

¹⁷⁴ Hamish Pringle and Marjorie Thompson, *Brand Spirit: How Cause Related Marketing Builds Brands*, (Chichester: John Wiley & Sons: 1999): 121.

¹⁷⁵ Gifford, 3.

¹⁷⁶ Unilever, “Our Brands,” <http://www.unilever.com/ourbrands/> (accessed March 29, 2005).

Colombian oil executive, Jaime Jaramillo. The organization was founded with a mission that serves a local need within Colombia. Its mission is “to reinstitute and defend the fundamental rights of street children by strengthening existing systems and to harness a culture of co-responsibility and citizen participation to solve this problem.”¹⁷⁷ Because the *Fundación* is committed to targeting the poorest and most marginalized population within Colombia, it cannot rely on funding generated from memberships or fees and is dependant upon individual grants, donations, and volunteers. As a result, the organization has had to be resourceful and innovative in new fundraising strategies.

One such alternative fundraising venture started in 1988 when the *Fundación* placed containers at the end of cashier counters in the local supermarkets throughout the Colombian capital city of Bogotá—where homelessness for children is the most prevalent—to collect shoppers’ spare change to support the organization’s programs. While the amount of funding generated from this strategy was limited, the organization’s logo and mission became well-known throughout the city. In 1992, Cogra Lever’s regional marketing director, Alberto Rueda Diaz, met with Mr. Jaramillo to solicit the idea of a limited cause-related marketing campaign.¹⁷⁸ Mr. Diaz proposed that the *Fundación* logo be placed on the packaging and containers of Cogra Lever household products sold in supermarkets in the capital city and surrounding peri-urban areas. Primarily, Cogra Lever felt that the *Fundación* mission was a cause with which the target consumer audience of middle class urban housewives could relate. Additionally, the *Fundación* logo was well recognized due to the organization’s present supermarket campaign. From the perspective of the *Fundación*, the organization trusted the products sold by Cogra Lever and felt that having the *Fundación* name and logo associated with the corporation would certainly *not* be detrimental and could provide additional funding and public relations alternatives.¹⁷⁹

After a short series of telephone calls and in-person meetings between the Cogra Lever marketing department and the *Fundación*, a formal written contract was signed and a three-month marketing partnership was finalized. Prior to the business proposal pitched by Cogra Lever, there had been no personal or professional interaction between the two

¹⁷⁷ “Who we are,” Children of the Andes Foundation, <http://www.ninandes.org> (accessed March 29, 2005).

¹⁷⁸ Cogra Lever, <<http://www.unilever.com>> (accessed March 29, 2005).

¹⁷⁹ Stephen Thompson, former board member and treasurer to Children of the Andes Foundation, personal communication, February 9, 2005.

organizations, and as a result, the partnership had no inter-relational trust on which to build their partnership. Instead, the partnership outlined a formal written contract that discussed the timeline, the intentions of the partnership, the roles and responsibilities of both parties, and the financial details associated with the marketing campaign. As it were, Cogra Lever was responsible for maintaining the majority of the objectives; they were responsible for all finances associated with the partnership as well as the strategy and launch of the marketing campaign. The *Fundación* was responsible for providing its logo to Cogra Lever for the three month period and supporting the marketing campaign, but was responsible for little else. The organization was limited to entering additional partnerships with private corporations for the three month period; however, the organization could continue to accept its normal charitable and granted gifts.¹⁸⁰ The intentions of the two partners were also made extremely straightforward. According to an interview with Stephen Thompson, former treasurer and board member of the *Fundación*, the sole intention of the partnership for Cogra Lever was to increase the sales of household products through the marketing campaign. The *Fundación* was also only interested in the financial gains associated with the campaign. However, according to the original contract proposed by Cogra Lever, the *Fundación* did not feel that their financial best interests were met. As a result, a clause was added to the contract that assured a set financial floor for the *Fundación*, which guaranteed that regardless of the profits generated by the campaign, Cogra Lever would pay a minimum amount equivalent to US\$20,000 to the *Fundación*. This contractual clause significantly reduced the relational risk for the organization and made it clear that they would be rewarded an appropriate “fee” for the use of their logo.

The outreach strategies for the marketing campaign were designed by the Cogra Lever marketing team and approved by the *Fundación*. Essentially, the campaign consisted of two parts. The first part was a series of printed advertisements in local newspapers launching the partnership campaign with the *Fundación*. The second part was the application of the *Fundación* logo as a sticker on selected household products and the distribution of raffle tickets in the participating supermarkets. Essentially, consumers would purchase any Cogra Lever product with a *Fundación* sticker, fill out a raffle card (available at the supermarket cashier counter), and mail in the card with the sticker attached to be eligible for

¹⁸⁰ Ibid.

a prize. The overall design of the marketing campaign intended to tap into the popular Colombian trend of raffles while collecting valuable marketing research data.

The outcome of the marketing campaign was a financial failure for Cogra Lever; not only did the company fail to increase its profits on household products, but it did not even make enough additional profit to subsidize the guaranteed financial “donation” of US\$20,000 to the *Fundación*. Needless to say, the marketing team did not renew its partnership contract with the *Fundación*, nor did it initiate any additional cause-related marketing campaigns thereafter. The *Fundación*, on the other hand, did not find the campaign to be a total failure as they received the corporate “donation” from Cogra Lever as well as additional publicity through the campaign. The organization used the “donation” to establish a center for drug-dependent children 60 kilometers outside of Bogotá.¹⁸¹ According to Thompson, however, the *Fundación* was hoping to continue an annual partnership with Cogra Lever, as this would have allowed for a guaranteed annual income which would have made the center completely funded by the marketing campaign.¹⁸² As a result of the lack of consistent funding, the *Fundación* currently concentrates its fundraising efforts on grants from international aid organizations in Europe, Japan, and the United States. Thompson acknowledged that while grants make it more difficult to find money to support the overhead costs of the organization, the programmatic funding from grants is much more reliable and has a higher cost-benefit return.

Analysis

While the final outcome of the alliance between Cogra Lever and the *Fundación* did not produce the intended results anticipated by either partner, it is an interesting case to analyze. Upon reflection of the marketing campaign outcome, Thompson speculates that the outcome could have been the result of a number of different variables such as poor market research, poor selection of products, unclear marketing message, or speculation of the marketing cause. He also proposed that perhaps the consumers of these products in Colombia simply were not disposed to alter their buying habits to support a charity.¹⁸³

¹⁸¹ Edmund Blair, “Safer in the Sewers,” *New Internationalist*, 245 (1993), <<http://www.newint.org/issue245/update.htm>>, (accessed March 27, 2005).

¹⁸² Ibid.

¹⁸³ Thompson.

Regardless of the outcomes for this particular marketing campaign, the case demonstrates the financial risks involved in cause-related marketing relationships.

Several studies have been conducted regarding CRM partnerships and the importance of consumer behavior, thorough marketing research, selection of the right cause and partner, and program management.¹⁸⁴ However, there is no predictable outcome or formula that can be applied to all CRM relationships. The transactional nature of the cause-related marketing relationship changes the fundamental dynamics of the partnership. In many ways, the CRM partnership between Cogra Lever and the *Fundación* takes on similar attributes to a traditional intra-private sector alliance because there is a strong financial element involved between partners; inter-relational trust is replaced by a formal written contract; timelines are clearly defined; and alliance goals focus primarily on financial intentions. The cause-related marketing relationship is included in this analysis to illustrate the most formal level of existing cross-sector alliances. Additionally, the case demonstrates that because the relationship depends on formal written contracts, the degree to which trust is necessary is less than it is necessary in an alliance developed under a social contract.

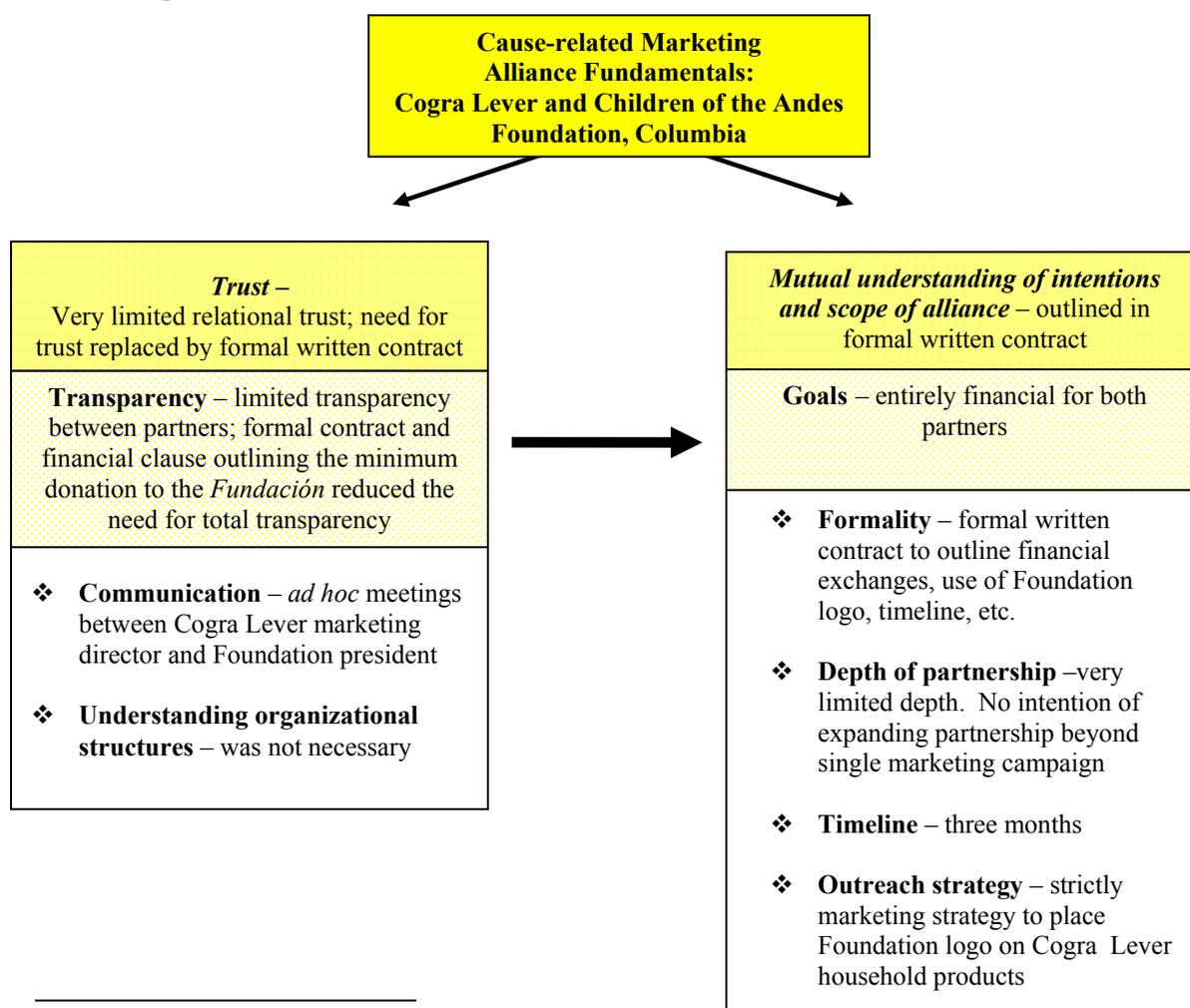
In conjunction with the lack of inter-relational trust between partners there was also a low level of transparency and communication.¹⁸⁵ According to Thompson, all communications were primarily phone conversations scheduled on an *ad hoc* basis between the *Fundación* president, Jaime Jaramillo, and the Cogra Lever marketing director, Alberto Rueda Diaz. Additionally, the transparency between the two partners was limited to issues directly related to the partnership. Cogra Lever did not disclose information regarding existing or future marketing strategies, nor did they invite the *Fundación* to participate further in the existing partnership. When asked whether he thought that further interaction between the *Fundación* and Cogra Lever would have strengthened the outcome of the marketing campaign, Thompson had mixed feelings. On the one hand, he recognized that the

¹⁸⁴ Smith and Higgins (2000); Varadarjan and Menon (1988); Barbara Lafferty, Ronald Goldsmith, and Tomas Hult, "The Impact of the Alliance on the Partners: A Look at Cause-Brand Alliance," *Psychology & Marketing*, 21 (7) (2004); Linda Nowak and T.K. Clarke, "Cause-Related Marketing: Keys to Successful Relationships with Corporate Sponsors and Their Costumers," *Journal of Nonprofit & Public Sector Marketing*, 11 (1) (2003); Karen File and Russ Alan Prince, "Cause-related Marketing and Corporate Philanthropy in the Privately Held Enterprise," *Journal of Business Ethics*, 17 (14) (1998); Brian Till and Linda Nowak, "Toward Effective Use of Cause-Related Marketing Alliances," *The Journal of Product and Brand Management*, 9 (7) (2000).

¹⁸⁵ Thompson.

marketing department was the most familiar with the Cogra Lever products and consumer base, to which the *Fundación* to contribute very little. On the other hand, Thompson did recognize that the *Fundación* board of directors consisted of a number of high-power leaders from business, government and academia, who may have contributed some good ideas.¹⁸⁶ At the time of the alliance, however, the *Fundación* found it best to let Cogra Lever handle this aspect of the partnership. On the whole, the issue of transparency was not regarded as a major problem because the formal written contract acted as a sufficient outline of the partnership. Thompson did however emphasize that had the *Fundación* not included a contractual clause regarding a minimum financial commitment from Cogra Lever, this would have put the organization in a very “uncomfortable position” and greater transparency would have been essential.¹⁸⁷

Figure 5:



¹⁸⁶ Ibid.

¹⁸⁷ Ibid.

Further examination of the partnership in relation to the strategic alliance model illustrates that the formal written contract is the central focus and an essential variable. The contract not only takes the place of relational trust between partners, but it definitively outlines the parameters of the relationship's goals, depth, timeline, financial obligations, and outreach. Research regarding formality within strategic alliances suggests that the greater the focus is on financial intentions, the more important it is to establish a clear written contract to define the terms of agreement and partnership intentions.¹⁸⁸ The absence of relational trust between partners and the partnership's complete reliance on formal contracts reduces the dynamism of the alliance; however, a formal contract also decreases the relational risk associated with the transactional aspects.

The secondary characteristics of the alliance between Cogra Lever and the *Fundación* were directly dependent upon the guidelines outlined within the contract. As a result, the depth of the partnership was extremely limited, not only because of its exclusive focus on financial goals, but because there was no arranged commitment for staff or managerial participation, nor was there any knowledge exchange between the two partners. Consequently, the organizational structures and strategies remained the same and completely non-integrated. Additionally, the timeline of the project was clearly defined as a three-month campaign with no discussion of extension. This resulted in even less depth within the alliance because the alliance was so short-term. While it is not suggested that a longer timeline would have resulted in greater depth between the partners, a longer campaign could have provided more opportunity for greater interaction and communication between the two partners. This could have increased the dynamism of the partnership and perhaps the potential for new and innovative marketing approaches to make the campaign more successful. As it were, however, the outreach strategy remained extremely limited to short-term profit gains for Cogra Lever and funding for the *Fundación*. The quick timeline and the formality of the alliance thwarted the potential for synergy between the two partners. However, such formality defined a very straightforward framework under which both

¹⁸⁸ Robert Frankel, Judith Schmitz Whipple, and David J. Frayer, "Formal versus Informal Contracts: Achieving Alliance Success," *International Journal of Physical Distribution & Logistics*, 26 (3) (1996): 49.

partners were aware of one another's intentions and alliance goals. Such clarity provided less need for communication, on-going transparency, and overall trust between the partners.

Conclusion

Overall, cause-related marketing relationships differ from the majority of cross-sector strategic alliances because they function on an entirely formal basis. Transactional and financial alliance foci versus knowledge transference and dialogue set up extremely different partnership intentions. Fundamentally, CRM partnerships differ from other types of strategic alliances because the funding from the corporation comes directly from the marketing department budget, whereas other alliance funding typically comes through philanthropy budgets. According to the matrix in Appendix 2, CRM agreements are categorized under the transitional stage in the evolutionary process diagram proposed by James Austin. The transactional focus of the partnership limits the depth and relational interaction between the two entities, which decreases the longevity and sustainability of the partnership. The short-term nature of the CRM relationships contributes to the lack of growth, interaction, and integration between partners. The budgetary differences, the transactional focus, the short-timeline of the relationship, and the limited communication between partners all contribute to the lack of greater depth between partners. Typically, the communication related to the relationships is strictly between the marketing department and a select group of individuals within the nonprofit organization. As a result, there is little opportunity for employee buy-in or corporate ownership over the relationship. The limited scope of the alliance (to only include financial goals) also constricts the potential integration between the two partners.

While CRM relationships do not represent the most interactive type of cross-sector strategic alliances, they are a way in which nonprofit organizations and private sector businesses can start to become more aware of one another's organizational structures, differences and similarities, and the potential for further collaboration. Many studies show, however, that CRM campaigns, such as the Cogra Lever and *Fundación*, which do not integrate thorough market research regarding its product line or consumer targets can also lead to unsuccessful outcomes and less likelihood for future partnerships. Because of the financial scope and short-term nature of the alliance, there is a greater need for thorough research on the part of both partners. In this regard, while the alliance is between a nonprofit

and a private sector entity, the framework of the partnership is more similar to an inter-sector strategic alliance. However, cause-related marketing campaigns are an excellent primary acknowledgement of the potential for cross-sector interaction as an economic and social benefit for both entities.

Multinational/Multilateral Alliance: Novartis International and the United Nations

Multinational enterprises (MNEs) have expanded significantly over the past 30 years. Their breadth of influence, their resource and financial capacity, their efficient organizational skills, and their ability to manage integrated systems on a global scale are unmatched. There are over 65,000 MNEs with approximately 800,000 subsidiaries, and millions of suppliers in various types of contractual relationships.¹⁸⁹ The economic power of MNEs has not gone unnoticed.¹⁹⁰ The rapid and thorough expansion of the MNE in scope and scale has generated an escalation of expectations surrounding what level of contribution they should make regarding certain social and environmental objectives. Dennis Rondinelli, management professor at Kenan-Flager Business School, notes, “[MNEs] are seeking to solve health, education, and environmental problems, work with international organizations and activist groups to address human rights issues, and partner with community organizations to alleviate poverty.”¹⁹¹ In a global arena, interaction between MNEs and society differs from the domestic context of 30 years ago: namely through the evolution of different international standards, increased consumer awareness via rapid information transfers, the evolution and sophistication of NGOs, and the changing conception of the role of shareholders and stakeholders.¹⁹² With such expansive influence, MNEs have the capacity to ally with a variety of organizations on a local, national, or even global level; in fact, a growing number of corporations are starting to collaborate with multilateral institutions such as the World Bank, the International Monetary Fund, and the United Nations on a number of economic

¹⁸⁹ John Ruggie, “How to Marry Civic Politics and Private Governance,” *The Impact of Corporations on Global Convergence*, Andrew Kuper, and Evan O’Neil, Eds., (New York: Carnegie Council on Ethics and International Affairs, 2004), 11.

¹⁹⁰ Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises*, (New York: Basic Books, 1971), 13.

¹⁹¹ Dennis Rondinelli, “Transnational Corporations: International Citizens or New Sovereigns?” *Business and Society Review*, 107 (4) (2002): 395.

¹⁹² Charles Kolb, “Responsible Leadership and Corporate Engagement,” *The Impact of Corporations on Global Convergence*, Andrew Kuper, and Evan O’Neil, Eds., (New York: Carnegie Council on Ethics and International Affairs, 2004), 27.

and social development programs. Given the cross-boundary nature of both entities, such partnerships are a logical fit. According to the San Francisco based nonprofit, Business for Social Responsibility (BSR), multinational/multilateral partnerships “offer the potential for accelerating the pace of international development through an alignment with business interests.”¹⁹³ On the other hand, BSR also identifies that the cynics of such partnerships argue that “such partnerships signal the integration of public policy and commercial interests, creating the danger of yet greater poverty, inequality, and environmental insecurity.”¹⁹⁴ While there are partnerships that identify with both arguments of the debate, there is one case in particular that stands alone as an innovative amalgamation of corporate structure and efficiency and multilateral development and social advancement.

The partnership between Novartis International, AG, a Swiss-based pharmaceutical corporation, and the United Nations is a proactive and groundbreaking alliance that illustrates a complex partnership between two of the largest entities within the private and nonprofit sectors. The impact of this collaboration has been tremendous in furthering cross-sector dialogue and promoting social responsibility and accountability in the private sector. Furthermore, the partnership demonstrates the potential impact of corporate social behavior in business culture and operations.

Background

United Nations Global Compact

On January 31, 1999, United Nations Secretary-General, Kofi Annan, spoke at the World Economic Forum and urged business leaders to join the UN in a new initiative to support basic labor, human rights, and environment practices in the business arena. As a result, the UN Global Compact was launched in 2000 as a voluntary set of principles which business leaders could implement at their own discretion. The Compact highlights 10 principles that address labor, human rights, environment, and governance, which are based on the Universal Declaration of Human Rights, the guidelines of the International Labour Organization (ILO), and Agenda 21 of the Rio de Janeiro environmental summit.¹⁹⁵ The

¹⁹³ “Working with Multilaterals: Building Stronger Private-Public Partnerships for Sustainable Development,” presentation published by Business for Social Responsibility, (San Francisco: 2002): 4.

¹⁹⁴ Ibid.

¹⁹⁵ See Appendix 3 for list of UN Global Compact Principles.

Compact principles support businesses to undertake socially responsible measures by outlining the key global issues. According to the Novartis 2004 annual report, “the Global Compact asks companies to embrace, support, and enact a set of core values... which must be lived day-to-day.”¹⁹⁶

The UN Global Compact is a social contract where companies are asked to make an active commitment in their own activities and those of their business partners to live up to the 10 outlined principles. As noted by Klaus Leisinger, president of the Novartis Foundation of Sustainable Development, “the implementation of the Global Compact is intended to help companies turn the globalization process into a dynamic stimulus for change that will contribute measurably to the realization of broader social aims.”¹⁹⁷ The Compact has generated a number of skeptics who criticize it for its lack of enforcement capacity; conversely, a number of corporations have shied away from the Compact for fear that it will generate such enforcement mechanisms. However, framers of the Compact argue that both parties have misinterpreted the intention of the document; the Compact was derived as an acknowledgement of these changes and the variance among international trade and commerce, labor, and human rights. As Harvard Business School professor and UN Global Compact committee member, John Ruggie, notes, “the initiative was and remains an attempt by the UN to reach beyond the constraints of its own intergovernmental system and to engage other social actors and align them behind meeting UN goals. It reflects the desire to tap into the capacity of the private sector, not a desire to regulate companies.”¹⁹⁸ Today, over 100 companies worldwide are signatories to the Compact. While some have adopted the principles with greater alacrity than others, it is clear that a movement for greater corporate responsibility has begun.

Novartis International AG

The Swiss pharmaceutical company, Novartis International, AG, was one of the first companies to have taken a proactive role in signing the Compact. In 1996, Novartis (“new skills” in Latin) was formed following a merger of the two largest Swiss pharmaceutical

¹⁹⁶ Novartis Corporate Citizenship Report Annual Report 2004

<www.novartis.com/investors/financial_reports.shtml> (accessed February 20, 2005).

¹⁹⁷ Klaus Leisinger, “Opportunities and Risks of the United Nations Global Compact: The Novartis Case Study,” *The Journal of Corporate Citizenship*, 11 (2003): 114.

¹⁹⁸ *Ibid*, 13.

companies, Sandoz and Ciba. Today, the company currently employs over 70,000 people worldwide and is affiliated with over 50,000 business partners. The newly formed company was in a unique position after the merger in 1996 to recreate its approach by consciously redefining its goals, vision, and mission. During the first four years post-merger, the company focused on financial restructuring and consolidation. By 2000, however, Novartis had made a conscious decision to fully integrate corporate citizenship practices in its business operations. Following a conversation between UN Secretary-General, Kofi Annan, and Daniel Vasella, the CEO of Novartis, the company signed the UN Global Compact in July 2000. At a later launch of the company's "Policy on Corporate Citizenship," Vasella stated:

Across geographies and throughout our organization we will, in all our business, social, and environmental activities, strive to be in line with the principles of the Global Compact. We believe that adhering to values is especially important for large organizations in times of rapid change and globalization, as they provide guiding principles.¹⁹⁹

Novartis was one of the first 50 corporations to sign the Global Compact, but moreover, it was the first corporation to integrate the Compact directly into its structural organization. According to a case study presented by Ursula Wynhoven, current staff member with the UN Global Compact, "[Novartis] invested much time and effort in systematically integrating the principles into its company culture, management processes and business activities."²⁰⁰ According to Wynhoven's report, "there also seems to be a high degree of commitment to this program from its most senior level, at a time when few of its competitors have signed on..."²⁰¹

The social responsibility of the corporation has been described as Novartis' "license to operate."²⁰² Novartis demonstrated its commitment to adopting the Compact principles by assigning a top executive of the company, Urs Bärlocher, as the Executive of Corporate Citizenship. Bärlocher's sole purpose as one of the leading executives in the corporation was

¹⁹⁹ Novartis Corporate Citizenship Report Annual Report 2001

<www.novartis.com/investors/financial_reports.shtml> (accessed February 20, 2005).

²⁰⁰ Ursula Wynhoven, Case Study of How Novartis International AG Has Begun the Process of Delivering on its Commitment to the Global Compact" UN Global Compact: July 2002.

²⁰¹ Ibid.

²⁰² Lee A. Tavis, "Novartis and the United National Global Compact Initiative," University of Notre Dame, Mendoza College of Business, William Davidson Institute Working Paper 526, December, 2002: 3.

to ensure that the Compact principles were integrated and adopted throughout the corporate structure.²⁰³ To ensure that Novartis instilled these principles as their own, the company referred to them as “corporate citizenship” rather than the Global Compact.²⁰⁴ This not only internalized the principles into Novartis’ structure, but created a permanent sense of ownership.

The partnership between the UN and Novartis has created a long-term, holistic strategy for the corporation’s overall commitment to societal expectations; however the corporation has particularly devoted its energy in the promotion and protection of human rights. The company has taken an extremely proactive role in assuring that its actions are compatible with current human rights issues and practice. The company does recognize that by integrating the Global Compact principles into its organizational structure it invites closer scrutiny from external stakeholders. As a result, the corporation has taken proactive strides to include these stakeholders in the creation, evolution, and monitoring of its code and remains in constant contact with the human rights nonprofit Amnesty International and the UN Human Rights Commission (UNHRC) to ensure open communication, transparency, and a trustworthy reputation.

Novartis’ Integration of the United Nations Global Compact

Operationalizing the UN Global Compact principles has been an interactive collaboration between Amnesty International, Novartis, and the UN. Daniel Vasella, Chairman and CEO of Novartis, recognizes that, “corporate citizenship is an investment.”²⁰⁵ As a result, the three partners focused on the *process* of achieving corporate citizenship, rather than the immediate *outcome*. The process entails three steps, two of which are on-going: tailoring general principles, application of uniform requirements, and sensitization of local management to the human rights effort.²⁰⁶

- *Step 1: tailoring general principles to specific business operations*

²⁰³ Wynhoven, 6.

²⁰⁴ Novartis Corporate Citizenship Report Annual Report 2001
<www.novartis.com/investors/financial_reports.shtml> (accessed February 20, 2005).

²⁰⁵ Daniel Vasella, “Human Rights and the Private Sector International Symposium Report,” Novartis Foundation for Sustainable Development. November 27, 2003, 42.

²⁰⁶ Lee A. Tavis, “Novartis and the United National Global Compact Initiative,” University of Notre Dame, Mendoza College of Business, William Davidson Institute Working Paper 526, December, 2002:10.

Novartis has taken great strides in ensuring that the general principles of the Compact fit appropriately with the existing mission of the company. After a year of meetings among internal and external stakeholders, the end result of the Corporate Citizenship Guideline 4 (Human Rights) was officially distributed.²⁰⁷ The guidelines were broken down into four main categories: negative rights, positive rights, special obligations, and reporting criteria, measurement, and compliance monitoring. Both Amnesty and the UN were integral members of the process, and Amnesty continues to play a key role in monitoring guideline compliance.

- *Step 2: applying uniform requirements to local management*

The second step involved the implementation and uniform dissemination of the tailored guidelines to local management. Because performance ratings are more difficult to ascertain with social targets than commercial targets, Novartis concentrated on translating the general guidelines of the corporate citizenship code into operational procedures. These procedures are consistently applied throughout the company. The continual dialogue with the UNHRC and Amnesty provide a transparent translation process, which allows for greater adaptation and refinement of the procedures in the future. This step is on-going in the sense that as societal expectations change so do the working procedures. This ensures Novartis continues to uphold its responsibility of investing in social responsibility as a process rather than a result.

- *Step 3: regional ownership and understanding of general guidelines*

The third step encourages corporate divisions and units to be flexible through interactive human rights training and familiarization with local human rights situations. This dynamic approach to human rights protection is essential for a MNE, as it recognizes the inconsistency of both human rights issues and societal expectations within any given country. As David Henderson, author of *Misguided Virtue*, suggests, “to insist the same standards everywhere in every sphere is calculated to make people in general worse off. Countries and regions differ widely in their physical and geographical characteristics...in the tastes and preferences of

²⁰⁷ For the complete text of the Corporate Citizenship Guideline 4 (Human Rights), please refer to “Human Rights and the Private Sector International Symposium Report,” Novartis Foundation for Sustainable Development. November 27, 2003, 130-31.

their people.’²⁰⁸ Accepting this notion requires a major shift in the internal operations of the corporate culture. However, Novartis recognized this as a fundamental obstacle worth tackling, and as a result, has realigned its business operations from a top-down to a bottom-up managerial strategy. This provides greater ownership for regional units and improved communication between local stakeholders and the company. This final step is the most dynamic and most heavily monitored step, as it requires constant vigilance on the part of managers, headquarters, and outside affiliates such as Amnesty International.

The interactive process enabled by the strategic alliance is extremely effective in creating a transparent integration of social responsibility and business strategy. It allows for desired actions to be implemented quickly and efficiently. The 2000 Global Compact was a huge undertaking by the UN and the adoption of these guidelines by such a large and visible MNE, such as Novartis, was the perfect multinational platform from which the Compact could be launched. Amnesty International plays an important role as it acts as the external monitor of Novartis’ application of the Compact. The partnership provides a framework paradigm for other corporations wishing to integrate the Global Compact into their organizational frameworks. Corporations who are late adopters of codes of conduct can also observe the short- and long-term impacts on the bottom line and the operational outcomes of such alliances.

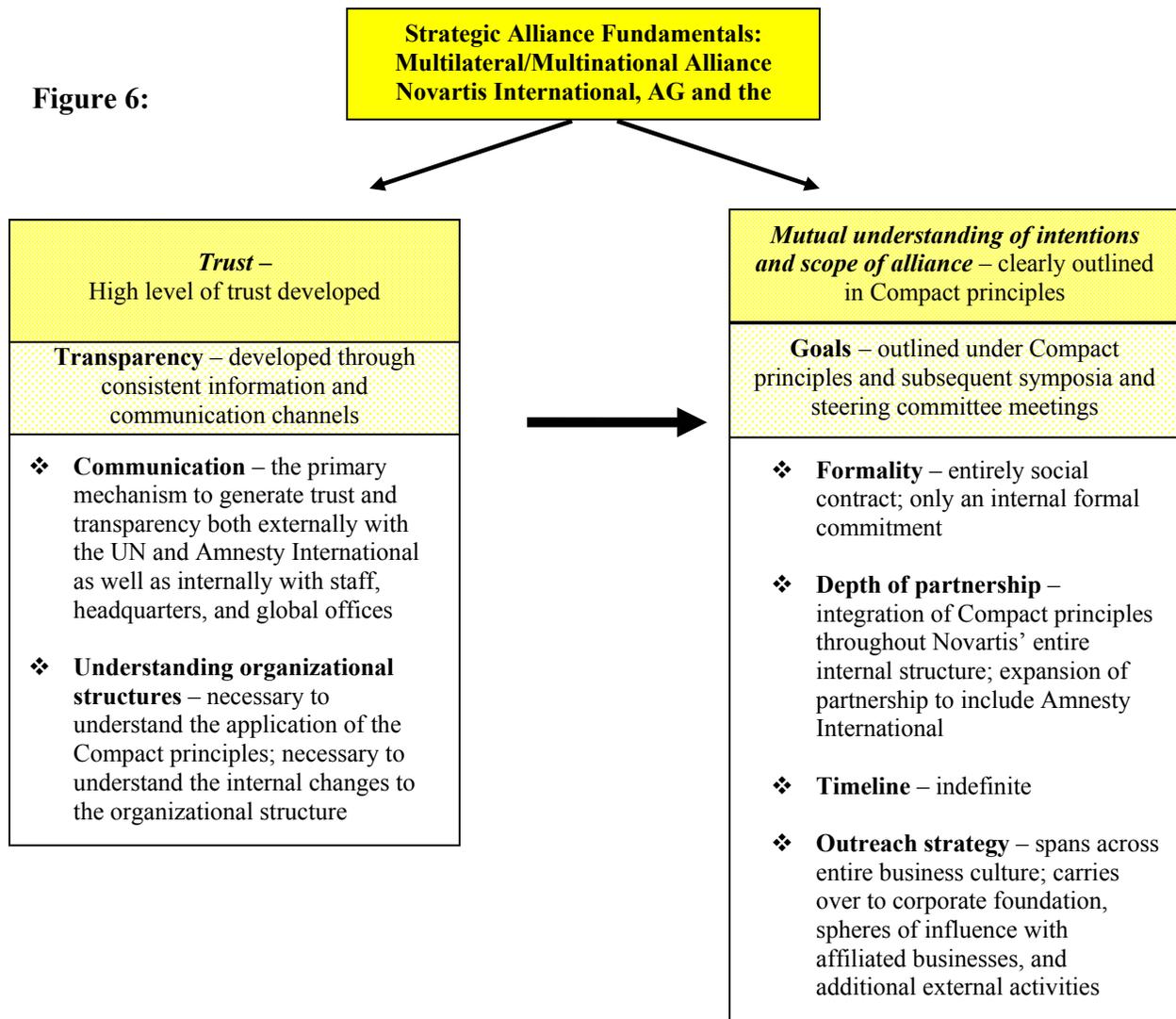
Analysis

The partnership between Novartis and the United Nations demonstrates the potential depth and complexity of an alliance. Additionally, it exemplifies the opportunities and extent to which a partnership can evolve. The partnership, while only in its fifth year, has revolutionized the organizational structure, mission, and vision of the corporation and provided an international platform for the UN to test and prove the effectiveness of the Compact and its intention. While the partnership between the UN and Novartis is strictly a social, and therefore voluntary, contract, Novartis has institutionalized the voluntary

²⁰⁸ David Henderson, *Misguided Virtues: False Notions of Corporate Social Responsibility*, London: The Institute of Economic Affairs (2001), 114.

principles as the company’s code of corporate conduct. The internal switch from a traditional corporate top-down structure to an innovative bottom-up approach embraces the dynamic and flexible qualities associated with a strategic alliance. Additionally, by implementing an external steering committee with the UN and Amnesty International, Daniel Vasella and his executive team ensure that the corporation maintains open and transparent communication channels with social advocacy groups. This proactive strategy effectively ensures that the corporation maintains a strong public reputation and keeps the company abreast of current human rights issues and practices. Moreover, the integration of the Compact into Novartis’ business strategy demonstrates the growing trend among corporate leaders to recognize the importance of both social and economic implications regarding business practices.

Figure 6:



The case study illustrates that the alliance places a particularly high degree of emphasis on the *internal* application of the strategic alliance model and characteristics. Both externally and internally, Novartis emphasizes the importance of communication between actors and trust development. This is demonstrated both by the implementation of the external Steering Committee and the internal appointment of Urs Bärlocher as the Executive of Corporate Citizenship. Internal trust development is also demonstrated through the adoption of bottom-up business approaches within the corporation. This business strategy, while it increases the company's flexibility to local issues, also provides greater autonomy to local managers worldwide. Without a high degree of trust, solid communication systems, and consistent internal dialogue such a decentralized business structure could result in a disenfranchised operation. Novartis, on the other hand, is recognized as having some of the highest and most consistent standards as well as being one of the most effective MNEs worldwide.²⁰⁹

Regardless of the extensive scope and depth of the alliance, the intentions of the alliance are extremely straightforward as they are derived from the 10 clearly outlined principles presented by the UN Global Compact. From an external perspective, the clear understanding of Novartis' intentions provides transparent guidelines by which the UN and Amnesty can continue to monitor the company's adherence and commitment to the Compact principles. Internally, the company's intentions are specified through the introduction of the code of corporate citizenship and the realignment of the organizational structure in accordance with the Compact guidelines. This case study highlights the fact that regardless of the extensive nature of the alliance, the fundamental alliance characteristics of trust and understanding of intentions are clearly defined and established. The emphasis placed on high internal and external levels of communication reiterates the importance of maintaining trustworthy relationships with partners as well as personnel.

Novartis defines the goals of its alliance with the UN Global Compact by establishing formal communication and structural frameworks between headquarters, regional offices, managers, and personnel. The goals are outlined by the principles established by the Compact and integrated into the internal operations of the company through the code of

²⁰⁹ Tavis, 9.

corporate citizenship. The partnership is an amalgamation of social and formal alliance applications. While the alliance between the UN and Novartis is based strictly on a social contract, the internal application of the Compact principles within the company's operational structure requires a formal implementation framework with a high degree of internal financial and personnel commitment. The formal internalization of the alliance demonstrates that Novartis places a great deal of emphasis on the depth of the alliance. This is further illustrated by the indefinite timeline associated with the alliance and in the outreach strategy of the program, which is initiated primarily through internal operations. Novartis concentrates its outreach on the quality and consistency of performance maintained by employees and the direct application of the Compact principles in everyday business operations. External outreach is only secondary for the alliance—the Steering Committee is primarily intended as a mechanism to ensure that Novartis maintains a consistent and appropriate application of the Compact principles.

Conclusion

The alliance is unique not only because of its extensive scope and scale, but also the permanency of the partnership. The commitment and internalization of the Compact principles into the everyday business structure is a daunting task for many reasons. For one, Daniel Vasella took a huge personal risk in endorsing the Compact at the onset of his appointment as CEO. Shareholders were wary of the implementation because there was no benchmark or examples to follow. Vasella pioneered new corporate territory; however, his confidence and enthusiastic support as the leader of the company, created an energy within the rest of the company. Skeptics could not help but admire the tenacity of their new CEO, and external advocacy groups such as the UNHRC and Amnesty International soon became involved in ensuring the successful application of the compact principles. The top-down, executive endorsement of the Compact coupled with the new decentralized, bottom-up business structure fostered a corporate culture of trust and confidence; executives, managers, and employees all felt ownership over the new principles.

Secondly, no other company this size had ever adopted such a proactive social responsibility role. While there were a number of examples of integrated partnerships between corporations and nonprofit organizations, there was nothing with this level of

commitment on such a large scale in existence. The alliance crossed boundaries that had never been crossed before: 1) the partnership was between one of the largest pharmaceutical multinational companies in the world and the world's largest multinational institution; 2) the partnership did not focus on a tangible cause, but instead focused on a series of concepts pertaining to huge social issues; and 3) the alliance did not have a fixed lifespan but rather an indefinite timeline.

Finally, because the alliance was based entirely on a social and voluntary contract, there was no guarantee of success, reward, or conclusive outcome. Vasella committed a huge amount of time, energy, resources, and personnel to launching this effort. While the initiation was clearly outlined and advanced through the three steps noted in the case analysis, there was no clear certainty that the partnership was going to take root. However, the evident level of personal commitment of Vasella and other senior executives signaled to the rest of the company that this initiative was here to stay.

Five years later, the initiative has taken off. The adoption of the alliance has fostered a new type of business culture within the company that not only adopts but embraces social responsibility as one of its primary missions. While this alliance is an extremely laudable endeavor, it is also incredibly unique. Few, if any, other MNEs have taken such great leaps of faith to apply voluntary social measures to their business structure at this level. What is clear from this case study is the importance of a leader with vision, confidence, and a passionate belief in integrating socially responsible principles with bottom-line business. No doubt, the depth and complexity of the Novartis alliance is logistically and financially daunting for many MNEs and smaller companies; however, it illustrates that alliances can and do work if done thoroughly, transparently, and consistently. The strengths of this alliance are innumerable and noted above. The weaknesses, on the other hand, are more difficult to discern as the alliance continually morphs to fit with the current social and operational needs. An alliance of this nature does have a number of potential short-term risks regarding the financial commitment, the structural reorganization, and the employee reactions. Additionally, there is the external risk of continual scrutiny by skeptics, advocacy groups, and investors. Corporations that lead in the field of socially responsible actions, also

run the risk of being criticized and scrutinized more than their ‘anti-social’ competitors.²¹⁰

Regardless, this case study illustrates the potential for combining social and formal contracts under one alliance. Moreover, the partnership between Novartis and the UN provides a unique example of the depth and influence capable within the realm of cross-sector alliances.

²¹⁰ David Henderson, *Misguided Virtues: False Notions of Corporate Social Responsibility*, London: The Institute of Economic Affairs (2001), 96.

Businesses and nonprofits can learn a lot from one another. In fact, as the globalization trend and the shift of sector roles continue, indicators suggest that alliances, in one capacity or another, will be essential for business and nonprofit survival. While it is clear that the missions, structures, and legislative parameters are significantly different between the two sectors, there is one common linkage between the two: each sector is influenced and motivated by the demands of the citizen. The trend of increasing consumer awareness and citizen demand for social services leaves the two sectors at a cross-road. On the one hand, the increasing competition to continually grow business profits or organizational funding and the necessity to meet consumer/citizen demands creates a faster, more intense environment under which the two entities must operate. On the other hand, such an environment has also opened new doors to innovative solutions such as cross-sector strategic alliances. The analysis postulated above highlights the incentives for cross-sector alliances and emphasizes the complementarity between the two entities' strengths and weaknesses. Cross-sector strategic alliances are a solution to enhance existing performances and create new potentials.

The trend of corporate philanthropy has evolved over the past century and will, no doubt, continue to do so as the demands of businesses, communities, and consumers change. Additionally, the role of the nonprofit sector will also morph accordingly in order to sufficiently fill in the missing gaps between private and public initiatives. The blurring of responsibilities between the three sectors has already suggested a strong shift in current sector roles. In fact, a recent paper published by the Aspen Institute suggests the emergence of a fourth-sector: the for-benefit sector. According to the report issued April 2005, "For-benefit organizations are a new class of organization driven by a social purpose, are economically self-sustaining, and seek to be socially, ethically, and environmentally responsible."²¹¹ While this sector is certainly not yet recognized as a formal sector within society, the very fact that such a theory has been postulated indicates that there is a

²¹¹ "The Fourth Sector," The Aspen Institute and the Fourth Sector Network, (Washington, DC: The Aspen Institute, April, 2005), < <http://www.fourthsector.net/>> (accessed April 7, 2005). For more information, please visit the Fourth Sector website.

convincing shift of interest from both the private and nonprofit sector leaders to generate greater interplay between the two sectors. Existing trends such as corporate statesmanship, triple bottom-lines, codes of corporate conduct, and cross-sector strategic alliances have catalyzed this movement for further research and interest in this topic.

Due to the limited research directly affiliated with cross-sector collaborations, such an impetus for new investigations is welcomed. Some research findings pertaining to existing intra-private sector alliance studies are applicable to cross-sector alliances; however there are enough differences between the two alliance fields to leave major conceptual gaps in understanding the full range of potential for cross-sector collaborations. The above analysis attempts to draw further conclusions from existing alliance theories and to apply these theories to three levels of cross-sector collaborations. This line of analysis is specifically intended to illustrate that while there are a variety of alliances with a range of functions, intentions, and motivations, fundamental similarities exist throughout all cross-sector alliances. The theoretical analysis of the cross-sector collaboration trend is certainly an invaluable first step; however, future research should focus on empirical data regarding financial performance of private and nonprofit sectors, the economic impact of alliances on consumer buying and charitable giving trends, and further quantitative comparisons between the types of alliances and their performance levels.

In regards to existing theoretical analyses, current research has attempted to categorize alliances into a typology as well as a matrix suggesting the evolutionary partnership process.²¹² The research in this paper combines these two categorizations and takes them one step further to incorporate the analysis of fundamental alliance attributes as they pertain to different levels of alliances. Moreover, it specifically looks at the role of formal and social contracts between partners and the impact this has on the longevity and sustainability of the relationship. The case studies reveal that while there are a variety of approaches to strategic alliance partnerships, common fundamental characteristics are shared throughout. Trust and the understanding of partner intentions are the two necessary attributes suggested within the strategic alliance model. The key comparisons between the cases suggest that the application of secondary characteristics vary according to whether the

²¹² Austin, *The Collaboration Challenge*; and Wymer and Samu.

partnership is based upon social or formal contractual agreements; if the partnership is based upon a social contract, greater emphasis ought to be placed on the development of inter-relational trust through transparency and communication. However, if a relationship is based on financial or transactional intentions, a more formal contract between partners can potentially replace the need for high levels of trust, communication, and transparency. A dialogue-based alliance, such as the African Leadership Initiative, exemplifies the importance of communication for knowledge transfer, relationship building, and an effective exchange of ideas and perspectives; development of inter-relational trust among leaders is a strong foundation from which deeper alliances can emerge. Partnerships based on social contracts tend to instill a higher degree of trust and personal ownership or commitment to the alliance, but may not be appropriate to meet all cross-sector partnership goals. The cause-related marketing case, on the other hand, lies at the opposite end of the alliance spectrum where the emphasis is placed, instead, upon formal interactions between partners. Limited communication and inter-relational development between partners tends to focus the relationship on transactional and financial intentions. While such alliances foster short-term relationships with typically limited sustainability or longevity, such partnerships are also a way in which the two sectors can begin to interact. Regardless, the differences in organizational structures and missions between the two partners demand that, in spite of the level of the alliance, certain parameters must be drawn in order to create a conducive foundation from which future partnerships can build. The multilateral/multinational alliance between Novartis and the United Nations illustrates that a partnership can function with both a social and formal commitment to the alliance. In this case, the external partnership between the two entities was based strictly on social commitments. However, in order to comply with the external agreement, Novartis established a formal commitment internally among employees. By combining the two forms of contractual agreement, the partnership exists at a much deeper level with an indefinite timeline, and a dynamic series of goals, which will continue to evolve to meet contemporary economic trends and social needs.

Cross-sector strategic alliances, whether in the form of dialogue, transaction, or internal adoption of social standards, all combine the notions of social and economic motivations to achieve a more diverse range of goals such as community development,

reputation enhancement, financial funding, and social responsibility. The corporation has come a long way from that of the railway tycoons 100 years ago; however, recent ethical scandals stemming from pressures to enhance corporate bottom-line performance has one to re-examine the opinion of Milton Friedman and his followers. While the private sector has received the most public attention, nonprofits have also been placed under closer scrutiny regarding their financial efficiency and management strategies. All the while, consumers/citizens have been kept abreast and involved in both examinations. As a result, a shift of managerial paradigms has taken place; greater emphasis has been given to transparency, partnership, public relations, and accountability. For some players, this trend is only a façade to which they play a limited service. However, for others, this trend has resulted in a genuine attempt to bridge the gap between social and economic motivations and to readdress the issue of social responsibility. It is at this level that the intersection between private and nonprofit missions will pioneer a new frontier into which the rest of the world will follow.

Comparison of Entry Motivations between Intra-Private Sector and Cross-Sector Strategic Alliances:²¹³

<p><u>Intra-Private Sector Strategic Alliances:</u></p> <ol style="list-style-type: none"> 1. Acquiring means of distribution 2. Gaining access to new technology/converging technology 3. Achieving vertical integration, recreating and extending supply links 4. Diversifying into new businesses, Cooperation of pivotal rivals 5. Cost sharing, pooling of resources, co-specialization 6. Developing products, technologies, resources, and standards 7. Risk reduction, Overcoming legal/regulatory barriers 8. Complementarity of goods and services to markets 9. Economies of Scale 	
<p><u>Cross- or Intra-Private Sector Alliances:</u></p> <ol style="list-style-type: none"> 1. Learning and internalization of collective, imbedded skills 2. Achieving competitive advantage 3. Legitimation, following industry trends 4. Restructuring, improving performance 5. Market Seeking 6. Knowledge Transfer 	
<p><u>Cross-Sector Alliances:</u></p> <ol style="list-style-type: none"> 1. Strategic Philanthropy/Fundraising 2. Public relations and outreach 3. Improving social responsibility and community interaction 4. Improving internal personnel motivation and performance 5. Creation of new synergies among societal sectors 6. Strategy enrichment 7. Human resource management 8. Culture building 	
<p style="text-align: center;"><u>Nonprofit Motivations</u></p> <ol style="list-style-type: none"> 1. Strategic Philanthropy/Fundraising 2. Knowledge Transfer 3. Public relations and outreach 4. Culture building 5. Improving motivation and performance 6. Creation of new synergies 	<p style="text-align: center;"><u>Private Sector Motivations</u></p> <ol style="list-style-type: none"> 1. Public relations and outreach 2. Strategy enrichment 3. Human resource management 4. Improving social responsibility 5. Culture building 6. Improving motivation and performance 7. Creation of new synergies

²¹³ James E. Austin, *The Collaboration Challenge*, (San Francisco: Jossey-Bass, 2000); Emanuela Todeva and David Knoke, "Strategic Alliances and Corporate Social Capital," Jutta Allmendinger and Thomas Hinz, eds. *Sociology of Organizations: Kölner Zeitschrift für Soziologie und Sozialpsychologie*, (May 2001); S. Agarwal and S. Ramaswami, "The Duality of Collaboration: Inducements and Opportunities in the Formation of Interfirm Linkages," *Strategic Management Journal*, 21 (1992); Ellen R. Auster, "Macro and Strategic Perspectives on Interorganizational Linkages: A Comparative Analysis and Review with Suggestions of Reorientation," *Advances in Strategic Management Journal*, 10B; Yves Doz and Gary Hamel, *Alliance Advantage: The Art of Creating Value Through Partnering*, (Cambridge, MA: Harvard Business School Press, 1999); Yves Doz, Paul Olk, and Peter Smith Ring, "Formation Processes of R&D Consortia: Which Path to Take? Where Does it Lead?" *Strategic Management Journal*, 21 (2000); Katherine Harrigan, "Joint Ventures and Competitive Strategy," *Strategic Management Journal*, 9 (1988); Peter Lorange and Johan Roos, *Strategic Alliances: Formation, Implementation, and Evolution*, (Cambridge: Blackwell Business, 1993); Walter W. Wymer, Jr. and Sridhar Samu, "Dimensions of Business and Nonprofit Collaborative Relationships," in *Nonprofit and Business Sector Collaboration*, (New York: The Hawthorne Press, 2003), 4; Edward Zajac, "CEO's Views on Strategic Alliances," Paper presented at the Marketing Science Institute Conference on Managing Long-Run Relationships, Boston, MA: (1990).

Appendix 2:

Overlap Diagram: Alliance Evolutionary Stages and Typology²¹⁴

Evolutionary Stage:	Alliance Type:	Private Sector Partner	Nonprofit Sector Partner	Description
Initial	Corporate Philanthropy	Walt Disney Company	Habitat for Humanity	Walt Disney donated \$70,000 for construction of a townhouse in Burbank, California
Initial	Corporate Foundations*	Wal-Mart Foundation	Children's Miracle Network	Wal-Mart & SAM'S CLUB Foundation's provided \$3.9 million in direct support of CMN
Transitional	Sponsorship*	Yoplait Yogurts	Susan B. Komen Breast Cancer Foundation	Yoplait yogurts is a national sponsor for the Race for the Cure footraces held throughout the United States.
Transitional	Transaction-based*	Cogra Lever/Unilever	Children of the Andes Foundation	Cogra Lever approached Columbian-based CAF for a limited promotion to place the CAF logo on select products. A percentage of proceeds were donated to the foundation (up to \$20,000)
Transitional	Dialogue-based**	African Leadership Initiative	Program participants	The ALI program focuses on developing strong cross-sector relationships between individuals. No transactions or formal agreements are intended from this type of alliance.
Integrative	Joint-Issue promotion*	Delta Airways	United Way	Delta Skywish is a program that provides air travel for individuals with life-threatening illness who need to be flown for their medical treatment within the USA
Integrative	Joint Venture	Timberland	City Year	Timberland Shoe Co. has fully committed its resources to a partnership with City Year. Employees donate time to the organization, board members are shared between organizations, clothing lines designed specifically affiliated with City Year.
Integrative	Multilateral/Multinational**	Novartis International	United Nations Global Compact	Novartis adopted a voluntary code of corporate citizenship designed to integrate fundamental social issues into everyday business practice. The Compact agreement is not based on transaction or formal agreements. There is, however a formal commitment within Novartis.

²¹⁴ The information for this chart is taken from Austin and Wymer and Samu.*Where applicable, pertinent examples used within the paper were added into the diagram. **These examples are not included in the original typology by Wymer and Samu because these alliances are not transactional in nature but based, instead, on social relations. However, they are alliances highlighted within the paper.

The Ten Principles of the UN Global Compact

Human Rights:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;

Principle 2: make sure that they are not complicit in human rights abuses.

Labor Standards:

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor;

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment:

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility;

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption:

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

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