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Cocreating Business's New Social Compact

Key ideas from the [Harvard Business Review](#) article By Jeb Brugmann, C.K. Prahalad

The Idea in Brief

Executives and social activists working *together*? It's true: after decades of mutual distrust, corporations and nongovernmental organizations (NGOs) are collaborating to combat poverty around the world. Their weapon? Innovative local businesses such as self-help savings and loan groups and construction enterprises.

Why this move from adversaries to partners? Corporations and NGOs realize they need each other to achieve their respective goals in developing countries: Companies require NGOs' local knowledge and community-based marketing techniques to set up successful enterprises. NGOs need the business discipline corporations bring to their operations.

Collaboration can enhance a company's reputation and open doors to new markets--while accelerating poverty's eradication. But to win these gains, Brugmann and Prahalad say, managers from both sides must understand the risks in working together. When managers address these challenges by applying potent principles, they create far greater value--for all players--than their individual efforts could produce.

The Idea in Practice

How can corporations and NGOs partner successfully? Consider these principles, illustrated by energy company BP's development of a fuel-efficient stove for poor consumers in rural India.

Satisfy Local Needs

Working with the Indian Institute of Science, BP developed a portable stove that could use liquefied petroleum gas or biomass as fuel. Consumers could thus switch fuels based on their income, fuel availability, and cooking styles. And by burning biomass efficiently, the stove would eliminate the smoke that causes respiratory illnesses in India.

Build Trust

BP conducted market research with three Indian NGOs interested in distributing the stoves. Together the groups then defined a shared strategic intent and a set of working principles. They built trust through relationships established between key individuals. Trust deepened when BP made a long-term contractual commitment to the project, and when the groups jointly evaluated the stove's design as well as returns and risks for everyone involved.

Be Flexible

The NGOs wanted to protect their credibility and goodwill with villagers, so BP had to make some accommodations. For instance, it agreed that the women the NGOs recruited as local sales agents would be the first to receive cash generated by the business. That way, villagers could recover their working capital investment.

The NGOs also proved flexible. For example, BP wouldn't compromise on safety standards for the stoves or violate its own standards of business ethics. So NGOs agreed to follow BP's health and safety policies, such as requiring that employees use seat belts while driving around.

Be Transparent

BP and the NGOs shared their internal economics with each other so they could understand the choices each faced in terms of distribution costs, consumer service options, growth rates, and breakeven points. During this process, BP revealed business data it would not normally share with distributors. The transparency further built trust between the two sides. For example, the NGOs agreed to assume a great deal of the credit risks and legal liabilities for sales and distribution agents in the villages. They would not have done so unless they felt confident in BP's integrity.

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Article

Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility

Harvard Business Review OnPoint

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by Michael E. Porter and Mark R. Kramer

How to select opportunities to create new businesses in developing markets that help society *and* your company? Porter and Kramer provide guidelines. For instance: 1) **Identify points of intersection between your company and society.** In what ways does your *organization* affect *society*? For example, do you provide safe working conditions and reasonable wages? And how does *society* affect your *competitiveness*? For instance, do countries where you operate protect intellectual property? Supply enough talented workers? 2) **Select social issues to address.** Given your company's and society's impact on each other, how might you address social needs in ways that

create meaningful benefits for society that *also* add to your company's bottom line? For example, by addressing the AIDS pandemic in Africa, a mining company would improve the standard of living on that continent *and* increase the productivity of the African labor force it needs to succeed.

About the Authors

Jeb Brugmann is a Toronto-based consultant who works with companies to develop business models for the underserved segments of emerging markets.

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