

Perspectives for Managers

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Gaining a competitive advantage by sleeping with the enemy



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Pharmaceutical companies are taken to task by non-governmental organizations (NGOs) for charging too much for AIDS drugs in South Africa. Mining companies face activist challenges for destroying the environment. Manufacturing companies are confronted for moving their production operations to countries with low labor, safety, and environmental standards. All these companies feel the effects of being targeted by NGOs that challenge the legitimacy of their behavior. Interestingly, a closer look suggests that while NGO/corporate battles are eye catching, they are not the trend to watch. After conducting four years of research, including in-depth interviews with NGOs, corporations, government representatives, the media, case studies, and a global survey, I have found that partnerships, and not battles, between corporations and NGOs will become increasingly important to both corporations and NGOs (even if they are not as prominent as the high-drama face-offs, such as between whaling ships and Greenpeace dinghies). Corporations and NGOs are increasingly finding themselves as strange bedfellows in non-market partnerships. These partnerships have potential benefits for both sides. NGOs are able to fulfill their mission by leveraging the resources of corporations. In turn, corporations are not only able to avoid costly attacks, but can leverage NGOs' strengths to gain a competitive advantage. In this article I will briefly identify the unique resources that corporations can access through partnership and discuss the competitive advantages that they can yield.

Complementary strengths – reasons for attractive partnerships

The complementarity between corporations and NGOs are impressive.

Large corporations tend to have great financial muscle and can often have a significant impact on the issues NGOs care about. NGOs, on the other hand, have four strengths of their own: legitimacy, awareness of social forces, distinct networks, and specialized technical expertise.

NGOs are, however, not of a single type. They vary considerably in terms of ideological goals, organizational strength, and willingness and ability to partner with firms. Companies need to take this into consideration when establishing partnerships.

Legitimacy

According to polls, European and American citizens find an NGO spokesperson more credible than either the CEO or a PR representative of a corporation. A large part of the public, especially in Europe, sees NGOs as dedicated first and foremost to increasing some aspect of social welfare. By comparison, while most companies produce benefits for society, the public is less trusting of their motives. Through partnering with NGOs, corporations can leverage the NGOs' greater legitimacy for competitive benefits.

Awareness of Social Forces

Companies live and die by the markets they are active in; NGOs by the ebb and flow of people's concerns about the safety and fairness of conditions worldwide. Companies can learn a lot from NGOs' attunement to shifts in social values that shape consumer demand. These shifts provide companies with opportunities for first mover advantages, as they direct consumers towards substitutes that can become the basis for new growth industries.

“Partnering with NGOs is not easy. Nothing that gives you sustainable competitive advantage ever is.”

Distinct Networks

Most companies' networks consist of organizations that would belong among Michael Porter's five forces model: buyers, suppliers, rival firms, new entrants, and substitute producers. NGOs' networks, by contrast, mostly consist of other NGOs, as well as donors, regulators, legislators, and public-interest lobbyists. These networks are often quite extensive, since many NGOs are small and must form coalitions to be effective. Partnering with NGOs is an excellent way to gain access to the information circulating within their networks.

Specialized Technical Expertise

NGO members are often thought of as young, unsophisticated malcontents. In reality the more established NGOs are filled with lawyers, policy analysts and technical specialists, whose knowledge is a valuable asset worth tapping into.

of committed adversaries makes negotiation a more promising alternative.

Before the first signs of disagreement with a project proposal are in evidence – whether it be a letter to the editor, a petition, or a picket line – the company under scrutiny should invite the critics for a discussion. Companies should identify the concerns of the NGOs that follow their industry and sound them out while a potentially controversial project is still on the drawing board.

Such is the method currently employed by Shell, which regularly brings together interested groups such as the World Wildlife Fund, Amnesty International, and local NGOs at the initial stages of project planning and evaluation. As one senior Shell executive stated, “Brent Spar led us to a new approach in which we try to prevent crises through open dialogue. The discussions aren't always easy, but there is a reasonable amount of mutual trust and understanding between us now.”

Consultations should include all interested parties, gathered around the same table. For example, large-scale projects may have negative environmental effects but positive effects on community economic development. Two NGOs – interested respectively in environment and community development – could assess the hazards and benefits differently and should negotiate with each other as well as with the company.

Private negotiations are preferable to public demonstrations, especially when it concerns projects that have not yet been made public. The two activities have trouble coexisting, since public posturing by either party can erode the trust and candor that are essential for progress in private.

2. Accelerate Innovation

In the absence of a dire competitive threat, most companies are content to make incremental improvements to their processes or products. By focusing on the wider effects of companies' practices rather than on their costs or profitability, NGOs are able to demand more of an enterprise than it sometimes demands of itself. The result can be radical solutions that improve some aspect of society or the environment while also increasing competitiveness.

The creation of a market for liquefied petroleum gas (LPG) refrigerators occurred in just this way. In response to the Montreal Protocol's call for eliminating ozone-

Unique Strengths of NGOs

- Legitimacy
- Awareness of social forces
- Distinct networks
- Specialized technical expertise

Benefits for Companies

Head off trouble	●	●	●	○
Accelerate innovation	○	○	○	●
Foresee shifts in demand	●	●	●	○
Shape legislation	●	○	●	●
Set industry standards	●	●	●	●

The five primary benefits to partnering with NGOs

1. Head off trouble

Although NGOs are known for engineering confrontations, the more established NGOs increasingly recognize that negotiating directly with companies is often a more effective means of attaining their goals. From the companies' standpoint as well, the involvement of motivated experts in place

destroying chlorofluorocarbons by 1996, the chemical industry encouraged appliance makers to replace them with hydrochlorofluorocarbons (HCFCs), greenhouse gases with less ozone-destroying potential. DuPont and ICI invested more than \$500 million in research into HCFCs and facilities for manufacturing them.

But in 1991, Greenpeace convinced DKK Scharfenstein, an almost bankrupt appliance manufacturer in eastern Germany, to develop a refrigerator based on LPG (which was much cheaper than HCFCs). The environmentally conscious German consumer market embraced DKK Scharfenstein's refrigerators containing the new technology. By 1994, Bosch and Liebherr, two of Germany's largest appliance makers, had moved almost exclusively to LPG-based refrigerators. Today, refrigerators with LPG technology dominate the markets in many European countries.

3. Foresee shifts in demand

NGOs often lead social movements. They detect latent but burgeoning concerns about an issue, which they then amplify. New norms and values emerge that will, eventually, influence consumers' tastes. Ultimately, they can endanger or create entire industries. For example, the nuclear energy and genetically modified food industries have become embattled and shrunken at least in part because of NGO-sponsored campaigns highlighting the dangers they pose. Such movements can also direct consumers to substitutes that become the basis of new growth industries.

Take the \$10 billion organic foods business, which has been enjoying annual growth rates of 20% to 30% for the past decade. By the time Monsanto and other companies began introducing genetically modified foods on the European market in hopes of launching their own kind of growth industry, a public already traumatized by the mad cow disease had become acutely conscious of the safety and purity of the food it ate. Then NGOs such as Friends of the Earth and Greenpeace publicized the dangers of cross-pollination and the threat to butterflies and other insects.

Flush with their success in the United States (where half the soybean crop is genetically modified), the companies producing genetically modified foods failed to take the true measure of Europeans' resistance.

Within just a few years, government regulation and public distrust had driven genetically modified foods off Europe's store shelves. By consulting with NGOs, producers of these foods could have avoided investing in a market that was simply not interested and saved themselves billions of dollars.

4. Shape legislation

Through its tax policies, regulation of competition, grants of patent protection, and promulgation of labor and environmental standards, government is perhaps the greatest non-market force shaping industry. NGOs have access to like-minded legislators and regulators that even the best-connected corporate lobbyists may not know well. Often, NGOs hear of behind-the-scenes maneuvering or legislative initiatives brewing long before they reach the committee level. And they are sometimes willing to report these to companies they trust. The result is usually better-informed legislation.

Some NGOs are formidable lobbying organizations in their own right. As a World Wildlife Fund executive in Brussels explained to me, "When I speak with EU lawmakers, I can reasonably claim to be speaking on behalf of 5 million fee-paying members. Politicians listen." Thus, by working with NGOs, companies can have a greater impact on future legislation than they would if they were speaking strictly on behalf of their own economic interests and in opposition to what may be society's well-being. An appreciation of the other side's perspective permits the brokering of interests that often precedes the writing of new law. Companies can gain far greater influence by bringing an "opponent" into their coalition than by adding yet one more industry member to the roster of backers of a legislative bill.

5. Set industry standards

Cooperating with NGOs gives companies a chance not only to avoid various kinds of trouble but also to reshape their industry, sometimes for their own benefit. They can do this by establishing new technology and process standards, which are enforced either by government mandate or market preference.

A reputation for advancing the common good through higher standards is just one benefit that accrues to first movers. By setting demanding standards, they present their competitors with a dilemma: either

“Work with NGOs to shape the regulatory environment to give yourself an edge over competitors... and perhaps help the world along the way.”



“ Smart firms see opportunities where others see only threats. NGOs can be both, and the key is to leverage the upside and to mitigate the downside risk. ”

invest large amounts of capital in meeting those standards or face condemnation for refusing to do so. And for would-be industry entrants, standards can serve as barriers to entry.

If you dominate your market, you might want to set a technical standard that your less well-capitalized competitors would have to struggle to afford, or that applies to an area in which they would prefer not to compete. If you don't dominate your market but deploy a technology that is safer or cleaner than your rivals', you may want to work at getting that technology adopted as the new regulatory standard. NGOs should be willing to assist you in this.

A caveat is in order: Credible NGOs will often insist on higher standards of behavior than a firm left to its own devices would choose. In short, an NGO endorsement may not come cheaply.

Overcoming difficulties

Partnerships, whether between individuals or corporations and NGOs are not always a walk in the park. Even when partnerships with NGOs are possible, they carry their own risks. First, your company may need to provide the NGOs with sensitive information. Knowledge about R&D projects, strategic plans and internal audits may help NGOs to be better partners, but it may also make them dangerous ones. Strict guidelines and disclosure policies are needed in your cooperation with the NGO. Second, your cooperation with the NGO is likely to cause media coverage and hence you will be under more scrutiny. Cynics may even accuse you of only being interested in image-building. In short, an overriding interest in good public relations can have the perverse result of actually damaging your company's reputation. There are often cultural diversities and value differences between corporations and NGOs that must be conquered for the partnership to be successful. Corporations are highly focused on the markets and competition. By contrast, since NGOs live

and die with shifts in values and trends in society they tend to be focused on social, political, cultural and environmental issues. While complementary knowledge is a reason for partnering, when there is not sufficient overlap, it may hamper communication and knowledge transfers.

While the made-for-TV clashes between NGOs and corporations are likely to continue to grab the headlines, it is the difficult, but potentially highly rewarding non-market partnerships between NGOs and corporations that will quietly be making the big difference, both for shareholders and society at large.

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