

Mercy Corps

Sustainable Innovation through Corporate Partnerships

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Mercy Corps was known for its gutsy approach to disasters. While other relief and development organizations were scrambling to plan a response, Mercy Corps would already be on the ground with aid and skilled field workers. In addition to performing emergency relief, the agency had also developed strong programs in economic development using a “community mobilization” approach that emphasized local control and sponsorship of projects. Although it was a relatively new player in the NGO world, by the late 1990s Mercy Corps had developed a reputation as a nimble, decentralized organization that was not afraid to take risks.

There were many advantages to this decentralized structure. It meant that Mercy Corps was skilled at crafting innovative solutions to a diverse range of local problems. It meant that Mercy Corps was “field-driven” and able to respond quickly to changing conditions without getting approval for every decision from headquarters. It meant that Mercy Corps could intervene in the most remote and strife-torn regions, where other organizations might fear to go.

But several developments at the turn of the century revealed limitations to the status quo. A series of natural disasters and wars resulted in the organization’s rapid expansion. As Mercy Corps was increasingly awarded multi-million-dollar government aid awards, it came to be seen less as a niche player and more as a major NGO (non-governmental organization) in the same league as Care or Save the Children or World Vision. These changes were all to the good, but Mercy Corps was also wondering how to apply its creative, field-driven approach on a large scale.

At the same time, opportunities for new ways of doing relief and development work began to emerge. Prodded by the sobering realities of September 11th and the collapse of Enron, private companies began to expand their corporate social responsibility departments. In response to the disasters of the Indian Ocean tsunami, hurricane Katrina, and other crises, corporations donated to Mercy Corps at unprecedented levels. And as markets and workforces became increasingly globalized, many corporations were on the lookout for ways to expand their businesses in developing countries.

A new form of private-nonprofit collaboration, the corporate partnership, seemed to offer advantages to both sides. During the first several years of the new century, Mercy Corps began to seek ways to develop deeper relationships with private companies, and by 2007 it had formed several significant corporate partnerships. As it cultivated these new affiliations, Mercy Corps was also asking a number of questions. What kinds of partnerships were ideal? How deeply should Mercy Corps become engaged with a private enterprise? And how could it adjust its organizational structure to build corporate partnerships more effectively?

Innovation at the Point of Crisis

Mercy Corps was founded in 1979 as Save the Refugees Fund, a task force organized by Dan O'Neill in response to the plight of Cambodian refugees fleeing the genocide of Pol Pot. By 1981 the organization had expanded its work to other countries and was renamed Mercy Corps International to reflect its broader mission. Between 1979 and 2006, Mercy Corps delivered \$1 billion in assistance, including food, shelter, health care, agriculture, water and sanitation, education, and small business loans, to people in 94 nations. Supported by headquarters offices in North America, Europe, and Asia, the agency employed 3,200 staff worldwide in 2007 and reached some 13.5 million people in 40 countries. Mercy Corps was known as one of America's most efficient charitable organizations: with more than 90 percent of its resources being allocated directly to programs, it was consistently ranked as a "Four-Star" organization by Charity Navigator, a group that evaluates the finances of large charitable organizations in America. Its largest source of funding was the United States government, but it was also an attractive option for private and corporate donors.

The organization's official mission statement read, "Mercy Corps exists to alleviate suffering, poverty, and oppression by helping people build secure, productive, and just communities." But its unique value proposition was somewhat more subtle. As Mercy Corps leaders saw it, the organization was particularly skilled at intervening at a point of crisis to help economically active populations provide innovative solutions to local problems.

Areas in Crisis

First, Mercy Corps focused on communities in crisis, whether caused by war, natural disaster, political upheaval, or economic collapse. There were many countries with great need where Mercy Corps did not work, because its distinctive mission was areas in transition. Thus Mercy Corps was active in countries recovering from war, such as Kosovo, Iraq, and Afghanistan; in areas suffering from a natural disaster, such as New Orleans and post-tsunami Indonesia; and in areas undergoing rapid economic collapse or expansion, such as Zimbabwe and China. Mercy Corps did not limit itself to traditional emergency relief; on the contrary, it was actively involved in long-term development projects, as well. But whether doing relief work or development, the organization was particularly focused on areas facing some kind of turning point (See Exhibit 1: The World of Mercy Corps.)

A related emphasis was working in areas that were overlooked by other aid organizations. This concentration had been a strategic decision early in Mercy Corps' history. Senior director of social innovations Karen Doyle-Grossman remembered, "We were relatively small and were trying to compete with large, established organizations. We emphasized our willingness to operate in difficult areas, where we could have a greater and a more immediate impact."

For example, after the fall of communism, most NGOs went into Russia, but Mercy Corps focused on the former Soviet republics in Central Asia; similarly, during the Balkan wars in 1993 and 1994, other organizations concentrated on Bosnia, but Mercy Corps went to Kosovo. Mercy Corps looked for areas in transition beyond the obvious candidates, and it began to create an identity as an organization that would go into raw environments that others avoided. This strategy allowed Mercy Corps to work with creativity, because the crisis offered an opportunity for an international organization to intervene and enable communities to become agents for change.

The Economically Active

Another area of emphasis was economically active populations. This approach was based on the belief that, as CEO Neal Keny-Guyer put it, "you can't sustain gains in social welfare, health, and education if you don't have corresponding economic gains." This meant that unlike other aid agencies, the organization did not focus exclusively on helping the poorest of the poor. Instead, Mercy Corps helped the working poor, those who could add value to the economy and provide employment and services to the truly destitute. As strategic innovations advisor Sara Aviel explained, "Mercy Corps targets entrepreneurs who can drive economic change and bring the country out of poverty."

This concentration meant that Mercy Corps went beyond meeting immediate needs and would go in at the local level and work with the community to stimulate its economy. Even when doing disaster relief, Mercy Corps moved quickly beyond a mass distribution of food, clothing, and shelter. In fact, Mercy Corps and other aid agencies were becoming increasingly aware of the perils of this approach: "We are sensitive about the inadvertent harm that the humanitarian world can do when a flood of commodities suffocates the response of the local market," said director at large Paul Dudley-Hart. With the best of intentions, foreign NGOs could undermine local government and NGO capacity and displace local businesses. Therefore, instead of simply distributing food, or even exchanging food for work, Mercy Corps was an early adopter of a new program to hire people from the affected area to work on their own relief and development projects. This program, called "cash for work," proved a valuable tool for post-emergency relief.

The economically active were not Mercy Corps' only constituency; in fact, the organization worked with all members of a community, including the young, the elderly, the disabled, and others who might not be able to run businesses. At the same time, Mercy Corps believed in the importance of encouraging a community's economic drivers in order to produce long-term benefits.

Solving Local Problems

A third area of emphasis was Mercy Corps's focus on solving local problems using a technique called "community mobilization." In this process, Mercy Corps facilitators would help communities to convene a meeting with full participation of all its members, often with a special emphasis on youth, the elderly, women, or marginalized groups. From that meeting, community priorities would be identified and a group elected to lead the process of realizing those priorities. Mercy Corps would then co-invest with the community to produce both tangible new projects and new community tools for leading their own recovery. As Mercy Corps' promotional materials stated, "It is only when communities set their own agendas, raise their own resources, and implement programs themselves, that their first successes result in the renewed hope, confidence and skills to continue development independently."

In order to avoid creating dependency, Mercy Corps would begin this work with an exit strategy in place. In one of its frequently used models, it would begin by funding about 90 percent of the project, with the village funding the other 10 percent, either in labor, in-kind donations, or cash. Then the village's responsibility would gradually be increased, the work would be taken over by the local community, and Mercy Corps would phase out its own involvement.

This graduated system was an essential part of the Mercy Corps system, even in the poorest countries. As Aviel argued, "Research shows that even the very poor value something they pay for more than something free." Community mobilization was part of a carefully designed plan to promote sustainable development. The legacy of these programs was not just a public works project, such as a school or a road, but the training of local leaders from all parts of the community in skills for organizing and executing a project as well as advocating for local

government support. As president Nancy Lindborg explained, "The ideal is to leave behind communities that can set their own priorities and then work to achieve them in partnership with the public and private sector and fueled by a solid economy."

An internal study conducted in summer 2007 found evidence for the effectiveness of the community mobilization approach. In villages in central Asia where Mercy Corps had finished implementing programs between one and five years previously, the study found that 93% of the structures built were still being actively maintained. The study also looked at the sustainability of the community's organizational skills and found a high level of continued action by the leaders and members. Overall the study suggested the successful longer term impacts of the community mobilization approach.

A Culture of Innovation

As part of its overall strategy, Mercy Corps had fostered an innovative culture. Creativity was encouraged at both the individual and the agency level, and employees were encouraged to pursue any projects of interest to them. "Our people are asked to be as broad and as creative as they can be in order to expand Mercy Corps' impact on the world," said Doyle-Grossman.

This culture was supported by a "field-driven" organizational structure. Each field office employed anywhere from one to 15 expatriate workers and up to 200 local staff. In each of the more 40 countries in which Mercy Corps operated, it designated a resident country director to gain funding, implement programs, monitor progress, and report results. The country director was given considerable autonomy and was expected to be entrepreneurial in service of the organization's mission. This decentralized structure allowed teams to move quickly in response to disasters. For example, because country and regional directors had the authority to make decisions, Mercy Corps was one of the first organizations on the ground in southern Lebanon following the summer 2006 conflict with Israel.

Country directors were supported by headquarters staff, including technical specialists, who were experts in given areas, such as health or agriculture, and who kept up to date with the latest techniques and research. They were also called upon to run needs assessments, design and evaluate programs, and represent Mercy Corps to various philanthropic and professional organizations. In addition to the technical service unit, program operations and global new initiatives teams, located in Portland and Edinburgh, supported country directors by writing proposals, responding to requests for applications from foundations and government agencies, and communicating with donors and potential donors.

New ideas could move in a variety of directions. Country directors would come up with new programs and then ask headquarters units to help find resources to fund their efforts. Alternatively, headquarters staff would incubate new ideas, find funding, and seek out country directors to implement these programs. Innovative ideas would also come from outside the organization. Private donors and government agencies would propose new programs that fit with Mercy Corps' mission; these outside proposals would vary in specificity, sometimes spelling out the exact methodology of the program and other times only outlining the general objectives of a grant.

Mercy Corps staff could see some drawbacks to its flat structure: "Chaotic creativity doesn't always translate into action," said one staff member. As Aviel saw it, Mercy Corps was a highly innovative organization similar to 3M, but without that corporation's systems for expanding on its success:

Private companies like 3M can easily recognize whether an innovation works by what sells. If Post-it notes are profitable, they will sell them wherever they can. But at Mercy Corps, an innovation might be successful but never expanded. Mercy Corps struggles to bring the social equivalent of Post-it note inventions to scale at regional and national levels. We are proud of being flexible and locally driven, but we need to think about the trade-offs.

In spite of the challenges posed by this flat structure, it was the innovative culture that attracted and retained employees, even though they made less money at Mercy Corps than they could have elsewhere in the private sector. As Dudley-Hart put it, "We have a loose but amazingly effective system – and it is effective because the initiative that the looseness allows."

As the organization grew, Mercy Corps continued to seek ways to encourage innovation. In particular, two programs were established as part of that focus.

First, the Phoenix Fund was launched in 2004 to finance start-up businesses in countries recovering from war or social upheaval. For example, in Kyrgyzstan, the fund was supporting apple growers by providing technical assistance to help them grow better fruit and sell it more effectively. The grant process for these funds was quick (two pages, compared to 50 for a USAID grant), and the amounts were modest (\$30,000 to \$50,000). The Phoenix Fund was essentially a social venture capital fund designed to encourage high-risk, high-reward ventures, which large foundations and government agencies were often less willing to support until some early success was established.

Also in 2004, Mercy Corps began an internal Innovations Competition to publicize creative work happening throughout the organization. Every staff member was invited to submit a description of an innovation that had been implemented anywhere in Mercy Corps. Then an evaluation panel selected a short list of finalists, their entries were distributed throughout the agency, and a winner was voted on at the bi-annual leadership conference. The goals were to make sure that an exciting program happening in one country would be explained to staff in other countries, and to prod staff to document their achievements, as well. The winner of the 2006 competition was a team in Zimbabwe that organized a coalition of NGOs to work with a coalition of donors to form a comprehensive response to urban areas devastated by economic collapse.

Change at the Turn of the Century

As Mercy Corps was seeing the benefits of its culture of innovation, it was also seeing the need for change. Several events in the early 2000s led to the rapid growth of the organization and highlighted some new challenges resulting from that growth.

A Series of Crises

As it reached 20 years in operation in 1999, Mercy Corps had become a serious player in the NGO world. Its revenues had grown at a healthy pace, from \$9.8 million in 1988 to \$64.7 million in 1998, or 85 percent over 10 years. Its staff of approximately 800 was working in 25 countries, and two years previously, it had affiliated with two other organizations, Scottish European Aid and Pax World Service. In spite of this expansion, Mercy Corps was still a relatively small organization, where staff knew each other well and could easily find support for new initiatives.

Then at the beginning of the new century, several large-scale crises catapulted Mercy Corps into a new league. The Kosovo crisis of 1999; the September 11th attacks of 2001 and the ensuing

Afghanistan and Iraq wars; the Indian Ocean tsunami in December 2004; and Hurricane Katrina and the Pakistan earthquake in 2005 all drew international attention to humanitarian agencies. The Kosovo crisis was a particular watershed for Mercy Corps because the organization received a dramatic increase in donations, with revenues increasing 28 percent between 1998 and 1999 and 30 percent between 1999 and 2000, to \$128.6 million at the end of 2000. (See Exhibit 2 for financial data.) The number of people served grew from 2.2 million in 1998 to 4.0 million in 1999 to 5.0 million in 2000. The organization's staff grew to 1,400 in 2001 and to 2,000 in 2002. By 2006 the Iraq program alone was the size of the entire agency ten years previously. Mercy Corps was no longer a small organization.

Expanding without Killing Creativity

The doubling of Mercy Corps' size in just a few years brought with it a number of challenges. In particular, the small, agile, creative style that had worked so well in the past began to restrict the organization's mobility. "When Mercy Corps was smaller, less coordination was needed to go from idea to implementation," remembered Doyle-Grossman. "Now there are still lots of ideas, but more coordination and time are required to move an idea to reality."

This was especially true for field staff. Previously, when they saw an opportunity, it had been relatively easy to get the attention of headquarters and request support for a new project; now, there was competition within the organization to get funding and an uncertain process for coordinating with the fundraising side of the agency. Country directors often noted that it was difficult to know what decisions they could make on their own and what had to be cleared with headquarters.

Mercy Corps senior staff were quick to say that they did not want to lose their innovative culture, but they saw a definite need to streamline. "We need to find a new balance and add structure without killing creativity," said one staff member. Another manager said, "There is still a strong desire to be field-driven, but we need to prioritize as we get larger."

In addition to its particular challenges, Mercy Corps was also dealing with difficulties faced by the entire nonprofit community. Many organizations in the nonprofit world struggled to sustain large programs over time. An aid agency might initiate a significant government-funded program that would work well for a few years, but then the donor's priorities would change, and the organization would be left scrambling to raise funds. Frequently, programs would be funded on a year-by-year basis, which made it difficult to do any long-term planning. With large international organizations, these funding problems also interfered with planning a consistent strategy for a country. One country office might have four or five projects going on at the same time, each forming part of an overall country strategy. But because each was sponsored by a different donor, as donor interest waxed and waned, the organization would struggle to adjust the country strategy. Throughout the industry, raising funds for emergency relief was easy, but finding long-term, flexible funding to meet goals within a five- to 10-year timeframe was difficult. These struggles were present whether the donor was the government, a foundation, or a private corporation. "Donors are often more interested in funding something new and exciting rather than old and reliable," said Aviel.

The challenges that Mercy Corps was facing were large, yet they were a result of the organization's success. Mercy Corps wanted to scale up its successful innovations and obtain more flexible and reliable sources of funding while preserving its culture of innovation.

A New Drive toward Corporate Partnerships

The disasters of the early 2000s brought change not only at Mercy Corps but also at private corporations. In particular, after the September 11th attacks and the collapse of Enron in late 2001,

percent a year between 2001 and 2003, after a decade of stagnant growth.⁷ Large donations were given to disaster relief, both through company-sponsored foundations and through employee matching programs.

There were multiple reasons for this shifting focus. Some of the interest was driven by a feeling of social obligation or a need to comply with new laws and regulations. Some derived from a sense of ethical responsibility or charity. But corporations also were increasingly seeing relief and development work as a sound business practice. Charitable donations were perceived to provide the benefits of improving employee morale, impressing customers, and cultivating an overseas workforce and customer base. Mercy Corps executives noticed the change. Lindborg said,

There is a heightened interest in development issues now. Corporations are seeing themselves more and more as active players, both from the moral imperative and also from the perspective of good business. Private companies are quite aware that it is in their best interest to have healthy, stable communities; a clean environment; and reduced disease and poverty in the world.

At the same time, there was also heightened interest on the part of aid organizations in exploring potential collaborations with the private sector. Traditionally, the relationship between nonprofits and the private sector had been marked by mistrust. As CEO Keny-Guyer put it,

There was a general sense that NGOs were a kind of soft, not-bottom-line-driven organization — do-gooders who certainly had their place, but it wasn't clear how they could contribute to the core business of a corporation. Likewise, there's been a sense among NGOs that corporations care only about making profits and expanding market share. And the assumption was that we have to be wary of entering into partnerships with them. Even at Mercy Corps, where we believe in the value of the private market, there's still a part of our culture that is leery of entering into this kind of a relationship. So it just takes more time to build the relationships and establish the trust.

In spite of this ambivalence, there was at Mercy Corps a growing acceptance of private-sector values and even corporate culture. As Dudley-Hart remembered in 2007, "Four years ago I was chastised at a strategy meeting for using the expression 'value proposition,' because corporate-speak was uncommon at Mercy Corps. But now it's an everyday colloquialism. Our world has changed, and I am proud that we learn quickly. We are mission-driven, but we are far more market-sensitive than before." Part of the motivation for this shift was practical. As Keny-Guyer put it,

Trade flows dominate aid flows. That means if you want to bring about positive change in the developing world, or what corporations would call "emerging markets," if you really want to scale and go to impact, you can't help but be looking at ways to leverage corporate investments and corporate activity.

But reaching out to corporations was not just a matter of expediency. More and more, Mercy Corps was finding itself on common ground with corporations, particularly those with markets and workforces in the developing world. Lindborg said,

People have talked a lot about the challenges of non-profits working with corporations. But we are realizing that we are often more structurally attuned with corporations than we are with some of the institutional donors. We're both out there slogging away doing real-time work in difficult environments. We both

corporations began to focus more on ethics and philanthropy. Many offices of corporate social responsibility were started, and the number of corporate foundations grew at a rate of about eight



understand the operational challenges on the ground. We are both entrepreneurial and able to make things happen on the basis of a good idea. In contrast, the institutional donors are usually not on the ground trying to implement projects. They don't have the same shared operational experiences.

The common interest was especially obvious in countries undergoing strong economic growth, such as India, China, and Indonesia. "Mercy Corps is present at the dawn of emerging markets," said Dudley-Hart. "Many a private corporation's future market lies there."

Mercy Corps gradually began to formalize its interest in corporate partnerships. In 2004, a corporate partnership exploratory unit was started. Then, at the bi-annual leadership conference in Nepal in November 2006, participants at a seminar on innovation were asked to rank the opportunities that the agency should focus on, and the top priority that emerged was partnerships with private enterprises. In response to this consensus, a social innovations team was formed and given the task of constructing proposals for corporate partnerships that would perform economic development work on a large scale in multiple countries. At the same time, in order to sort out the relationship between headquarters and the field, Mercy Corps created six positions for regional program directors, most of whom would live in the regions they oversaw and provide the link between field operations and headquarters staff.⁴

By 2007 there was a widespread commitment within the organization to expanding its corporate partnerships. Executive counselor Mignon Mazique noted that there were multiple motivations on Mercy Corps' part: it was an opportunity to reduce dependence on government funding, take advantage of corporate social responsibility interests, and help the poor achieve economic independence. "The time is right, and we would be foolish not to take advantage of this," she said.

A Variety of Corporate Partnerships

As Mercy Corps began to cultivate corporate partnerships, the collaborations took on a number of forms. Relationships could vary according to their timeframe, from a single donation in response to a particular event to a long-term relationship that evolved over time. Relationships could also vary according to the thing exchanged, from cash to materials to time to expertise. Finally, relationships could vary according to the centrality of the partnership to mission of both partners. In its simplest form a corporation might give money as a charitable donation, while other corporations sought partnerships as a form of marketing, while at the deepest level a company could seek a partnership as way of bolstering its core mission.

Even though in 2007 Mercy Corps was just expanding its efforts in the arena of corporate partnerships, its relationships with companies already varied on these three dimensions. Each type of partnership offered its own set of advantages and pitfalls.

Direct Gifts

Mercy Corps had a long history of working with corporations as philanthropic donors, but until recently these donations had been relatively small. According to Keny-Guyer, fundraisers would often work long hours cultivating relationships with corporate representatives but would take in contributions of only \$50,000 or so. "We wondered whether it was worth the effort," he said.

With the disasters of 2001 to 2005, however, Mercy Corps began to see a significant change in the size of corporate donations from tens of thousands to hundreds of thousands or even millions of dollars. For example, it received grants of \$3 million from the Boeing Company and \$3.5 million

from Intel to support recovery work following the Indian Ocean tsunami and the Pakistan earthquake. Many of these large sums were raised through employer-employee matching programs. Another large corporate donation was given by the CEO of General Electric, who, with four other CEOs, founded the South Asian Earthquake Response Fund for Pakistan earthquake relief. Over one million dollars was donated to Mercy Corps and was used to provide shelters, build roads, replace lost livestock, and perform other services to help villages resume their previous way of life.

Direct corporate gifts offered fast, flexible funding after disasters. While government grants took three months to be awarded following the tsunami and foundation grants also frequently took substantial time, direct gifts came in quickly and gave Mercy Corps great flexibility in spending. "Corporate donations allow us to do some of our most creative work," said Lindborg. "There is not the size and the scale of government donations, but it can be important, early, fast money." On the other hand, the disadvantage of these donations was that they were typically tied to the disaster du jour, and attention could quickly shift according to the headlines. A company might make a donation to assist Honduras in the aftermath of a severe hurricane, but it did not have a longstanding interest in the economic development of Honduras. Nevertheless, in several cases, emergency relief was the seed that grew into a long-term relationship between Mercy Corps and a corporation.

Mercy Corps' work in Sumatra, Indonesia, and Sri Lanka following the Indian Ocean tsunami in December 2004 displayed two examples of the innovations that were possible with direct gifts.

After the Tsunami: Cash for Work

Mercy Corps was one of the first aid organizations on site in Aceh after the tsunami. The team began by distributing food, but it soon discovered that there was no shortage of food, because people needed only to go inland a short distance to buy what they needed. There was, however, a shortage of capital: businesses had been destroyed, and people needed money to restart and to buy essential supplies for their families. Mercy Corps responded by creating a cash-for-work program in the Aceh province of Indonesia. Using a community mobilization approach, the team helped communities to identify priorities and then paid citizens for their work on cleanup and recovery projects. Mercy Corps provided picks, shovels, and other supplies; then the workers cleared roads, dug graves, and carried away debris in exchange for a daily wage at the local going rate.

Cash for work was a departure from what was considered best practice. Aid organizations had typically thought it unwise to give cash, because there was no guarantee that it would be spent on basic needs. "The first time I heard about it, I thought it was a bit of a stretch," said Indonesia country director Craig Redmond. "Something about giving out cash bothers most people, and it bothered me." The team in Aceh was also skeptical, knowing about the problems of corruption in the country. But as it became clear that food distribution was not going to be the most important form of aid, the team began to see the advantages of cash for work. As Dudley-Hart explained,

The cash-for-work approach provides people with money in their pocket and the self-respect that goes along with it. They make their own consumer choices, which creates demand and re-opens the markets, so there's a trickle-down effect. It's an all-around winner.

In Aceh the program offered tsunami victims an important role in the reconstruction work, pumped cash into the local economy, and cost less to implement than food for work, with its delivery costs. "After the tsunami, you started to see little markets spring up again," said Redmond. "The speed at which it happened was amazing. That does not happen everywhere."

Mercy Corps was the first organization to use cash for work in Aceh, but soon other NGOs imitated the practice using the daily wage that Mercy Corps had set.

Cash for work demonstrated the creativity that was possible with large corporate donations. The strategy had been tried by Mercy Corps on a small scale in Afghanistan and other places, and because there were so many unrestricted donations following the tsunami, it was not difficult to experiment with it on a larger scale in Indonesia. As Redmond recalled,

Our emergency response was fast and creative because we had good thinkers on the ground and lots of people who knew and trusted each other. We would come up with an idea and then go for it. We had flexibility because we had our own money and weren't tied to a donor's requirements.

After the Tsunami: Tourism Recovery

Direct gifts also enabled Mercy Corps field workers to use a creative approach to helping with the recovery of businesses. One notable example was its work in the village of Arugam Bay in Sri Lanka, which lost 200 people and 500 houses to the tsunami out of a community of 1600 families. Before the tsunami over 50 percent of local revenues were dependent on tourism, and the restoration of this industry was central to the area's recovery from the devastation of the tsunami. Mercy Corps received a \$350,000 grant from the Oprah Winfrey Angel Network for a tourism recovery project, as part of a \$1,000,000 overall grant to three organizations.

Mercy Corps recruited Lyn Robinson, a staff member with experience in ecotourism, to head up the team in Arugam Bay. Under Robinson's leadership, Mercy Corps formed a close partnership with the community. The government did not permit rebuilding near the ocean meaning funding for construction was blocked, so local business owners rebuilt their facilities themselves. Then Mercy Corps staff worked with them to determine what equipment they would need to become operational. Initial efforts focused on resupplying local businesses: the team distributed start-up restaurant equipment; erected temporary tent hotels; and supplied inventory for surf board rental shops, souvenir shops, and grocery stores to enable them to restart their businesses.

Then the team's efforts turned toward training local business people so that they could not just rebuild their existing businesses but "build back better," following the words of Bill Clinton, who worked as a UN special envoy for tsunami recovery. The team arranged for tourism entrepreneurs to hear lectures by successful hotel and tour company staff and to take tours of a variety of facilities, from simple guest houses to five-star hotels. Village hotel and restaurant staff attended classes in housekeeping, cooking, food service, and management.

Mercy Corps also worked with the village to publicize on a new website its full range of attractions beyond surfing, so as to attract a wider variety of tourists. As a result of the project, the Mercy Corps team tailored a recovery and development strategy that fostered self-reliance by strengthening a key local industry.

Other Partnerships

Direct corporate gifts were a major source of funding for Mercy Corps following the disasters of 2001-05. But during that same period, Mercy Corps formed other partnerships in which it worked closely with private corporations not just on the funding but also on the implementation of a number of projects.

Ethos Water

In 2006 Mercy Corps entered into partnership with Ethos Water, a subsidiary of Starbucks, based on sales of the company's branded water. Ethos donated five cents from every bottle of water sold to support clean water projects around the world. The partnership supported a program to help schools in four provinces in Sumatra access potable water, improve nutrition, and promote better hygiene and sanitation. This targeted donation supported the Ethos business model of tying social value to the business proposition, while providing Mercy Corps a closer, more significant relationship than was possible through direct cash donations.

Although the funding mechanism was simple, Starbucks did not simply make a donation and leave it at that. "Ten or 15 years ago, a partnership with an NGO would have been a check-writing exercise," acknowledged Brantley Browning, manager of social programs in the corporate social responsibility section at Starbucks. "But we're hands-on. We're not an organization that just writes a check. At the same time, NGOs today have a greater understanding of how the business world works."

Starbucks set a number of parameters for the project. By definition, it had to involve access to safe water, because Ethos Water was founded for the purpose of supporting water projects in the developing world. The project had to involve hygiene education and improved access to sanitation, because the company recognized that major gains in health come from clean water combined with sanitation facilities and proper hygiene practices. In addition, it had to be a sustainable project whose benefits would continue long-term. Starbucks also wanted to invest in countries that were politically stable and that had direct connections to the company's business, whether sourcing of commodities or retail markets.

After deciding on its criteria, Starbucks researched the NGOs that were working in its target countries on water and sanitation projects, and it approached them to discuss the possibility of working together. Then Starbucks constructed a short list of appropriate NGOs and gave them a request for proposals. The Mercy Corps team made a presentation that was particularly well received by Starbucks executives, and it was awarded the contract.

After selecting Mercy Corps for its Sumatra project, Starbucks continued to monitor outcomes. Browning received progress reports every six months and discussed them with the country staff, reviewing both successful outcomes and obstacles. "With traditional donors, no one wants to talk about the lack of progress," said Browning. "But we are not just a corporation that is doling out money; we have expertise here on staff and want to be engaged. If you come back to us with a report that is 100 percent success, I'm not going to believe it." For example, as a result of a drought in Sumatra, wells had to be dug deeper, and the project had to be scaled back to accommodate the increased costs. Based on this ongoing communication, the two organizations created a productive partnership. As Browning remembered, "Mercy Corps showed a good understanding of Starbucks, and it has done a good job of growing with us."

JP Morgan Chase and Bright Horizons

A specifically targeted collaboration was created after September 11th among Mercy Corps, JP Morgan Chase, and Bright Horizons Family Solutions, a company that ran employer-sponsored daycare centers. The three organizations came together to create Comfort for Kids, a program to assist families and care-givers of children in the New York area following the terrorist attacks.

"We wanted to enable caregivers to understand the impact of September 11th on kids, and we wanted to reach children in underserved areas," said Joy Bunson, senior vice president for organizational development at JP Morgan Chase. The partnership came about through a network of contacts at the executive level. Bunson knew Bright Horizons because it provided daycare at JP

Morgan Chase offices, and shortly after the attacks she called Roger Brown, the chairman of Bright Horizons to talk about the needs in New York. Brown then spoke with Linda Mason, chairman and founder of Bright Horizons, who was on the board of Mercy Corps, and Mason called Nancy Lindborg, the president of Mercy Corps. A three-way partnership was quickly formed. Chase provided office space, funding, help with printing, and a network of contacts in New York; Bright Horizons contributed expertise and resources to help children deal with trauma; and Mercy Corps organized and implemented the program using its ability to move quickly in chaotic conditions.

"JP Morgan Chase had been involved in community partnerships before, but the scale was unprecedented," said Bunson. "It was a productive partnership because the circumstances were cataclysmic and unprecedented. There were no previous models, and no one was motivated by self-interest." The program continued for two years, reaching over 100,000 caretakers and families, and then was replicated in Indonesia following the tsunami and in New Orleans after Hurricane Katrina and in Peru after the 2007 earthquake.

Tazo Tea

At times Mercy Corps was called on to implement a charitable project initiated and sponsored by a corporation. A major partnership of this type was formed with Starbucks subsidiary Tazo Tea, which sponsored a number of programs in the tea-growing regions of Assam and Darjeeling, India, and in Guatemala. The collaboration began in 2002, when Tazo sent out a request for proposals for a project called Community Health and Advancement in India (CHAI). Mercy Corps won the contract for a three-year, \$600,000 community mobilization program that resulted in a series of projects to build roads, install latrines and water systems, train village health workers, and provide youth vocational training in order to improve the lives of tea workers and their communities. (See Exhibit 3 for CHAI advertisement.)

This arrangement involved a close relationship between the two partners. Tazo Tea knew what it wanted to do, and it participated with Mercy Corps jointly in the design and monitoring of the project. Both organizations signed a memorandum of understanding outlining goals, deliverables, and risk mitigation clauses stating the conditions under which either partner would end the relationship. The joint set of projects led to an ongoing relationship in which Tazo and Mercy Corps began discussing the possibility of developing standards across the tea industry.

BP

In a similar type of arrangement, Mercy Corps had formed a partnership with BP in its Baku-Tbilisi-Ceyhan pipeline in the Caucasus. Under BP's sponsorship, Mercy Corps worked with villages in Georgia along the pipeline to build community projects, to provide information about changes happening along the pipeline, and to promote a productive two-way communications channel between the villagers and the corporation. BP's sponsorship allowed Mercy Corps to promote economic development along the route of the pipeline, helping spread the benefits of this massive petroleum project. Later, in China and Indonesia, Mercy Corps began collaborating with BP's Emerging Consumer Business to provide 20 million people access to cleaner, safer, and more affordable energy.

Nike

Mercy Corps and Nike Corporation partnered with the Ministry of Culture, Youth and Sports within the government of southern Sudan to implement a sports-based program aimed at increasing young people's conflict negotiation skills and HIV/AIDS awareness. From September 2006 through July 2007, the program operated in all ten states of southern Sudan, training more than 350 community mentors that reached nearly 8,000 youth through a comprehensive six-week

curriculum developed by an NGO named Grassroot Soccer. Nike provided a cash grant and over \$6 million-worth of apparel and equipment to be used by sports teams and youth-serving organizations throughout the country.

The relationship started out as a purely philanthropic gesture on Nike's part. The company and Mercy Corps are both located in Oregon, and one of the company's vice presidents was on Mercy Corps' board of directors. In the early 2000s Nike found that it had excess inventory that could be used in emergency response and longer term development programming, and it could take a tax deduction by donating the materials. The partnership began with donations of shoes and sports equipment. Later, however, the partnership grew into a longer-lasting relationship that benefited both Nike and Mercy Corps. For Mercy Corps, the relationship allowed the organization to pursue youth-related projects with the direct support of one of the largest brand names in the world. The donation of sports equipment led to operational collaboration, such as joint logistics and warehousing—key components of both Mercy Corps' and Nike's business.

Challenges to Corporate Partnerships

As successful as Mercy Corps had been in cultivating corporate partnerships, it also faced a number of challenges: adjusting to different standards for scale and speed; communicating more quickly and openly; and working under more market-driven funding constraints.

Scale and Speed

First, Mercy Corps found that corporations were sometimes working on a larger scale than it could accommodate. A large corporation might talk in terms of 50,000 institutions and 50 million people, but Mercy Corps was accustomed to working with tens of thousands of people, at the most. For example, Mercy Corps occasionally found in its partnership with Nike that the company did not understand how much effort and human resources were required to implement a project. On one occasion, Nike was ready to donate a mountain of shoes, shorts, and other athletic equipment, but Mercy Corps did not have enough capacity to use all of the donations or even to distribute them to other NGOs. It was at times difficult to provide project support at the scale that a private corporation expected.

A related problem was that corporations generally spent money faster than did an NGO. Mercy Corps would spend money quickly in an emergency, but more slowly when engaged in a long-term project. Under its community mobilization model, Mercy Corps had to go at the pace of the local development team, which was considerably slower than the speed of a western corporation. This occasionally led to misunderstandings with the corporate partner. For example, in Mercy Corps' work with GE to provide earthquake relief in Pakistan, GE expected the money to be spent right away; however, there were various obstacles that resulted in some money being left over beyond the time GE expected. Mercy Corps was learning that it was important to have upfront discussions with the corporate partner about how quickly money could be spent, and about the need to balance emergency relief with ongoing development work.

Communication Challenges

A second set of challenges was that Mercy Corps needed to be more sensitive to a corporation's communication requirements. For example, it learned from its work with JP Morgan Chase and Bright Horizons that it was important to provide one point person at Mercy Corps rather than many. Because of Mercy Corps' flat structure, it was not always clear who was in charge of a project or partnership. In the case of a more philanthropic partnership, it was also important for

Mercy Corps to set the terms of the relationship and not wait for the company to do so. Because corporations were not familiar with the steps involved in development work, they needed Mercy Corps to take the lead in setting goals and timetables.

Bright Horizons and other corporate partners also spoke of the need for frequent progress reports. They needed updates on how quickly the money was being spent and details about the projects and recipients of the donations. It was particularly important, Mercy Corps found, to provide the corporate partner with warm and personal stories about the good work that was being done. "JP Morgan Chase needed a big impact that could be documented and monitored," said Linda Mason, chairman and founder of Bright Horizons. Mercy Corps' marketing department was accustomed to writing stories for the organization's website, but corporations wanted more stories more quickly; it was not enough to wait for a final report at the end of the project. This was especially important to corporations when they had given employee matching grants, because they wanted to show their employees how the money was being spent. In response to this need, on several occasions Mercy Corps hired a writer to spend six to eight months in the field writing stories to report back to private corporations and foundations.

Funding Constraints

Another challenge was working with corporations to secure and sustain funding. Whereas a government agency would sign an agreement guaranteeing the amount of money to be provided over time, the relationship with a private company was more fragile. For example, if the company experienced a turnover of key personnel, it might put the partnership on hold or discontinue it altogether. Even if they entered into a more long-term partnership to support ongoing development work, some corporations were skittish about having their involvement publicized, because if they pulled out of the relationship, they would look uncharitable. A one-time donation in response to a disaster was simpler and offered no downside.

Because ongoing partnerships could be tenuous, Mercy Corps realized that it needed to work hard to build a relationship of trust with the business partner. In order to craft a partnership in which both sides had an equal stake in the results, it was important that Mercy Corps understand the company's core mission. But the investment of time could result in a long-term partnership. "With the corporate partners it's the relationship that counts," said Lynn Renken, director of programs for Indonesia. "Even if one project doesn't work out, there are others that come out of the relationship."

As it was cultivating these relationships, Mercy Corps was finding that there were advantages to working with a corporation's main business division, rather than its foundation arm. "We have learned from experience with CSR teams that you run the risk of partnering with a unit that may not be intertwined with the core business interests of the company," said corporate partnership advisor Hayley Hawes. "Businesses take positions based on their bottom line in the end, and it pays off when we talk to the core business unit first." Keny-Guyer made a similar argument: "If you can find the sweet spot, that area of convergence in which the strategic interests of a corporation mesh with the strategic interests of a humanitarian organization, then you've got a chance for more sustained impact."

The Next Frontier

Although Mercy Corps had just a few long-term corporate partnerships in 2007, there were others in the works. A major mobile phone manufacturer was in talks with Mercy Corps on a joint project to distribute phones in developing countries. Also, several financial service providers were

discussing the possibility of working with Mercy Corps to broaden access to banking services in remote areas of India, China, and other countries. Rather than traveling a day to get to a bank in the capital city, a villager might be able to go to a small kiosk to do his banking. These potential projects held mutual benefits for both partners because both wished to see the poor gain increased access to financial services and cell phones.

Mercy Corps was excited about its infant corporate partnerships, but it still faced some questions about how to proceed. First, there was concern within the organization about how to set the terms for a partnership. Which corporations were suitable partners, and how would Mercy Corps determine that? In addition, Mercy Corps was pondering what kind of partnerships to pursue. The optimal engagement seemed to be with a partner that had a stake in development work other than philanthropy. But how many of these partners were available? Should Mercy Corps attempt to create more partnerships of the Nike type, or should it focus on donations of cash and supplies?

There were also some questions about long-term relationships with corporations. Mercy Corps ideally wanted the corporation to have a direct relationship with the consumer in the developing country, and so the organization needed to think carefully about how long to stay in the partnership. As Doyle-Grossman said, "We don't want to be just a reselling arm for a corporation, but we do want to increase the flow of capital to the poor, and the introduction of technology is an important piece of that."

Perhaps most importantly, Mercy Corps was aware that it needed to be more proactive in cultivating corporate partnerships. Its current partnerships had come about in an ad-hoc way through personal connections: the Bright Horizons partnership had come through connections with Mercy Corps' board members; the Nike, Tazo Tea, and Ethos Water partnerships had come through regional connections in the Pacific northwest. But this was largely a reactive model, and Mercy Corps wanted to be more systematic about its strategy. Who within the organization should be pursuing these partnerships? Mercy Corps hoped that all staff members could think in a more consistent way about cultivating relationships with corporations. But its leaders wondered whether they should hire developers with a special expertise in crafting private-nonprofit partnerships.

In addition to reflecting on ways to improve its existing partnerships, Mercy Corps was already thinking about other possibilities. Perhaps it might create a hybrid organization with a private arm to offer its services to private clients. Perhaps it might offer risk reduction to companies in emerging markets through its community mobilization process. Perhaps Mercy Corps might get more involved with the corporate value chain by helping to link suppliers in a developing country with a corporation in America or Europe.

It was clear to Mercy Corps leadership that corporate partnerships were "the next frontier," as Aviel put it. But it was also clear that the frontier was still wild and uncharted. "We're in the early days of partnerships at a strategic business level," said Keny-Guyer.

This case has been developed with the cooperation of Mercy Corps for pedagogical purposes. The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

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Endnotes

¹ Case Writer, Yale School of Management.

² Professor, Yale School of Management.

³ "Change in Corporate Foundation Giving and Assets, 1987 to 2004," The Foundation Center's Statistical Information Service.

⁴ Allen Grossman and Caroline King, "Mercy Corps: Positioning the Organization to Reach New Heights," Harvard Business School Case Study 9-3-7-096, January 29, 2007.

Exhibit 1: The World of Mercy Corps

Ongoing Worldwide Programs, 2005

Africa

Eritrea
Ethiopia
Liberia
Niger
Somalia
Sudan
Uganda
Zimbabwe

Americas

Colombia
Guatemala
Guyana
Honduras
Nicaragua
United States
Venezuela

Balkans

Bosnia and Herzegovina
Kosovo
Macedonia
Serbia and Montenegro

Caucasus/Central Asia

Armenia
Azerbaijan
Georgia
Kazakhstan
Kyrgyzstan
Tajikistan
Uzbekistan

Middle East

Iran
Iraq
Jordan
Lebanon
West Bank and Gaza

South, East & Southeast Asia

Afghanistan
China
East Timor
India
Indonesia
Kiribati
Mongolia
Nepal
North Korea
Pakistan
Sri Lanka

Source: *Mercy Corps 2005 Annual Report*

Exhibit 2: Mercy Corps Financials, 1997-2005**Condensed Summary of Support, Revenue and Expenditures**

SUPPORT & REVENUE	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999*	FY 1998*	FY 1997*
Government and Organizational Support:									
Government Grants	\$77,125,488	\$86,832,551	\$84,535,704	\$62,660,683	\$40,588,411	\$41,813,948	\$29,957,649	\$13,873,324	\$10,654,709
International Organization Grants	3,273,954	7,793,232	1,878,838	2,562,159	2,224,727	8,799,185	3,649,257	1,906,033	2,328,587
Material Aid	21,682,209	11,420,473	15,355,833	17,531,549	14,795,944	36,521,260	37,733,799	24,537,110	13,831,225
Subtotal: Government & Organizational Support	102,081,651	106,045,956	101,770,375	82,754,391	57,609,082	87,134,393	---	---	---
Private Support:									
Contributions	22,189,581	6,922,117	7,305,522	7,566,822	6,259,134	6,049,692	4,379,568	2,636,298	2,271,301
Grants	10,501,085	4,007,137	2,584,596	4,200,494	2,298,531	3,740,511	---	---	---
Gifts in Kind	30,505,681	22,052,014	5,098,010	10,435,595	8,565,904	16,432,631	---	---	---
Other Revenue	3,198,338	1,981,614	873,850	1,253,374	1,547,028	382,528	682,468	609,257	2,161,323
Subtotal: Private Support	66,394,685	34,962,882	15,861,978	23,456,285	18,670,597	26,605,362	---	---	---
TOTAL SUPPORT AND REVENUE	168,476,336	141,008,838	117,632,353	106,210,676	76,279,679	113,739,755	76,392,741	43,562,022	31,247,145
EXPENDITURES									
Program:									
Project Expenditures	95,325,071	95,730,846	86,589,133	68,660,528	45,350,883	54,408,437	32,495,145	15,020,349	14,331,454
Material Aid	52,187,890	33,472,187	20,453,843	27,967,144	23,361,848	52,953,891	37,723,799	24,537,110	13,831,225
Subtotal: Program	147,512,961	129,203,033	107,042,996	96,627,672	68,712,731	107,362,328	70,218,944	39,557,459	28,162,679
Support Services:									
General & Administration	11,093,797	8,146,587	7,040,107	5,132,557	4,283,812	3,993,475	2,733,634	2,370,025	1,840,185
Resource Development	7,250,100	3,718,933	3,323,317	2,900,946	2,557,043	2,161,253	2,421,643	1,221,120	1,118,715
Subtotal: Support Services	18,343,897	11,865,520	10,363,420	8,033,503	6,840,855	6,154,728	5,155,277	3,591,145	2,958,900
TOTAL EXPENDITURES	165,856,858	141,068,553	117,406,420	104,661,175	75,553,586	113,517,056	75,374,221	43,148,604	31,121,579
NET	2,619,478	(59,715)	225,933	1,549,501	726,093	222,699	1,018,520	43,418	125,566

*Material Aid includes both governmental commodities and private gifts in kind. Therefore the line items are not comparable with other year

Exhibit 3: Mercy Corps-Tazo Tea Partnership Logo



Source: www.mercycorps.org/aboutus/pressroom/150

Exhibit 4: Mercy Corps Simplified Organizational Chart, 2007

