

Uncommon Partners

The Power of Foundation and Corporation Collaboration



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Corporate Social Responsibility Initiative

The Corporate Social Responsibility Initiative at the Harvard Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors.

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The homepage for the Corporate Social Responsibility Initiative can be found at: <http://www.hks.harvard.edu/m-rcbg/CSRI/>

Introduction

Foundations and corporations seem to exist in different worlds, rarely acting in concert. Foundations operate primarily within civil society, while corporations function within a competitive global marketplace. Yet through their activities, corporations exert a powerful and direct impact on many of the social and environmental issues that foundations seek to influence through their grants. Conversely, foundations fund and work in close partnership with many civil society organizations and NGOs that corporations support – in addition, of course, to those that corporations oppose. In the US, for example, corporate donations add up to nearly 50 cents for every dollar in foundation grants.¹ Moreover, corporations possess many of the tools that are essential components of social and environmental solutions – expertise in economic development, scientific and medical research, logistics, technology, and so on. These resources are often overlooked, however, when foundations develop their theories of change by working solely with civil society organizations.

To say that foundations and corporations have overlapping interests is not to pretend that their interests are always aligned – in fact, they are at times opposed. But in situations where they do have common interests, such as in economic development for underserved regions, it is through a careful understanding of their complementary goals and resources that effective partnerships can be built. It is our contention that deliberately leveraging the combined capabilities of foundations and corporations will enable far more powerful solutions to social problems than either sector could achieve independently.

Not all foundations will be willing to partner with corporations, and many corporations fail to consider the economic, social and environmental consequences of their actions. Yet there is a growing cohort of companies that take corporate responsibility very seriously. Many of these companies go well beyond managing their own responsibilities and have affirmatively committed themselves to solving global problems and helping to reach the United Nations' Millennium Development Goals. It is this elite group of corporations that will be most willing to partner with foundations, and it is to them that this paper is directed.

Considerable research has already been done on the virtues and best practices of corporate-nonprofit partnerships.² The role of government in both social and economic issues is also of paramount importance. Much has been written on the emergence of public-private partnerships and the lessons to be learned in creating them. Many of these lessons apply equally to partnerships between foundations and corporations, yet the specific pairing of private foundations and corporations offers a unique set of opportunities that have received far less

¹ Giving USA 2005, AAFRC Trust for Philanthropy, reports \$12 billion in corporate giving and \$28 billion in foundation grants for 2004. See www.aafrc.org.

² See Austin, James E, *The Collaboration Challenge*, Jossey-Bass, 2000.

attention. This paper addresses that very specific kind of partnership without in any way seeking to minimize the crucial participation of nonprofit organizations and governments in solving social problems.

Our study is intended only to provide a preliminary exploration of the rationale and potential for foundation-corporation collaborations, together with a framework for constructing them, and a few abbreviated case studies that suggest their power. We do not pretend that our brief analysis is in any way comprehensive. Our objective here is only to help frame an initial conversation, to highlight some of the issues that may arise and, we hope, to stimulate further research that may lead to the formation of new and potent partnerships for social progress.

Defining Terms

The terms 'foundation' and 'corporation' seem self-explanatory, yet there are many entities that fall somewhere in between. Corporations often fund and operate foundations and, in Europe, many foundations own and control corporations. In strict legal terms, many foundations are incorporated and many business enterprises are not. For purposes of this paper, therefore, we distinguish foundations and corporations based not on their nomenclature, but on the balance among three distinguishing criteria. These three criteria are also important to developing a meaningful framework for collaboration. The criteria are the organization's primary goals, its degree of independence and the nature of its resources.

Foundations operate in the public interest, taking social objectives as their primary goal. They also have economic goals for their own benefit, such as earning strong investment returns on their endowment funds, but this is only a means to their primary end. They typically have extensive financial resources and generate income from their investments instead of from the sale of goods or services. As a result, they have the freedom to operate without concern for pleasing customers or investors, and are subject to only the most minimal government regulation. Finally, they have very few employees and offices – the largest foundations have only a few hundred employees in a half dozen offices, while most operate with fewer than a dozen employees in a single location.

In contrast, the primary objective of corporations is to serve the private economic interests of their owners. Many corporations also have social goals regarding the welfare of their employees and the valuable contribution that their work product brings to the world, but these are secondary goals. Companies may have extensive financial resources, but their income is generated primarily from the sale of goods or services. Therefore, although corporations have considerable independence, they depend on the good will of their customers, the approval of their investors and, often, compliance with extensive government regulations. Large global corporations also employ tens or even hundreds of thousands of people of varied nationalities and cultures, and they maintain a network of

hundreds or thousands of facilities in countries throughout the world. Their resources are not merely monetary, but include the skills, expertise, knowledge and manpower of their employees, as well as the buildings, equipment, technology, research, software and other assets used in their daily operations.

The many foundations that are linked to corporations fall in between these two polarities, occupying different places on the continuum with regard to different issues. Some are separately endowed and derive their income from a diversified investment portfolio that does not depend on the affiliated company's stock. Others are funded annually by the company out of the profits earned on its sales. Most corporate foundations have few employees, like their independent counterparts, but some are tightly integrated with the company in ways that give them access to corporate employees and the full gamut of non-monetary corporate resources. Some have an independent board of directors and separate missions, others share directors or officers with the company and are entirely beholden to the company's interests. An affiliated foundation may operate with great independence when funding issues unrelated to the company's business, but within careful parameters on issues that directly affect the company. In short, whether a corporately affiliated foundation can fill the role of a 'corporation' or a 'foundation' in a specific partnership will vary on a case by case and issue by issue basis.

Distinguishing Attributes of Corporations and Foundations	
<u>Foundation Attributes</u>	<u>Corporation Attributes</u>
<ul style="list-style-type: none"> • Goals <ul style="list-style-type: none"> – Primarily social – Serving the public interest • Independence <ul style="list-style-type: none"> – Beholden to no external constituency – Minimal government regulation • Resources <ul style="list-style-type: none"> – Financial resources – Limited staffing – One or few offices – Expertise in social issues – Close links to the NGO and academic communities – Political influence 	<ul style="list-style-type: none"> • Goals <ul style="list-style-type: none"> – Primarily economic – Serving the private interests of its owners • Independence <ul style="list-style-type: none"> – Answerable to customers and investors – Significant government regulation • Resources <ul style="list-style-type: none"> – Products and services – Financial resources – Brand and reputation – Employees, facilities, equipment, technology, research, and other tangible assets, intellectual capital and human resources around the world – Political influence and industry credibility – Global reach through a deep and long-term presence in many countries

Figure 1

In every case, however, the corporation-foundation partnership must acknowledge and respect the difference in goals, independence and resources between its two partners in order to create effective collaborations that leverage each other's strengths.

Shared Strengths and Complementary Differences

Both sectors bring important assets to the table, but these differences in goals, independence and resources lead to complementary capabilities and interests. Most significantly, they bestow a discrete set of resources and incentives on each sector that enables it to help the other sector succeed in its social agenda. The most powerful collaborations, therefore, will not be those in which both partners contribute the same assets – such as a company and foundation both contributing funds to the same initiative – but where each partner contributes an essential component to the theory of change that the other could not have provided as effectively.

Foundations can use their financial resources to enable corporations to tackle social challenges. Foundations can commit significant amounts of capital to achieve social objectives without demanding the same rate of financial return as corporations. In other words, foundations can overcome market failures by subsidizing the use of corporate assets or experimenting with unproven business models that deliver social benefits in circumstances where normal market forces would not justify corporate investment. If an attractive business model is developed through the initial subsidy, a self-sustaining business can be created and the potential scale of investment capital and management capacity that corporations could then bring would dwarf the collective financial and human capital of foundations.

The independence of foundations from customers, investors and regulators means that they can take on unpopular issues and controversial positions that corporations could not without offending constituents or damaging their reputations. The independence of foundations also confers an inherent credibility on their actions and public statements. Because they act in the public interest rather than for private gain, they can more easily earn the trust of governments, NGOs or the community. Foundations can issue reports, advise and strengthen governments, provide the research to draft new laws, convene civil society organizations and build cross-sector coalitions and social infrastructure without arousing the suspicions or resistance that a corporation might. Foundations are also willing to act quietly behind the scenes without the need for recognition. Companies will therefore work with foundations in ways that they would not work with other companies – either because they are competitors or merely because they do not want to dilute the reputational advantages that come from a proprietary social initiative by sharing credit with another corporation. In some cases, therefore, corporations can partner with foundations – or even ask foundations to take the front row – in order to accomplish goals that they could not achieve themselves or with other corporations.

On the other hand, while private foundations can fund advocacy groups, in the US they are explicitly prohibited from supporting specific legislation – a powerful lever for social change at which major corporations excel through their lobbying capacity. At present, companies rarely use their lobbying capacity for the public

good unless it aligns with their commercial interests, yet in some situations, corporations have greater credibility to represent the public interest than government or nonprofit organizations. When it comes to mobilizing industry associations or making the business case for corporate responsibility, companies place more trust in each other than in civil society or government. The corporate brand also carries great weight. Very few foundations are known internationally, and none have the brand awareness of major consumer companies. The reputation for quality and reliability that companies have built up over the years can lend immense prestige and authority to social initiatives. When a global company stands behind a commitment, people trust that they will get it done.

It is the difference in resources, however, more than the difference in goals or independence, that offers the most exciting potential for synergy. Foundation staff may have expertise in their field or in the nonprofit sector, but they do not have anywhere near the scale of human resources that companies have. In addition to general expertise in management, finance, marketing and technology – all essential components for the success of social initiatives and civil society organizations – companies also have deep industry-specific expertise in the particular activities that comprise their value chain. Pharmaceutical companies have matchless expertise in drug development, manufacture and distribution. Agricultural companies have extraordinary understanding of how to optimize crop yields. Many industries have specialized expertise that can be put to social use and which foundations and nonprofit organizations could neither supply nor afford to purchase.

Beyond industry-specific expertise, corporations contribute to economic development through their purchasing and operations, the jobs they create, and the products and services they provide. In selling food, water, health care, electricity, and other basic staples of existence, corporations have honed their abilities to manage these essential commodities to high efficiency. The income generated through purchasing and wages far outstrips philanthropic or government subsidies. To be sure, it takes more than paying wages and buying supplies for a company to meaningfully address social problems, yet these basic elements of any business enterprise can be managed in ways that create social value. Marriott, for example, recruits and trains people on government assistance for entry-level positions, and the University of Pennsylvania uses its millions of dollars in annual purchasing to revitalize the economically depressed neighbourhood in which it is located. In short, corporations can be strong partners in economic development, and in creating income or wealth, enable social progress and an increasing standard of living.

Finally, the breadth of employment and operations of major corporations gives them a global presence that is deeply rooted in local communities and cultures around the world. They have a direct reach into countries – both developed and developing – that neither foundations nor civil society organizations can match. This international reach gives them the resources to rapidly and directly implement programmes around the world through their own employees and local

relationships. At times, this can serve as an important complement to the slower and more attenuated foundation role of funding grantees to manage and implement projects on their behalf.

The capacity for corporations to bring such extensive non-monetary resources to social issues does not mean that these resources are often being utilized today. Nor does the potential for good that companies might bring outweigh the fact that, in their pursuit of profitability, they also create many adverse social and environmental consequences. Despite the power and breadth of their resources, the competitive pressures under which companies operate leave little room for them to dedicate any substantial portion of their resources to altruistic ends. Therefore foundations, whose entire purpose is to advance the common good, ultimately play a larger role than corporations in civil society today. But it is corporation-foundation collaborations that can magnify the impact of the limited resources corporations are able to devote to altruistic purposes, and at the same time, dramatically extend the capacity of foundations to achieve social progress.

A Framework for Social Change

Our research has identified three basic approaches to corporation-foundation partnerships that combine these complementary attributes to create highly leveraged social impact in ways that neither partner could achieve independently:

1. **Enabling corporate investments in new business models with high social returns** — Foundations can use their financial resources to overcome market failures through smart subsidies that facilitate corporate investments in new business models that fulfil social and environmental goals but would not otherwise be financially attractive for the company.
2. **Strengthening nonprofit initiatives by leveraging corporate capabilities** — Corporations can contribute their specialized expertise, assets and geographic reach to social initiatives in ways that complement the expertise and financial support provided by foundations.
3. **Convening, influencing policy, promoting transparency and fostering accountability** — Foundations and corporations can use their separate spheres of influence and credibility to bring disparate groups together, influence public policy or stimulate greater transparency and accountability.

Each of these three approaches is discussed in more detail and illustrated through examples drawn from our research below.

A Framework for Social Transformation

Collaborative Approach		Foundation Contributions	Corporate Contributions	Results
1	Enabling corporate investment in new business models with high social returns	<ul style="list-style-type: none"> • Developing new business models that address market failures • Low cost capital • Community engagement 	<ul style="list-style-type: none"> • Enterprise development and management • Investment capital • Employment and training 	<ul style="list-style-type: none"> • New business models (e.g., microfinance) • Revenue generating enterprises that deliver social and environmental benefits • Economic development and employment to reduce poverty
2	Strengthening social initiatives by leveraging corporate capabilities	<ul style="list-style-type: none"> • Funding • Need identification • Planning and coordination 	<ul style="list-style-type: none"> • Specialized corporate resources and capabilities (e.g., drug development or logistics) • Skilled employee volunteers • Expertise in management, technology and finance 	<ul style="list-style-type: none"> • New social initiatives • Innovative and less costly models for achieving social impact • Capacity building and increasingly effective NGOs
3	Convening, influencing policy, promoting transparency and fostering accountability	<ul style="list-style-type: none"> • Convening other funders and NGOs • Credibility with civil society organizations, government and local communities • Research • Communications and public relations 	<ul style="list-style-type: none"> • Convening other businesses • Credibility with industry associations • Government lobbying and financial clout • Brand reputation • Communications and public relations 	<ul style="list-style-type: none"> • Changes in public policy and legislation • Heightened transparency and reporting standards • Cross-sector coalitions and negotiations between opposing parties • Research and disclosure

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Figure 2

1. Enabling corporate investments in new business models with high social returns

Corporations contribute to social development by creating wealth that is redistributed to employees, shareholders and governments. But socially responsible companies can go much further by investing in the economic and social development of the regions where they operate. Companies can provide education and healthcare to employees, their children and their entire extended families. They can develop new environmentally friendly technologies or provide goods and services that help improve the quality of life throughout a community.

Under certain circumstances, however, corporations do not invest because the infrastructure is inadequate to support profitable operations. The region may lack access to energy, stable capital markets or a skilled labour force; government and community leaders may be corrupt or resistant to economic development; transaction costs and traditional ways of doing business may be overly burdensome. New and unproven business models, such as microfinance, may need to be developed in order to meet local needs. If the government and civil society lack the will or resources to create supportive conditions for economic development, whole regions may suffer severe poverty from a perpetual market failure.

Even when conditions enable businesses to operate profitably, corporations are still limited in how much of their resources they can allocate toward social or environmental initiatives that do not earn a competitive rate of return. Investing in the economic development and educational advancement of a community is costly. Environmental upgrades do not always pay off rapidly enough to justify the investment, and consumers may not be willing to pay a premium for more environmentally sound or socially beneficial products. Corporations that have an interest in social issues do not always have the backgrounds, expertise and connections to translate their interest into effective action.

Foundations have two critical sets of assets to reverse market failures, bridge market gaps or encourage socially beneficial corporate investments. First, they have grant dollars that are not expected to earn any financial return and investment capital that may be satisfied with a lower rate of return than corporate capital. Second, they have the independence, knowledge, networks and time to understand and develop new business models or solutions.

The Shell Foundation, for example, put up capital and leveraged Shell's corporate expertise to help local banks in Uganda create a new energy loan fund. The banks had neither the knowledge nor the incentive to take risks by lending to small local energy companies because they did not expect the loans would earn a competitive rate of return. As a result, local companies who might have provided access to energy in poor rural areas did not have access to the necessary expansion capital. The Shell Foundation was willing to take the financial risk with its grant dollars, and it also had the ability to link the banks with Shell managers who could provide advice on which energy companies were likely to make good borrowers. Shell's managers were also willing to provide business counsel to the local companies that applied for loans. The foundation and the banks in partnership established a US\$ 5 million loan fund that has provided 240 companies with capital and/or business development advice. Thousands of new jobs have been created, more rural households have access to affordable energy, and the banks discovered that they could earn a profit on the loans. The foundation has since mobilized another US\$ 25 million from the banks to scale up the fund. Meanwhile, Shell's operating subsidiaries are adopting the model independently of the foundation in Asia and Latin America.

Capital is not always the most important factor that foundations bring to such collaborations. When Starbucks approached the Calvert Foundation to support Latin American coffee farmers, it was not the foundation's funds that the company wanted. Starbucks was looking for a partner who had experience in funding small community businesses around the world, and the independence to do so in the coffee supply chain without the appearance of overreaching. The Calvert Foundation had developed an innovative approach to using social investments to revitalize poor or disadvantaged communities. The foundation's 'Community Investment Notes' pooled funds from a variety of investors and channelled them into nonprofits and for-profit businesses in over 60 countries using loans and equity investments at below market rates. Calvert's established network

and processes provided Starbucks with the credibility and know-how it needed to invest in small farming communities in Costa Rica, Mexico and Nicaragua, in order to boost their production of Fair Trade and shade-grown coffee.

As it turned out, it took Calvert considerable time to adapt and develop its procedures to respond to Starbucks' initial US\$ 1 million dollar investment. Despite Calvert's experience, locating partners and investments in new regions and new circumstances required significant effort. Absorbing such a large investment also tested the foundation board's willingness to assume risk. Relying on Starbucks' experience with coffee farming, however, the partners eventually succeeded in funding three coffee cooperatives. One investment was used for the pre-financing of coffee for export affecting 3,500 farmers. The next helped nearly 2,000 farmers, including 500 women farmers, develop organic coffee production, and the third focused on improving a cooperative's sales and distribution capability for over 2,300 farmers. Starbucks' initial financing was then 'recycled' by Calvert through three rounds of financing amounting to US\$ 2.7 million, which have since benefited 24,400 farmers.

Rabobank corporation, the Rabobank Foundation and Unilever have similarly teamed up to improve the livelihood of farmers in rural Indonesia. The bank and foundation had been involved for many years in providing farmers with access to financing. Local intermediaries had been exploiting small borrowers by imposing unreasonable terms. The foundation worked together with local NGOs to promote farmers' savings and credit cooperatives and to help the cooperatives become more financially sustainable by providing access to large-scale international buyers. With Unilever, the efforts have focused on developing a high-quality supply chain of black soybeans to supply the company's local soy sauce factory. The foundation continues to work on developing business systems for the cooperatives, while Unilever Indonesia provides high quality seeds and commits to buying the harvest. Unilever's Uli Peduli Foundation, in turn, provides below-market loans to establish the cooperatives and technical assistance through a local university. The cooperatives can then issue their own loans to farmers to buy pesticide and seed. With Unilever's prompt payment to the cooperatives two weeks before harvest, farmers immediately receive full payment offset against their loan upon delivery. Funds are also saved through the cooperative to cover emergency loans in the future.

These examples offer a sense of the ways that foundations can identify social problems that are amenable to business-based solutions. The same investment that looks like an unnecessary risk or unsatisfactory return to a corporation may look like a highly leveraged way to achieve social objectives at a relatively low cost to the foundation. By experimenting with untried formulas, providing capital at greater risk or below-market returns, bringing a deep knowledge of social needs, local connections, and alternative financing mechanisms, foundations are able to work in partnership with corporations to provide the missing pieces that can turn a social problem into a viable and sustainable business opportunity.

2. Strengthening social initiatives by leveraging corporate capabilities

The second type of collaboration involves foundations facilitating the use of specific corporate assets for social projects across a broad range of issues or geographies. The goal here is not to stimulate economic development, create businesses, or transform existing ones, but to leverage corporate capabilities to solve a pressing social problem. The 'ingredients' to collaboration are similar, but the emphasis is different. Here, the difference in the nature of resources between corporations and foundations is key, rather than the difference in their goals or independence. And it is a corporation's specific assets – such as its logistics capabilities or industry expertise – that are most useful.

Foundations may identify problems, uncover the need for a corporate asset or capability, and provide capital to purchase or scale up the necessary resources. In other cases, corporations may develop initiatives and turn to foundations for their relationships with NGOs, their knowledge of the social sector, or their credibility in representing the public interest. Collaborations of this nature may also be formalized through the formation of an independent NGO, established by both partners to act as an ongoing mechanism for implementation.

The Edna McConnell Clark Foundation and Pfizer, for example, funded and launched the International Trachoma Initiative (ITI) to fight blinding trachoma. At the time of its initiation, the Clark Foundation had a programme area dedicated to neglected diseases. As part of its Programme in Tropical Disease Research, the Clark Foundation supported studies of trachoma in the late 1980s. In one of the most heralded joint ventures to eliminate a disease, the Clark Foundation worked with Pfizer to support the efficacy of Pfizer's antibiotic Zithromax for trachoma. In addition to cash grants, the Foundation contributed its tropical disease expertise, its relationship with international health organizations, and its credibility with local governments, while Pfizer donated its antibiotic Zithromax and its distribution capabilities.

ITI now covers nearly a third of the global disease burden of 84 million cases, including 8 million people who are visually impaired or blind. In addition to its expertise in tropical disease research, the Clark Foundation has donated more than US\$ 10 million to ITI. Pfizer has contributed over 11 million doses of Zithromax, pledged 135 million more doses, and donated over US\$ 12 million in operating support. Pfizer also provides valuable volunteer assistance through the company's Global Health Fellows program, and fundraising support through its government affairs office in Washington, DC. Both Pfizer and the Clark Foundation are active members of the ITI Board of Directors.

Similarly, the Aga Khan Foundation approached and collaborated with Johnson & Johnson to develop an advanced nursing education programme in East Africa. The foundation has presence in the region, and the ability to support the programme developed by the Aga Khan University (East Africa) School of Nursing, which has campuses in Nairobi, Kampala and Dar-es-Salaam and distance

education initiatives in the three countries. J&J's historic emphasis on nursing reinforced the appeal of the programme. The company's knowledge of human capacity development in nursing and its financial support have been instrumental in bringing 350 'in service' nurses back to the three University campuses to upgrade their skills from enrolled nurses to registered nurses. J&J has also enabled the University to develop a tool to monitor the performance and service location of the programme's graduates.

The Ayala Foundation in the Philippines, a corporate entity with many of the attributes of an independent foundation, has built a broad coalition of actors to fund and manage a programme promoting internet connectivity among schools throughout many of the country's 7,000 remote islands. The Japanese government donated computers to 2,000 high schools, but did not provide internet access. Ayala Foundation decided to pilot and eventually roll out a project to bring the schools online. To achieve scale, the foundation brought several companies to the table. Telecommunications companies now provide internet access, while technology companies, such as Intel and Microsoft, contribute software and teacher training. The project is attractive to corporate partners because of its national scope and significant impact on national literacy. The foundation has also won the support of educational authorities and local government. Mayors open the doors to their schools and many have purchased additional computers to be part of the programme. Local NGOs have also been organized to coordinate implementation and conduct evaluation in the schools. The project's secretariat, finally, is hosted by the foundation, where it can continue fundraising efforts for the initiative. New targets include reaching out to the Philippine Diaspora in the U.S. and Hong Kong to encourage expatriates to adopt a school in their original hometown.

Foundations can be particularly effective in creating vehicles to leverage corporate assets for greater social impact. When the Rockefeller Foundation reviewed the landscape of activity against malaria, they uncovered a major gap in drug research and development. New strains of malaria had built up a resistance to traditional anti-malarial drugs, and the disease burden amounted to 300–500 million clinical cases including at least one million deaths a year, mostly among children under five. The foundation convened a number of global experts across sectors, and nurtured a process together with the World Health Organization's Tropical Disease Research unit to launch Medicines for Malaria Venture. From the start, the foundation understood that no progress would be achieved without leveraging the R&D capabilities of the corporate sector. Senior pharmaceutical executives were invited to shape the venture and to serve as directors. Together with the public sector and civil society actors, they opted for a virtual model: MMV was set up to 'purchase' and coordinate the R&D activities of any research team that would provide a superior research agenda.

Six years down the road, MMV now manages the world's largest anti-malarial drug discovery and development portfolio, with over 20 major projects in its pipeline. Over a dozen companies have committed R&D capacity at or below

cost. GSK, for example, has committed R&D infrastructure and research staff in its Tres Cantos facility in Spain to a number of projects in the MMV portfolio. Other companies, such as Roche, have donated the rights to promising drug discoveries that they cannot profitably develop themselves. Other corporations, such as Ranbaxy in India, are taking over development work for these donated candidate drugs.

While it is very hard to assess the monetary value of such commitments, building its own research facilities and advancing drug candidates without donations would be vastly more expensive, and well beyond what most private foundations could ever fund. Typical drug development costs can easily approach US\$ 1 billion today. As a result of the corporate partnerships, work with academic institutes, clinical trials in disease endemic countries, and a variety of other cost saving opportunities that accrue from working in the public domain, MMV estimates that it can lower the cost of drug R&D by at least 80%. At this stage, the Bill & Melinda Gates Foundation and a score of governments have joined the project and contribute the largest share of funding. Patronage of MMV has thus broadened to funders with the financial scale necessary to tackle such a huge undertaking.

Unlike the new business models described in the previous section, neither MMV nor ITI are intended to become self-sustaining business enterprises. Instead, they exemplify the extraordinary social impact that can be achieved more rapidly, at lower cost, and with a broader reach by using foundation resources to leverage corporate capabilities for social objectives.

3. Convening, influencing policy, promoting transparency and fostering accountability

Both foundations and corporations understand that prevailing laws, practices and behaviours can work either for or against social progress. Companies and foundations share common interests in influencing written or unwritten standards that shape both social and economic development. In some cases, companies and foundations will clearly be on opposite sides, but in other cases there is an alignment between the public and private good on issues such as corruption, transparency, environmental regulation, dysfunctional government policies and an informed citizenry.

Foundations and corporations can be highly effective when joining forces to influence policy or to encourage transparency and accountability. Their credibility as independent conveners within very different spheres of influence enables them, when working together, to mobilize communities, civil society, government and industry. Foundations may be viewed with a certain suspicion by corporations, but they are welcome conveners of NGOs and government. Corporations, on the other hand, may not be trusted by NGOs but can easily convene other corporations, leverage their brand awareness among consumers,

mount large scale communications campaigns, or use their lobbying capacity to influence government. Together, foundations and corporations can build coalitions, pool knowledge and shape policy recommendations in ways that neither of their separate constituencies can ignore.

In 1998, program officers at the MacArthur Foundation brought forward a series of grants to support civil society groups that were planning to organize a boycott of shrimp, because of clear evidence that prevailing practices destroyed coastal mangrove swamps. The foundation leadership took another approach, and invited the foundation program officers, key civil society leaders who were advocating the boycott, and shrimp farmers from Ecuador and Colombia to meet at a shrimp farm in Colombia that was developing more environmentally sustainable practices. It was clear that a boycott would impact this farm. After two days, the farmers and the civil society groups agreed on a plan that would promote environmentally sound practices, and plans for the boycott were set aside.

The Hewlett Foundation has embraced a collaborative approach on a number of issues relating to agricultural subsidies and trade policies. The foundation and the German Marshall Fund for the U.S. support the International Food & Agricultural Trade Policy Council (IPC), a group of influential leaders in farming, agribusiness, government and academia, assembled to develop policy recommendations to end distorted agricultural subsidies. Recent policy papers were introduced into the latest Doha Development Round process, and recommendations were promptly integrated into the proposals from the G20, a group of developing and emerging countries including Brazil, China and India. The foundations play an important role in establishing contacts for IPC, in reviewing policy proposals, and in disseminating them to other business coalitions working on similar issues.

Collaborations on issues of public awareness can influence a number of parties to connect and begin to think differently about their respective roles and responsibilities. When the Volkswagen and Bertelsmann Foundations and the chemical company BASF joined hands to address public fears about scientific innovations, they realized that the problem needed to be addressed on multiple dimensions. First, they traced the sometimes irrational fear of scientific progress to the media's uninformed reporting. This was due in part, they surmised, to institutional weaknesses in Germany, such as the lack of appropriate course work in schools of journalism. They also realized that there were no available platforms to connect the scientific community with the media. Crafting a solution required combining all the parties' capabilities. The Bertelsmann Foundation leveraged its affiliation to Bertelsmann Media to identify and convene the scientific press. BASF made its scientific staff available to talk with journalists and explain how corporations that are focused on research and development manage scientific risks. At the same time, Volkswagen Foundation funded the development of new courses on the subject in German universities, leveraging its historical focus and expertise in funding higher education.

This ability for companies and foundations to speak with authority to different audiences can be extremely powerful. On the issue of global warming, for example, corporations are suspicious of the warnings issued by NGOs, and NGOs often disbelieve research sponsored or reported by industry. The reinsurance company Swiss Re, however, has long been active in studying the potential impact of climate change on economic activity, whether relating to the development of agribusiness, healthcare, life insurance, or the many other industries the company reinsures through its core business. The company's future success depends to a significant degree on an accurate assessment of this risk. As a result, the business community accords great credibility to Swiss Re when it reports research on climate change. The company, however, does not have the discretionary funds or the scientific research capacity to conduct definitive studies on climate change. Foundations and academic institutions do have those funds, however, and the Pew Trusts among others have launched major initiatives in climate change research and advocacy. The foundations cannot convey their research to the business community as effectively as Swiss Re can, and the insurance company could not sponsor research or engage the NGO community as effectively as the foundations.

In short, the different spheres of influence that foundations and corporations bring enable them each to be powerful conveners within their own sectors and, through partnership, to promote policies and convene players in ways that neither sector could do on its own.

Challenges and Opportunities for Collaboration

Despite these examples from our interviews with foundation and corporate leaders, collaborations such as these remain relatively rare. Much of the work described above is still at the margin of foundation programmes and corporate citizenship initiatives. We have not, in this brief and preliminary analysis, fully explored the barriers that stand in the way of more frequent collaboration between foundations and corporations. Many of these barriers are common to all types of cross-sector or public-private partnerships, and considerable research already exists about how to circumvent them. We note, however, a number of challenges that were cited in our interviews as obstacles specific to corporate-foundation partnerships that yet need to be overcome:

- ***Adversarial attitudes:*** Corporations and foundations sometimes see each other as adversaries. In fact, foundations often fund advocacy, environmental and consumer organizations whose primary objective is to expose and hold accountable corporations for behaviours that they consider harmful. Consequently, leaders from either sector may perceive a threat to their institution's identity and goals simply from associating with the 'other side.' Yet there are many examples of cooperation leading to better outcomes for both sides – when businesses recognize and redress the social or environmental harms of which they are accused, and thereby redeem

their reputations – or when foundations formulate theories of change that are more likely to succeed because they acknowledge economic incentives and marketplace realities. Ultimately the adversarial attitudes are rooted in outdated roles that no longer serve either corporations or foundations.

- ***Organizational culture:*** Even when corporations and foundations find common ground, their organizational cultures may be very different. The pace of decision-making and implementation, the bureaucratic approval structure, compensation incentives, and many other policies and practices, both large and small, differ dramatically between the sectors. In theory, such obstacles are inconsequential, but in practice they can become significant hurdles that block collaboration. Strong leadership on both sides is essential to forge new working relationships and a shared culture.
- ***Institutional goals and priorities:*** Corporations and foundations were established for very different purposes, and cross-sector collaborations are often seen as peripheral to each organization's primary work. If cross-sector partnerships are not perceived as directly serving the organizations' central objectives, the partnership may be accorded a lower priority and fewer resources – however impactful it may be. Success, however, tends to breed alignment: many partnerships begin small and only gain the full attention of their sponsors when they demonstrate significant results.
- ***Diversity of players:*** Not only are the goals and priorities different between sectors, but there is an extraordinary diversity within each sector – both in geographic focus and thematic emphasis. Different social issues affect different businesses, and foundations themselves pursue a wide variety of objectives. Merely finding a potential partner with a common objective and geographical focus among the thousands of possible corporate or foundation partners requires considerable research – a degree of effort that corporate and foundation staff rarely have time to undertake. Announcing clear goals for social initiatives can help potentially interested actors identify new partnership opportunities.
- ***Organizational lack of transparency and bureaucracy:*** Both types of institutions tend to be opaque about internal responsibilities and processes. Corporations protect their internal processes and activities for competitive reasons, and foundations protect them to preserve the integrity of their grant selection process. This makes it difficult for an outsider to navigate the internal approval processes in order to identify the key decision-makers and forge the necessary relationships. Finding the right internal champions to shepherd a project through all the necessary stages of corporate approval can be extremely daunting. Conversely, given the sheer volume of grant requests that major foundations review and respond to, the difficulty of capturing their attention can be just as great. Once in place, however,

partnerships lead to greater levels of accountability and transparency from both sectors.

- ***Changes in leadership or market conditions:*** Both corporations and foundations change strategies and priorities from time to time – whether due to changing market conditions, new leadership or a substantial shift in asset values – and these short-term changes often happen before the longer term social initiatives have reached fruition. A shift in the conditions facing either partner may prevent or prematurely end a collaborative initiative, even if the other partner is willing to stay the course. Collaborations must therefore be prepared to respond to dynamic situations.

Conclusion

Successful initiatives depend on individual foundation and corporate leaders who can envision a combination of assets put to work in partnerships that develop business enterprises for social progress, help leverage corporate assets to address social problems, or convene different parties to influence public policies and practices.

Corporations are highly effective engines of change through economic development, the creation of enterprises to overcome poverty, or the development of new business models that benefit communities and the environment. Competitive forces, however, prevent businesses from acting when market failures would lead to unprofitable or unsustainable ventures. Foundations can be essential partners in overcoming these market failures by providing the innovation, capital and connections to make socially beneficial business endeavours economically viable.

Foundations and corporations are both well-positioned to identify situations in which specific corporate assets and capabilities could be leveraged to expand or improve social initiatives and the work of civil society organizations. In some cases, foundations may have to purchase the corporate asset or capability and donate it to the partnership. In other cases, companies will contribute their resources for the sake of good corporate citizenship or in order to enhance their reputations. Either way, access to corporate capabilities can turbo-charge social projects by bringing them to an entirely new level of impact and cost-effectiveness.

Within their separate spheres of influence, corporations and foundations are each powerful agents for transforming public policy, promoting transparency and convening influential parties. At times, their interests are opposed, but in situations where they are aligned, the ability to bring their separate constituencies together is a uniquely powerful aspect of cross-sector partnerships. Together, they have the knowledge, research capacity, independence, resources, networks, and communication channels to influence governments and break through established norms or ingrained behaviours.

The infrequency with which foundation-corporation collaborations are formed, relative to the power they offer, can be explained by a number of barriers that prevent these alliances and the relatively few neutral platforms for brokering joint initiatives. It is our hope that the meetings sponsored by the World Economic Forum, among others, will serve as such a platform, moving beyond discussion and debate to foster the formation of cross-sector partnerships to address specific issues of global significance.

We hope that this limited study will prompt further interest from both foundations and corporations to undertake the more extensive and rigorous research necessary to expand on this analysis and establish further criteria for collaboration, more explicit brokering of potential partnership opportunities, and deeper consideration of multi-sector partnerships that include government, multilateral organizations and NGOs in addition to foundations and corporations.

Foundations and corporations will not find opportunities for partnership on every issue, but our research suggests that these kinds of collaborations can and should be more central to both sectors' agendas. We hope that greater awareness and a basic framework for identifying opportunities for potential collaboration, as outlined in this paper, may itself be enough to encourage new partnerships to be formed.

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The World Economic Forum

The World Economic Forum is an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas. Incorporated as a foundation in 1971, and based in Geneva, Switzerland, the World Economic Forum is impartial and not-for-profit; it is tied to no political, partisan or national interests. Our members represent the world's 1,000 leading companies, along with 200 smaller businesses, many from the developing world, that play a potent role in their industry or region. We also work closely with communities of leaders from academia, government, religion, the media, non-governmental organizations and the arts. Our events, including the world's foremost summit for global leaders in Davos, provide the opportunity to interact with some of the most knowledgeable, dynamic and influential people in the world.

Corporate Social Responsibility Initiative

The Corporate Social Responsibility Initiative at the Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public role of the private enterprise. Please refer to the inside front cover of this publication for a description.

FSG

FSG is a nonprofit organization dedicated to accelerating the pace of social progress through consulting to foundations, corporations, NGOs and governments. Founded by Mark Kramer and Professor Michael E. Porter of Harvard Business School, FSG maintains offices in Boston, Geneva, San Francisco and Seattle. FSG's international team of full-time consultants – drawn from some of the world's top strategy consulting firms – combine the highest standards of strategy development with a deep understanding of social investment and civil society. FSG invests heavily in research to develop new ideas, and the firm's work is regularly featured in such publications as the *Harvard Business Review*, the *Stanford Social Innovation Review*, and *The Chronicle of Philanthropy*.

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