Research

Bidding for Development Aid

By Chana R. Schoenberger

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The paper breaks new ground in its understanding that successful organizations use guardrails to “embrace both sides, not trying to resolve the tension or get rid of it,” says Tyler Wry, an assistant professor of management at Wharton who studies hybrid organizations. “The unique value [in this paper] is the idea that when you’re trying to navigate between these dual missions, you want to have these processes, procedures, governance mechanisms put in place to make sure you don’t go too far in one direction or the other.”


**ECONOMIC DEVELOPMENT**

**Bidding for Development Aid**

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When governments seek to help less-developed countries, they often do so by awarding aid grants to meet some local need—hygiene, sanitation, infrastructure, or other demands that the country’s own government cannot satisfy—and hiring either a for-profit company or a nonprofit to do the work on the ground.

A working paper by two professors at HEC Paris (École des hautes études commerciales de Paris) examines the differences in behavior between these two types of organizations as they move through the formal procurement process for development assistance. The researchers, Marieke Huysentruyt and Bertrand Quelin, analyzed data from the UK’s Department for International Development (DFID), an agency with a vast global reach. DFID’s transparent bidding process yielded data points on how the agency identified each development project out for bid, how the bidders applied for the job, who won, and on what terms.

With data from DFID’s auctions between 1998 and 2003, the researchers were able to study how nonprofits and for-profits approached the bidding differently. They found that for-profits and nonprofits most of the time do not compete for bids. For-profits, which won more than 75 percent of all offers, dominated the market for “simple services that are easy to define upfront, where price matters a lot and where price-quality comparisons are comparatively easier to make.” But nonprofits dominated the auctions for development solutions, or “complex projects, which are costly to define precisely up front, where methodology is of key importance and price matters relatively less.”

These tendencies, driven by market and aid needs, lead to different roles for the two types. “For-profits tend to act as transaction-centric, agenda-takers, nonprofits as solution-centric, agenda-setters,” the researchers conclude. They also find that “contracts with for-profits typically involve much higher cost overruns,” while “contracts with nonprofits are cheaper but jeopardize public interests,” because they tend to address more complex problems and involve greater risk.

The concept behind forcing businesses and nonprofits to face off in bidding auctions for development work is that companies will tend to moderate their inherent greed to win bids for socially beneficial work, and nonprofits, through competition, will tend to adopt some of the professional characteristics of corporations, Huysentruyt says. But the researchers found that these competitive pressures are not typically operative, because the two types of organizations usually don’t compete directly with each other by bidding on the same projects.

These results were somewhat surprising, she says, because the researchers were expecting to find more convergence between nonprofits and for-profits. “What you see in the data is nonprofits clearly shy away from projects that are too tightly defined, that are too precise, where governments spell out clearly what they are looking for,” says Huysentruyt, an assistant professor of strategy and business policy.

Instead, nonprofits bid on projects that allow for wiggle room as they pursue their mission—and they receive weak scores in the bidding process for their ability to adhere to the posted bid notice. Companies, by contrast, bid on projects with rigid specifications, where they can provide a service or product for a fixed cost.

“In a setting like development aid, there is so much uncertainty, and it’s hard to write tight contracts that clearly specify what is needed when government sometimes doesn’t know itself,” she says.

The study is useful because it highlights one of the important problems in public procurement, says Oxford’s Stefan Dercon, an economic policy professor who served as chief economist for DFID for the past six years. “I can specify exactly what the products look like, what’s going to be procured exactly, but sometimes the agency won’t know exactly what needs to be done to solve the issue,” Dercon says.

While government agencies often find it easier to work with nonprofits, where the mission aligns more closely with the government’s development aims, the paper shows the importance of a stronger accountability framework and more precise language in the procurement process, Dercon says. For-profit contractors are more likely to charge the agency more if the project’s requirements change in the field—which they often do—requiring the agency to think of these contingencies in advance.

“You have to restructure the contracts to be much more outcome-based,” he says.

Research
Bottom-Up Corporate Social Responsibility
By Marilyn Harris

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Bottom-Up Corporate Social Responsibility
BY MARILYN HARRIS

As much as corporate social responsibility (CSR) programs have become a badge of respectability among firms, the truth is that they often languish. The reasons vary: Managers are frequently reluctant to sacrifice scarce resources, employees see them more as a chore than an opportunity, and participation is too quick and superficial to make an impact.

But a study by Bocconi University professor Christiane Bode and INSEAD professor Jasjit Singh examines an unusually successful corporate social initiative (CSI) that was created and led by an individual employee, got the buy-in of other employee participants and the company, and managed to become financially self-sustaining.

In their paper “Cross-Sector Convergence: Building Sustainable Collaborative Initiatives Inside For-Profit Firms,” the researchers focus on the emergence of this successful program and how it differed from the more typical top-down, management-directed CSR programs. Although management controlled the allocation of resources, the employee who launched the CSI acted as a social intrapreneur, by taking responsibility for its design and execution through his own initiative. Thus, the integration of societal concerns into the firm’s strategy became a bottom-up phenomenon.

“The vast majority of research on sustainability looks at the effects of programs already in existence,” says Daniel Korschun, associate professor at Drexel University’s LeBow College of Business. “This research draws back the curtain, so to speak, on how companies get engaged in the first place.”

The CSI was initiated by a senior manager who returned from a yearlong sabbatical related to development and wanted to pursue such work further at his management consulting firm. He sought to create a program for employees to offer their services to NGOs and aid agencies in the development sector.

To convince management, he would need to present a valid business case. He emphasized the intangible value of social initiatives for recruiting and retaining talent. As the plan evolved, he figured that management would be more amenable if the program were financially self-sustaining. He persuaded the firm to accept below-market fees that would cover costs and exclude profit margin and overhead. This required the typically resource-starved clients to pay a fee for the consulting, rather than receive it pro bono. With such buy-in, both the clients and the program participants found greater value in the engagement.

To make the program work, the CSI initiator believed—correctly, as it turned out—that motivated colleagues would accept a salary reduction for the project’s duration, of 25 to 50 percent, depending on the market location. His instinct that such a commitment would increase employee retention also proved correct, especially with younger employees, who are more interested in “hybrid” careers that combine business with social work.

To ensure the reintegration of the CSI employees into the commercial practice, the intrapreneur began framing the program in terms of its potential career benefits, such as real-world experience developing leadership skills. Participants would tackle more challenging roles, with more responsibility, than they might have been offered on consulting teams working with corporate clients. In post-project surveys, employees reported that the CSI experience boosted their confidence. The CSI experience was eventually integrated into performance evaluations, and the employees eventually associated their participation with positive career outcomes.

Throughout their analysis, the researchers were careful to distinguish employees’ actual prosocial behavior from their stated preferences, as well as the difference between the attitudes of CSI participants versus the rest of the employee population. While they found that not everyone would be interested in participating, Bode says, “there is in fact a large sustained interest in the overall population,” which indicates that such programs could be scaled up.

The researchers compared the consulting firm’s CSI program with a top-down CSR program launched by a healthcare company where employees were assigned for about a month to a social-impact project funded by the corporate CSR budget. Participants were not selected for matching skills or personal incentive, so there was little invested by any stakeholder, including the client, which received the services pro bono. When the company faced a financial downturn three years after the launch, the program was terminated.

In the more than 15 years since the management consulting firm’s first CSI project was launched, more than 1,000 projects have been completed. “Now the NGO clients seek out the firm, while the firm continues also to seek out clients by being involved in various initiatives and networks where corporations connect with NGOs and development organizations,” Bode says. In addition, private companies are hiring the consulting firm to help promote their own CSRs and sustainability agendas and pay full fees for such services.

Research
Collaborating is Hard Work
By Marilyn Harris
Collaborating Is Hard Work

BY MARILYN HARRIS

Social and organizational researchers are studying new models for addressing large-scale, complex challenges through cross-sector collaborations. Online platforms, in particular, have enabled greater participation in projects by organizations and people from different sectors and parts of the world.

Professors Anne-Laure Fayard and Beth Bechky of New York University studied a two-year development project that brought two different groups together via an online platform. Their research revealed critical weaknesses around the interests, expectations, and power dynamics of the initiative’s collaborators that offer lessons for such partnerships.

The project sprouted from a program that aimed to increase collaboration for large-scale international aid using human-centered design, which seeks to design solutions with end-users, rather than simply for them. AIDIA Social Impact, the nonprofit arm of AIDIA, a design and innovation consultancy, issued an innovation challenge in 2014 on its open-innovation online platform. The challenge focused on women’s safety and invited human-centered design solutions to empower women and girls in low-income urban areas.

A team comprising a US-based university student organization called Change Makers conceived of the winning idea, “Women’s Co-op,” which would create a “community concierge” to help connect women within a community and with other communities and keep them informed. Their idea, however, needed a partner on the ground. So they teamed up with a Nepal-based NGO called Women Empowered that had had some difficulty funding their program for widows in the slums. (All individual and organization names used in the study are pseudonyms.) The two groups connected on the challenge’s online platform.

Over several months while communicating at a distance, the teammates appeared to share common interests in community-based action, training, and the human-centered design approach. The project was lightened by the funder. At this point, the experiment began to go off the rails. The project initially stalled because AIDIA Social Impact provided no clarity on how the funds would be allocated, when they would begin to flow, and what kind of design support the project would receive. Then conflicts began when a new contact person at AIDIA Social Impact decided that Change Makers should get a share of the funding as the inventor of the idea and collaborator. (The organization had initially decided that Women Empowered would get the funds.) The contact person also urged direct on-the-ground involvement by Change Makers as a precursor to disbursement. “Keeping funding dependent on each iteration (as it was originally planned) would have also ‘encouraged’ dialogue to take place,” says Fayard. But Women Empowered was dismayed by the change.

There was even more turbulence over the next six months: The lead project personnel at Women Empowered changed, and a two-day workshop that AIDIA Social Impact designers held with Change Makers went badly. “It became clear that AIDIA Social Impact designers not only had a superficial knowledge of the winning idea but thought the team should start from scratch with research,” Fayard and Bechky write. It also became clear to Change Makers that Women Empowered’s senior management was not interested in experimenting with human-centered design. “Women Empowered had more of a planning, formal approach and thus developed a program up front without any room for feedback from the users and tinkering along the way,” Fayard says.

From this point, the abyss widened. Two major earthquakes in the area delayed the project longer. Then Women Empowered’s director alienated both Change Makers and AIDIA Social Impact by demanding the funds and dismissed both parties’ contribution to the project going forward. The partners felt betrayed by each other and by AIDIA Social Impact.

The project’s pilot program was finally launched, with Change Makers’ faculty advisor and three students running a weeklong series of workshops with the women in the slum, who were “incredibly engaged and committed.” But the positive feeling from this was temporary. Women Empowered used the remaining funding for a different effort, related to its original focus on rural areas and following its old routines, and the project petered out.

“Collaboration is hard to do wherever it takes place,” says Michele Kahane, associate dean of educational innovation at The New School’s Milano School of International Affairs, Management, and Urban Policy. “If funders want collaboration between organizations to succeed, they need to make the additional investment to build strong collaborations. Cross-sector collaborations require a new type of financing model including seed funding for planning, capital investment, and ongoing working capital to support collaboration.”

Research
Harmonizing Tension of Hybrid Organizations
By Chana R. Schoenberger
HARMONIZING TENSION OF HYBRID ORGANIZATIONS

BY CHANA R. SCHOWENBERGER

How can an organization sustain both a social mission and a for-profit venture? While some social enterprises are successful at melding these two imperatives, many fail, or tip too far to one side or the other. In a new paper, Marya Besharov of Cornell University and Wendy Smith of the University of Delaware provide a 10-year case study of one such entity, Digital Divide Data, which combines a money-making business with a mission to help disadvantaged rural citizens of Cambodia and other impoverished countries gain skills and jobs in information technology. DDD, which continues to thrive nearly two decades after its founding in 2001, has managed to navigate the challenge of its disparate goals in two ways, which Besharov and Smith dub “guardrails” and a “paradoxical frame.” Guardrails are structures or processes within the organization that allow leaders to bump safely against them as they work to integrate the group’s dual mission. Such structures go beyond corporate governance to include hiring leaders with the right backgrounds: “Are you hiring people with expertise in the kinds of social problems and social issues you’re trying to address?” Besharov asks.

The paradoxical frame is a mind-set that allows for pursuing two divergent goals at the same time. While many organizations would find this problematic for their strategic direction, a successful hybrid entity like DDD explicitly discusses how to achieve both social and business goals, seeing them as “interdependent and synergistic,” Besharov says. In some cases, the group’s leaders had to explain to their local managers how to pursue the dual mission, since there were no similar groups in Cambodia when DDD was founded.

“Competing demands don’t have to be an either-or,” Smith says. “They don’t have to be contradictory.”

The paper’s key insight is that hybrid organizations use the guardrails as a guide while analyzing strategy through the paradoxical frame. “The path to sustainability is developing systems and processes and continuing to adapt over time,” Besharov says.

The researchers studied DDD through a combination of on-site visits over several years and the analysis of a vast trove of archival papers and electronic materials relating to the organization. Access to such data and the ability to track the group over such a long time makes the paper unique, according to Besharov. “Had we studied them for two years, we would have come out with a different answer that would have only shown what worked over that period,” she says.

The question of how hybrid organizations thrive is a crucial attending the conference. Their work on open innovation platforms for social innovation, on collaborative initiatives inside for-profit firms, and on auctions in development aid shows how asking relevant questions and applying rigorous methods are important to be more effective in cross-sector social innovation. We have added a fourth report on a related research study about the dynamic internal tensions of hybrid organizations that combine for-profit and social goals.

—JOHANNA MAIR

SOCIAL ENTERPRISE

CROSS-SECTOR SOCIAL INNOVATION

April 5 through 7, 2018, the Social Innovation and Change Initiative at the Harvard Kennedy School hosted the “Rethinking Cross-Sector Social Innovation” conference. Almost 100 scholars from various disciplinary and geographical backgrounds shared their research. The event sought to promote a more systematic effort to build a knowledge base on how we can tackle societal challenges that require a concerted effort across sectors. We offer reports on three research studies presented by scholars
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