



**Cocreation: Business Partnership between  
NGOs and Profit-oriented Companies as an  
Instrument of CSR and Reputation Management**

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List of Content:

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	Page
<b>Introduction</b>	1
<b>Origin of the Term Co-Creation</b>	2
<b>Application of Cocreation in Partnership between NGOs and Profit-Oriented Companies</b>	4
<b>Advantages and Chances</b>	7
<b>Disadvantages, Risks and Critics</b>	9
<b>Conclusion</b>	11
<b>References</b>	

## Introduction

Due to the Global Associational Revolution<sup>1</sup>, we live in a world where the often existing unreliability of governmental performance in social field has been compensated by arising activities of non-profit and non-governmental organizations, NGOs shortly. Furthermore, it has become clear to a broader audience that companies are part of the community they are settled in and on which they have a significant influence – not only a positive but also a negative one. The traditional view of business consisted of making profit and providing monetary value to its owners as the only purpose of its existence and therefore, business owners had been refusing the influence on community for a long time. That clearly led to an adversarial relationship between the nonprofit and the profit sector.<sup>2</sup>

Afterwards, many of the profit-oriented companies learned to accept that they have social and environmental responsibilities to follow. The performance of these responsibilities, called CSR – Corporate Social Responsibility, has become very popular among firms since the new millennium, which encouraged NGOs and profit-oriented companies to work together instead of fighting each other.

Nowadays most of the CSR methods are decided by the top management on subjective base. The favourite CSR instruments are donations to nonprofits, for example UNICEF, or sponsorships of local football teams because they are easy to be decided and implemented. The true disadvantage of the favourite and easy methods in general is the single one-sided benefit either to the giving company or to the supported community which means that philanthropy is either a good action for public relations or a donation to community that does not positively affect neither

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<sup>1</sup> The definition of „Global Associational Revolution“ was pioneered by Lester M. Salamon, describing the new involvement of the three sectors – government, businesses and nonprofit organizations.

<sup>2</sup> Supported by Prahalad, C.K. and Jeb Brugmann. ‘Cocreating Business’s New Social Compact.’ *Harvard Business Review*. February 2007.

company's reputation nor its sales rates.<sup>3</sup> Luckily, Mr. Prahalad developed a method together with other experts that benefits both participants equally – a hybrid business system, partnering NGOs and corporations, called cocreation. The purpose of this essay is to show that cocreation is not only an instrument of corporate social responsibility with many benefits but also a potential improver of the company's reputation.

### **Origin of the Term 'Co-Creation'**

The term was pioneered by C.K. Prahalad and Venkat Ramasvamy in the nineties. They realized that the business world was changing. Firstly, the environment became much more competitive which was also caused by the fact that one's suppliers or distributors often started being also one's competitors in some products, for instance the networks of drug stores started producing cosmetic products under their own brand and selling them together with the ones from other manufacturers. Secondly, the expansion of internet access opened a new communication channel. Through web 2.0 consumers were enabled to interact with companies online in form of active dialogues.

Web 2.0 and higher competitiveness led to the assessment of knowledge as being the most important intangible asset of companies by providing a clear competitive advantage. Among experts and other professionals are customers the ones who provide firms with essential knowledge about product's acceptance and user friendliness since they are the buyers and users of these goods and services. As following, customers became partners in all business processes

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<sup>3</sup> See research paper Keys, Tracey; Malnight, Thomas W. and Kees van der Graaf. 'Making the Most of Corporate Social Responsibility.' *McKinsey Quarterly*. December 2009.

from design to distribution who create real value to the company and to its products by willingly investing their own time and money to the firm.<sup>4</sup>

In my assumption, consumers welcome the cocreation so much because it allows them to go behind their own limits and to meet challenges. Many people want to do something great and have a potential for it, but unfortunately their employers often do not support this willingness. Cocreation makes a chance for these active innovators to make a difference, to improve anything in order to feel good and gain wished respect to their efforts.

In 2008, Promise Corporation, a consultant firm, distinguished the term 'cocreation' from another broadly used term 'crowdsourcing' by defining cocreation as 'an active, creative and social process, based on collaboration between producers and users that is initiated by the firm to generate value for customers.'<sup>5</sup>

An example<sup>6</sup> of a successful cocreation is Microsoft's beta version of its newest operating system Windows 7. The beta version had been released to general public on May 5, 2009<sup>7</sup>, a few months before official sales of the final version started on October 22, 2009.<sup>8</sup> Those who were interested could download a time-limited version for free, try it and send to Microsoft any recommendations, compliances or ideas considering the Windows 7.

As written above, cocreation as a new source of business interest allows customers to interact with manufacturers, and simply said, it creates a real value, innovation and last but not least, facilitates production of goods that comport with customers wishes and needs.

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<sup>4</sup> Prahalad, C.K. and Venkatram Ramaswamy. 'Co-opting Customer Competence.' Harvard Business School Publishing Corporation, 1999.

<sup>5</sup> Promise Corporation/LSE Enterprise. 'Cocreation: New Pathways to Value.' 2008.

<sup>6</sup> Inspired by Prahalad, C.K. and Venkatram Ramaswamy. 'Co-opting Customer Competence.' Harvard Business School Publishing Corporation, 1999.

<sup>7</sup> <http://www.engadget.com/2009/04/18/windows-7-rc-coming-may-5-for-public-consumption-out-now-for-ms/>

<sup>8</sup> <http://arstechnica.com/microsoft/news/2009/06/windows-7-pricing-announced-cheaper-than-vista.ars>

## **Application of Cocreation in Partnership between NGOs and Profit-Oriented Companies**

Cocreation in this sense, also called as 'smart partnership'<sup>9</sup>, is used to fight poverty all over the world mostly by starting new innovative businesses and finding solutions for critical social and business challenges. The opportunity for such cooperation mostly exists where businesses interact with society, strongly represented by food industry, medical care and financial services.

Formerly, NGOs learned that neither governmental financial aid nor private donations could effectively solve poverty and that it could be fought only by long-term support of economic development. They started building businesses on their own initiative firstly, but sooner or later they realized that they have been missing a lot of knowledge and therefore, decided to cocreate with professional entrepreneurs.<sup>10</sup>

As mentioned above, cocreation is a long-term chance for international corporations to serve emerging markets with poor consumers, called the 'Bottom of the Pyramid'. This emerging markets enable profitability through massive consumer force, followed by massive production and massive sales. Unfortunately, this opportunity has not been taken by many companies, though, there are chances for high growth rates, for instance, in slums of big cities in South America or Asia.

C.K. Prahalad supports this idea and argues that many people live in slums because housing in the city centre is too expensive which does not mean that they are not consumers of 'luxury goods' like television or microwave. That makes the opportunity for globally operating corporations to

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<sup>9</sup> Prahalad, C.K. and Jeb Brugmann. 'Cocreating Business's New Social Compact.' *Harvard Business Review*. February 2007.

<sup>10</sup> Supported by Keys, Tracey; Malnight, Thomas W. and Kees van der Graaf. 'Making the Most of Corporate Social Responsibility.' *McKinsey Quarterly*. December 2009.

make profits, improve the lives of people by selling them the products at affordable price and further, improve the community's infrastructure and logistic issues.<sup>11</sup>

And here come the issues. Poor communities are hard to address as customers because of bad infrastructure in rural areas and slums, commonly very poor education, poor advertising possibilities considering newspaper, internet and television and because of common distrust of these people towards foreign companies. There tends to be high need of personal demonstration and explanation of the offered products or services, for example explanation of the importance of health insurance to African tribes. The biggest challenge is a production and distribution of these products at the lowest price with the best possible quality.

Partnership with local NGO is the best way for entrance of such a risky market. Nonprofit organization can provide needed support to be able to satisfy the needs of local residents and to adapt the goods or services to the situation of local community.<sup>12</sup>

One can see that both parties need each other in order to achieve their goals presented in the text above. In detail, corporations need for their marketing strategy, based on community, the local knowledge and contacts to people living there, the nonprofits possess. They must gain understanding of the local consumers' behaviour, values and cultures. Another important strength is that the citizens built trust toward the NGO because of its former long-term activities there. Further, the NGO gained extensive knowledge about local social and physical infrastructure which companies need for their logistics. Social infrastructure includes local celebrities and important decision makers, physical infrastructure includes roads and other transport possibilities.

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<sup>11</sup> Prahalad, C.K. and Allen Hammond. 'Serving the World's Poor, Profitably.' *Harvard Business Review on Corporate Responsibility*. Harvard Business School Press. 2003. ISBN 1591392748.

<sup>12</sup> Prahalad, C.K. and Allen Hammond. 'Serving the World's Poor, Profitably.' *Harvard Business Review on Corporate Responsibility*. Harvard Business School Press. 2003. ISBN 1591392748.

Nonprofit organizations for a change need to learn and experience the business' professionalism and efficiency in practise.<sup>13</sup>

Basically, the cocreation rests on three major principles – open dialogue, acces to information and risk-lowering transparency.<sup>14</sup>

Open dialog relies heavilly on the other two principles and means both parties to be honest and tolerant. They must develop a broad understanding of each other. Through open dialogue their partnership strategy can become flexible. A consequence of an open and direct dialog is a mutual adoption of each others' standards, structures and processes considering the project which means that the partnership strategy must support or result from the overall strategies of both partners.<sup>15</sup>

The second principle, access to information, consists of sharing each others' resources and expertise. The partners may recruit staff from each other in order to gain new soft and technical skills.

Finally, the risk-lowering transparency is the most important fundamentals of working together. Principally, it is about doing everything and agreeing on everything together in order to built a deep trust to each other. Transparency is strenghtened with a written contract with all responsibilities, rights and benefits of both partners listed inside to make sure that everybody understands his role and tasks.<sup>16</sup> Further, transparency includes understanding of each others' perspectives , weaknesses and strenghts. Therefore, the nonprofit organization and the profit-

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<sup>13</sup> Prahalad, C.K. and Jeb Brugmann. 'Cocreating Business's New Social Compact.' *Harvard Business Review*. February 2007.

<sup>14</sup> Frigo, M.L. and Venkat Ramaswamy. 'Co-creating Strategic Risk Return Management.' *Strategic Finance*. May 2009.

<sup>15</sup> Kirah, Anna. 'Cocreation and the design mindset'.10 August 2009.

<sup>16</sup> Kumra, Gautam. 'One Business's Commitment to Society: An Interview with the President of the Novartis Foundation for Sustainable Development.' *McKinsey Quarterly*. 3 November 2006.

oriented company must share internal information on economics, overall costs and margins, supply chain, marketing strategies, strategical difficulties, etc.<sup>17</sup> It is recommended to nominate a third objective party, for instance a consultant company, who is not completely inside of the partnership, to be the judge and solver of any problems.<sup>18</sup>

## **Advantages and Chances**

The main advantage is, of course, the possibility to contribute to society parallel to strengthening the business. Through a team synergy both participants can register bigger benefits than on an individual base.

Benefits of serving the bottom of economic pyramid could be fabulous. Due to the existence of a hundreds of millions of unserved customers the profit-oriented company receives a new source for growth of its revenues and possibly also greater efficiency of its production because of the expanded market volume. Thanks to dealing with extended diversity and at least one different culture the company may face a very positive spread of innovation in design of products. Next, the tackle of social, economic and logistic challenges might have encouraged second innovation stream, this time in procedures and organizational structure. A strong advantage occurs also in the fact that equal long-term partnership lowers the individual economic risks of investors and that is concerned to be an advantage of a big interest when entering a risky market.<sup>19</sup>

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<sup>17</sup> Prahalad, C.K. and Jeb Brugmann. 'Cocreating Business's New Social Compact.' *Harvard Business Review*. February 2007.

<sup>18</sup> Kumra, Gautam. 'One Business's Commitment to Society: An Interview with the President of the Novartis Foundation for Sustainable Development.' *McKinsey Quarterly*. 3 November 2006.

<sup>19</sup> Prahalad, C.K. and Allen Hammond. 'Serving the World's Poor, Profitably.' *Harvard Business Review on Corporate Responsibility*. Harvard Business School Press. 2003. ISBN 1591392748.

A good example of a successful cocreation according to profit would be a stove Oorja designed by a British company BP and an Indian Institute of Science with other nonprofit organizations, Covenant Centre of Development, IDPMS, Swayam Shikshan Prayog, being integrated in marketing research and distribution. In 2007 BP sold more than 100,000 stoves to rurals in India<sup>20</sup> and plans to have sold more than 20 million environmental-friendly and fuel-efficient Oorja stoves by 2020.<sup>21</sup>

The benefits for the affected society depend on the nature of the partnership itself but in general the company's involvement brings along new job offers, for instance to address the need for local producers or retailers. Secondly, the citizens have an access to a product or service they actually can afford though most of them earn less than six dollars a day. When one considers the big picture and a long-term community development than this single product may support a sustainable improvement of these peoples' living conditions, not talking about improvement of local infrastructure – new roads and sanitariums.

The next argument supporting this partnership might be that companies always experience a rise in the tangible and also the intangible assets. Besides the increase in strategic capital and revenues for the company, the reputation of the firm as an employer, manufacturer and a partner may enhance because cocreation provides value to most of the company's stakeholders, for example to the shareholders, affected governments, customers, NGOs and employees.<sup>22</sup>

In my opinion, cocreation might be a solution for critics of traditional CSR methods, for instance philanthropy as being seen as unethical by them, because company is spending the money of shareholders or investors on something that must not necessarily give any value to the company.

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<sup>20</sup> BP's 2007 sustainability report, p.35

<http://www.bp.com/sectiongenericarticle.do?categoryId=9027836&contentId=7050975>

<sup>21</sup> <http://www.bioenergylists.org/taxonomy/term/1339>

<sup>22</sup> Frigo, M.L. and Venkat Ramaswamy. 'Co-creating Strategic Risk Return Management.' *Strategic Finance*. May 2009.

A smart partnership does not mean simply throwing money out of the window, it is a long-term investment with clear benefits for shareholder value.

### **Disadvantages, Risks and Critics**

There are of course also a few disadvantages though most of them occur when the partnership is not set up and planned properly.

First, a large multinational company might have difficulties when dealing with the local nonprofit organization due to strong cultural differences. If the two partners are not capable of tolerance and team work the partnership will fail.<sup>23</sup>

Secondly, companies which do not interact with any community may not be able to develop such a partnership, for instance firms from the business-to-business area. It is not possible for alcohol and tobacco companies to cocreate with nonprofits because no NGO would due to ethical reasons ever be willing to cooperate with this art of business.

Thirdly, especially for US and European companies it could be hard to stay patient and wait for the long-term succes and benefits because they tend to concentrate more on the short-term results culturally. If one is unexperienced it is hard to be aware of all benefits a cocreation with the right partner can offer. To forget some of the benefits might evocate loss of potential and motivation.<sup>24</sup>

Last but not least, a question should be raised whether the company is a real cocreator or a competitor of the partnered NGO. The firm could overrule the involvement of the nonprofit and become the single leading provider of the goods or services instead. For instance, a bank stops

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<sup>23</sup> Dandavate, Uday. 'Putting Co-Creation into Action.' Slide 6. 30 August 2009.

<sup>24</sup> Keys, Tracey; Malnight, Thomas W. and Kees van der Graaf. 'Making the Most of Corporate Social Responsibility.' *McKinsey Quarterly*. December 2009.

partnership with a local NGO and starts offering its financial services to local farmers by itself because it developed the knowledge and infrastructure it did not have before the partnership. Such a behaviour is definitely not an ethical one and to destroy the possibility of doing anything like that the partners often agree on a fifty per cent joint venture for the project.<sup>25</sup>

As one can see disadvantages lie mainly in the incompetence of the parties to handle cultural and technical difficulties, in the impatience to wait for the long-term benefits, in a not properly written contract or in any other difficulties to share information.

Cocreation has also many critics. I chose two interesting ones to react on.

Luke Filose argues that the different characteristics of business and NGOs might be too strong to create a really successful partnership because business wants profits and NGO sustainability. He also criticizes that eradicating poverty through selling products is not the best instrument. He stresses the importance of corporate philanthropy that supports communities by financing them or providing them with trainings, education or shelters without expecting to get something in return, Intel provides training of computer skills for Indian teachers, but the teachers must not buy any computer from Intel afterwards.<sup>26</sup> Maybe he is right but the selling companies are also helping people without expecting anything in return, for instance providing information and education on how to use or sell the product. They are empowering the poor and their engagement creates monetary value for both locals and the giving company itself, they provide customers with products they would not normally be able to buy because they were either too expensive or distribution was impossible before.

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<sup>25</sup> Inspired by Prahalad, C.K. and Jeb Brugmann. 'Cocreating Business's New Social Compact.' *Harvard Business Review*. February 2007.

<sup>26</sup> Filose, Luke. 'NGO Alliances: Which Model is Best.' 27 June 2008.

Aneel Karnani argues that 'rather than viewing the poor primarily as consumers, an alternative approach is to focus on the poor as producers and to emphasize buying from the poor. The only way to alleviate poverty is to raise the real income of the poor.'<sup>27</sup>

But this is exactly happening, for example are the local entrepreneurs selling the products from global companies. This critic was headed to the involvement of global companies in the poor markets by themselves, because without local knowledge and trust of NGOs they often misinterpreted the customers' needs or set the prices too high. In the graph inside of this paper one could see that companies that cooperated with NGOs were doing their business at the BOP mostly profitably, unfortunately the companies without this support were not. so what this critic is doing, is supporting the need of cocreation with NGOs and shows that if not well prepared and completely suited to the local community, this whole ideal plan can go terribly wrong.

## **Conclusion**

In a summary, cocreation is a long-term partnership, a part of core value, culture and overall strategy of both organizations. The 'smart partnership' offers innovative solutions for challenges of business and society equally. This makes it a method for a multinational company to gain a market share in unsaturated but risky emerging markets and an instrument of corporate social responsibility which may, if designed on open dialogue, trust and transparency, strengthen the firm's reputation as an employer, manufacturer, distributor or partner. Though there are some critics of the hybrid business concept, I think that due to its financial and intangible benefits it is worth of trying.

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<sup>27</sup> Karnani, Aneel. 'Fortune at the Bottom of the Pyramid: A Mirage.' April 2007.

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