The Role of Cross-Sector Partnership Portfolios in the Inclusive Business Strategies of Multinational Enterprises

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New Policy Challenges for European Multinationals

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CHAPTER 7

THE ROLE OF CROSS-SECTOR PARTNERSHIP PORTFOLIOS IN THE INCLUSIVE BUSINESS STRATEGIES OF MULTINATIONAL ENTERPRISES

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ABSTRACT

Purpose – *This chapter considers the question whether firms can contribute to poverty alleviation through engaging in 'inclusive business', thereby linking the macro concept of 'inclusive growth' to the micro concept of 'inclusive business'. A key element in this approach is how to take so-called cross-sector partnerships into account. Partnerships are one way of bundling non-market resources in the internationalisation strategies of multinational enterprises (MNEs).*

Design/methodology/approach – *This chapter is largely exploratory and primarily aimed at validating a general taxonomy of inclusive business. The creation of a multi-level taxonomy of business models of MNEs towards inclusive business takes into account the role of cross-sector partnership portfolios. The taxonomy makes it possible to come to a first comparison of the strategies of MNEs across national and cultural*

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boundaries, distinguish some patterns and discuss determinants of strategies in which partnerships play a role in the inclusive growth strategies of MNEs.

Findings – *A first application of this taxonomy on the business and partnership models adopted by the first 100 Global Fortune companies shows that in general firms still adopt very reactive strategies when integrating inclusive business strategies in their cross-sector partnership portfolios.*

Originality/value of chapter – *This chapter takes a company-specific level of analysis for the relationship between Foreign Direct Investment and development, which is habitually researched at the macro level of analysis. It documents business models as well as the related cross-sector partnerships. Cross-sector partnership portfolios of companies are not yet researched at any systematic level. They form the meso-level link between micro-level business models and macro-level national development strategies.*

Keywords: poverty alleviation; partnerships; inclusive business; inclusive growth; sustainable development; multinational enterprise (MNE)

INTRODUCTION

Mainstream studies in international business and international (development) economics generally take a macro-economic point of view and focus primarily on the impact of inward Foreign Direct Investment (FDI) on the growth of the economy ('development') as a whole. This approach abstracts from assessing in any detail the action of multinational enterprises (MNEs) which often represent a small group of investors in a country. Often, not more than a handful MNEs define up to 50% of the total FDI stock in most developing countries (cf. Van Tulder & Van der Zwart, 2006). This makes 'development' a small numbers game as regards the core international actors. The effectiveness of development policies, in particular the question to what extent an economy need to be open towards FDI and trade or apply specific forms of regulation in order to be successful (Rodrik, 2006), depends on properly assessing the intended and unintended effects of MNE strategies.

This chapter focuses on the role of cross-sector partnership portfolios in the inclusive business strategies of the largest MNEs. By doing this, this chapter brings an 'actor perspective' back into the study of development. This chapter explores the implicit or explicit strategies of the 100 largest companies in the world towards inclusive business and partnerships as mentioned in their annual and corporate social responsibility (CSR) reports. This approach takes stock of the 'narratives' developed by MNEs as an expression of their intended and (perceived) realised strategies (cf. De Wit & Meyer, 2010). Formulating and implementing strategies in a complex world is always surrounded by major uncertainties, but the extent to which MNEs take an inactive or a more active approach is often illustrative of the wider strategic realities firms are facing (cf. Van Tulder, Van Wijk, & Kolk, 2009).

The chapter continues as follows. The second section considers how the link between development and FDI has been treated in mainstream development literature and concludes that it is becoming increasingly important not only to deal with passive and direct effects of MNE activities in host (developing) countries but also to address active and indirect effects. Some business models are more 'inclusive' than others, as will be elaborated in the third section. This section explains the different approaches or general business models MNEs can adopt towards development. The fourth section then elaborates this more in specific for the role of partnership portfolios in these generic business models. MNEs can take an inactive, a reactive, an active or a proactive attitude towards inclusive business in general and partnerships can take different roles. The fifth section reports on the methodology and sixth section discusses the general and more specific results of an exploratory, systematic study amongst the 100 largest MNEs in 2010. It analyses the role played by partnerships in inclusive business strategies and considers to what extent specific 'countries of origin' and specific sectors have a more or less active (inclusive) approaches. The seventh section draws some first conclusions for policy makers and business strategists.

MULTINATIONAL ENTERPRISES AND DEVELOPMENT

The relationship between FDI and 'host country' development generally represents the relationship between 'inclusive business' and 'inclusive growth' (Meyer, 2004). Recent thinking argues that for an understanding of that relationship, the various mechanisms through which MNEs can have an effect on development in particular have to be taken into consideration. For example, the creation of local backward linkages is often seen as very beneficial for local firms, as these linkages may enhance their sales and access to markets, and enable them to benefit from technology transfer and training of the MNE. However, there are many other mechanisms that play a role and need to be addressed when evaluating the host country development consequences of foreign firms, foreign investments and partnerships of MNEs with local firms. Examples of such mechanisms include technology transfer through labour migration or demonstration effects; competition and market structure effects; the sheer size effects of investments and forward linkages. These have all been identified in the economic and business literature as the economic growth consequences of FDI. This also calls for a more active approach of MNEs in development: both as key partners in the process of societal transformation (Stiglitz, 1998) and in activities related to Corporate Responsibility such as implementation of environmental, health and safety management systems at their production sites, as well as engagement in philanthropic projects (Table 1).

In Table 1, the type of effect is positioned on the vertical axis, and the role of the MNE on the horizontal axis. The type of effect captures the conventional distinction between the direct effects of an investment, which occur solely at the site of the MNE, and the indirect effects, which occur at firms related to the (activities of the) MNE. For example, the workers employed by an MNE constitute the company's direct employment effect, whereas the employment an MNE creates at a local supplier due to increasing demand for this supplier's products constitute part of its indirect

Table 1. Mechanisms Through Which MNEs Affect Sustainable Development.

Type of effect	MNE role		
	Passive	Active	
Direct (at MNE site)	Size effects (for capital base, employment, environment)	EH&S practices, labour conditions	INCLUSIVE BUSINESS ↓
Indirect (beyond MNE site)	Competition, technology transfer, linkages, alliances, income distribution	Philanthropy, public private partnerships, supplier conditions	
	→ INCLUSIVE GROWTH		

Source: Based on Dunning and Fortanier (2007).

effects for employment. The second variable, the role of the multinational, distinguishes between active (purposeful) and passive roles.

Passive Effects

Passive effects of an MNE for host country development are those effects that occur through 'standard business practice'. They are relatively well documented, especially for the economic dimensions of development. *Direct* passive effects occur when an investment by an MNE adds to the host country's savings and investment volume, and thereby enlarges the production base at a higher rate than would have been possible if a host country had to rely on domestic sources of savings alone. FDI may thus build up sectors or industries in which local firms have not (yet) invested in, or enlarge the scale of existing firms, plants or industries. Positive direct effects may also lie in salvaging and recapitalising inefficient local firms (Lahouel & Maskus, 1999), thereby assuring that the scale of production at least does not decrease. Direct passive effects can be measured rather easily: it is the net increase or decrease in output and productivity, employment (quantity and quality), and pollution, at the site of the MNE investment.

The *indirect* passive effects are those effects of inward investment that are generally designated as 'spillovers' or 'multiplier effects' in the economic literature. For example, linkages with buyers and suppliers are an important means through which MNEs can impact upon economic growth, since it is unlikely that MNEs can fully appropriate all the value of explicit and implicit knowledge transfers with their host country business partners (Blomström, Globerman, & Kokko, 1999). Many empirical studies have found evidence of the creation of both backward linkages (e.g. Alfaro & Rodriguez-Clare, 2004; Javorcik, 2004) and *forward* linkages (Aitken & Harrison, 1999).

In addition, an investment of an MNE changes the market structure of the industry. Such investments can stimulate competition and improve the allocation of resources, especially in those industries where high entry barriers reduced the degree of domestic competition (e.g. utilities). Fears are sometimes expressed that MNEs may also crowd out local firms, which does not have to be problematic if they are replaced by more efficient firms, but that could also increase market concentration to such an extent that resource allocation could diminish (Cho, 1990). From a political and social view point, it may also be seen as undesirable.

Finally, since MNEs are frequently key actors in creating and controlling technology (Markusen, 1995; Smarzynska, 1999), they can be important sources for spreading managerial skills and expertise on products or production processes – either intentionally or unintentionally – to host country firms (Blomström et al., 1999). Macro-economic studies on the net effect of FDI on host country development focus primarily on these passive effects and have remained rather inconclusive on their outcome. It has been found that the net effect strongly depends on such contingencies as the country of origin of the investment, the host country institutions, sector effects and the nature of the strategy of the multinational corporation itself (Fortanier, 2008).

Active Effects

The active effects of MNEs are receiving increasing attention. The active role of MNEs in fostering development can also be divided into direct effects – that occur at the facilities of the MNE themselves – and indirect effects – that occur externally.

Direct active effects encompass the environmental, health and safety, and employment practices of a multinational at its subsidiaries. Recent studies (Fortanier & Kolk, 2007) show that approximately 70% of the largest 250 firms worldwide are actively promoting workforce diversity and equal opportunity, good working conditions and training. A similar number of firms address climate change issues and direct greenhouse gas emissions. Labour rights such as collective bargaining and freedom of association are mentioned by one-third of all firms. In addition to engaging in CSR activities within a firm's boundaries, MNEs have also started to contribute to society in a more indirect way (i.e. outside their own facilities) through philanthropy and community investments, or through requiring their suppliers to adhere to social and environmental standards as well. A KPMG (2005) study showed that 75% of the largest 250 firms worldwide say to be involved in philanthropic activities, and almost 50% has an own corporate charitable foundation. Schooling and educational projects are most popular to contribute to (66%), followed by health programs including HIV/AIDS relief efforts (40%). These corporate philanthropy activities signal the growing acknowledgement of the importance of 'social capital' and civil society for the correct and profitable operation of business (cf. Wood, Logsdon, Lewely, & Davenport, 2006). Philanthropy is increasingly thereby represented as a vital aspect of (global) corporate citizenship. According to Zadek (2003), MNEs are entering the phase of 'third generation corporate citizenship' which represents a far more active and open approach to civil society than before.

When active (inclusive) business models reinforce the positive indirect effects that go beyond the direct impact of corporate activities (beyond the MNEs site), inclusive business and inclusive growth models are mutually reinforcing (shaded areas in Table 1).

CLASSIFYING INCLUSIVE BUSINESS MODELS

Although companies in the 1990s did hardly have tools for inclusive business models available, this rapidly started to decline since the early 21st century. First, measurements on the impact of MNEs' activities on poverty alleviation became available. The Global Reporting Initiative (GRI) tried to link the core activities of businesses to the Millennium Development Goals (MDGs) in the form of concrete reporting guidelines, for example by measuring the creation of jobs in the formal sector, which is considered critical in escaping the poverty trap. Second, labelling represents another way companies can attempt to impact on poverty. Labels enable a company or a group of companies to communicate its commitment to society and provide consumers with information on the quality and contents of products. Especially, fair trade labels have started to serve as a means of communicating the corporate approach to poverty alleviation. Third, codes of conduct help corporations to level the playing field and promote standards that can overcome the lack of regulation in many countries on issues related to poverty (in particular on working conditions and minimum wages). Important developments have been in the form of the Ethical Trading Initiative (ETI) and the Fair Labour Association (2007), which sought to define, for instance, a 'living wage' and 'no excessive working hours'.

Fourth, new business models have become available that approach the issue of poverty from either a positive or a negative side. The 'Bottom of the Pyramid' thesis (Prahalad, 2005) takes the positive road. It advises companies to focus their resources on for billion 'forgotten' consumers and innovate in order to develop products and services that meet the needs of the poor. A major problem with the bottom of the pyramid (BOP) strategy, however, is that part of the 'market' at the bottom of the pyramid is in practice already served by local firms and the informal economy. Multinationals therefore can crowd out more local firms and local employment than they create. Two types of BOP strategies have to be distinguished therefore: a 'narrow BOP' strategy that only focuses on the market opportunities and a 'broad BOP' strategy that takes the wider repercussions and the net (direct as well as indirect) effects of the strategy into consideration. A narrow approach has 'market substitution' effects, a broad BOP approach aims at 'market creation'. Only the latter approach can turn BOP strategies into a viable business contribution to inclusive growth.

Wilson and Wilson (2006) take the negative road and point at the threat to reputation and security of, in particular, international corporations if the 'issue' of poverty and the relationships with developing countries are badly managed. They include the 'country risk' argument from International Business theory. The claim is that there is a true new business model developing in some developing countries. Prahalad (with Krishan, 2008) later on build upon these same ideas to produce an even more generic model of innovation in which producers and communities (of users, suppliers and the like) 'co-create' systems that are claimed not only to be economically feasible but also socially desirable.

Finally, partnerships are an important part of an inclusive business strategy. Austin (2000a, 2000b, p. 44) labelled partnerships between public and private parties as the 'collaboration paradigm of the 21st century' needed to solve 'increasingly complex challenges' that 'exceed the capabilities of any single sector' (cf. Selsky & Parker, 2005). Since the 2002 World Summit on Sustainable Development (WSSD), 'cross-sector' partnerships have become important instruments for addressing problems of global development and reaching the MDGs, in which the contribution of companies is seen as crucial. All multilateral institutions that propagate 'inclusive business/growth' have identified meaningful cross-sector partnerships as a prerequisite for active business models.

A Taxonomy

The contribution of CSR strategies to align the interests of the poor and consequently lead to an 'inclusive business' model depends on the circumstances and the concrete elaborations of business strategies in developing countries (Blowfield, 2005). The attempt to classify business models in terms of their drivers and dynamics goes back to Post (1979), who was the first to introduce the distinction (amongst others) between reactive and proactive strategies. With this distinction, he followed a 'stakeholder' view of the firm. Firms in interaction with increasingly critical stakeholders – represented by non-governmental organizations (NGOs) as well as governments – in this approach face the tension between a defensive (reactive) and an accommodative/preventive (proactive) strategy. All taxonomies in the tradition of the stakeholder theory of the firm largely introduce comparable distinctions. The resource-based view of the firm adds 'intrinsic' motivations to the stakeholder view. Depending on their capabilities and own ambitions, managers manage the tension between an inactive and active attitude. These two types of tensions applied to two types of general strategies introduced earlier (passive/active) result in four specific CSR approaches with different procedural attributes in which the very CSR abbreviation also has four different meaning (Van Tulder et al., 2009). Table 2 summarises key characteristics of the four CSR approaches together with an operationalisation of indicators of inclusive business strategies, which links the macro-economic modelling of firm strategies to the strategic perspective and narratives of individual firms in this section.

An *inactive* approach reflects the classical notion of Milton Friedman that the only responsibility companies (can) have is to generate profits, which in turn generates jobs and societal wealth and can therefore be considered a form of CSR. This is a fundamentally inward-looking (inside-in) business perspective, aimed at efficiency in the immediate market environment. Entrepreneurs are particularly concerned with 'doing things right'. Good business from this perspective equals operational excellence. CSR thus amounts to 'Corporate *Self* Responsibility'. This narrow approach to CSR requires no explicit strategy towards poverty alleviation. It aims at the prime 'fiduciary duties' of managers vis-à-vis the owners of the corporation, which could imply affordable products, the growth of the corporation, paying taxes and job/employment creation, but only as indirect by-product of a strategy aimed at profit maximisation. When faced with the trade-off between job creation and efficiency enhancement (or shareholder value maximisation), these firms will choose for the latter. The company is relatively indifferent towards the issue of poverty. The corporation stresses economic growth (general efficiency) and its general contribution to that as precondition for poverty alleviation, without further specification of its own contribution. The company is extremely passive towards including poverty-related initiatives in its (core) business practices.

A *reactive* approach shares a focus on efficiency but with particular attention to not making any mistakes ('don't do anything wrong'). This requires an outside-in orientation. CSR translates into Corporate Social *Responsiveness*. Corporate philanthropy is the modern expression of the charity principle and a practical manifestation of social responsiveness. In this approach, the motivation for CSR is primarily grounded in 'negative duties' where firms are compelled to conform to informal, stakeholder-defined norms of appropriate behaviour (Maignan & Ralston, 2002). The

Table 2. Four CSR Approaches Towards Inclusive Growth.

Passive		Active	
Inactive	←------------------------→	Active: go-it-alone	
	Reactive	←------------------------→	Pro-active partnership
Definition of CSR			
'Corporate *Self* Responsibility'	'Corporate Social *Responsiveness*'	'Corporate Social *Responsibility*'	'Corporate *Societal* Responsibility'
Main characteristics			
• Legal compliance and utilitarian motives • Efficiency • Indifference • Inside-in • 'doings things right' • 'doing well'	• Moral (negative) duty compliance • Limit inefficiency • Compliance/reputation • Outside-in • 'don't do things wrong' • 'doing well and doing good'	• Choice for responsibility and virtue • Equity/Ethics • Integrity • Inside-out • 'doing the right things' • 'doing good'	• Choice for interactive responsibility • Effectiveness • Discourse ethics • In-outside-in/out • 'doing the right things right' • 'doing well by doing good'
• Resource-based view	• Shareholder view	• Capabilities view	• Stakeholder view
• Marketing/demand approach		• Marketing and production: supply and demand	

Approach to poverty alleviation			
• No explicit statements on poverty • We create jobs and employment (by-product of profits) • Affordable products • No code of conduct and low compliance likelihood • No explicit support for labels • No separate business model for poor	• Narrow BOP • Creation of local employment used defensively • Micro-credits as philanthropy • Vague code and low specificity as regards poverty • Support for Global Compact and modest support for GRI • Dialogue vaguely mentioned	• Statement on moral unacceptability of poverty • Definition of 'decent wage' • Broad BOP • Micro-credits as business strategy • Technology and knowledge transfer • Explicit support for MDG1 • Support for GRI • Specific codes on poverty and fair trade	• Separate (strategic) business model for the poor • Explicit support for all MDGs • Active partnerships on poverty • Explicit codes, strong support of GRI • Technology and knowledge transfer specified for poverty • High specificity and high compliance likelihood of codes • Dialogues as an explicit tool
Link between inclusive business model and inclusive growth			
• No link	• Weak defensive link	• Weak positive link	• Strong positive link

concept of 'conditional morality', in the sense that managers only 're-act' when competitors do the same, is also consistent with this approach. This type of firm deals with the issue of inclusive business primarily when confronted with actions of critical stakeholders, for instance in the area of 'working poor' (Wal-Mart) and in an effort to limit the negative influences of firm strategies on poverty or restore corporate legitimacy (Lodge & Wilson, 2006). Primarily in reaction to concrete triggering events – and often not spontaneously – these companies legitimise their presence in developing countries or in socially deprived regions by arguing that they potentially transfer technology, contribute to economic growth and create local job opportunities, but without specifying it in concrete terms or taking up direct responsibility. The company wants to reduce its vulnerability as regards the issue of poverty. Poverty becomes in particular an opportunity when the growth possibilities in the existing markets are declining. The bottom of the pyramid is narrowly addressed as a marketing opportunity. Support for guidelines like the UN's Global Compact – that was neither specific nor requires high compliance likelihood before the secretariat engaged in a major upgrade in 2008 – is the typical approach of a reactive CSR strategy (see Kolk & Van Tulder, 2005).

An *active go-it-alone* approach to CSR is explicitly inspired by ethical values and virtues (or 'positive duties') of the entrepreneur itself. Such entrepreneurs are strongly outward-oriented (inside-out) and they adopt a 'positive duty' approach. They are set on doing 'the right thing'. CSR in this approach gets its most well-known connotation – that of Corporate *Social* Responsibility. This type of firm has a moral judgement on the issue of poverty and tries to come up with a number of activities that are strategic (core activities) and/or complementary to its own corporate activities. Such firms for instance can define what 'decent wages' are and can come up with substantial philanthropy activities towards poverty alleviation in markets where it is not active. The reactive firm will primarily locate its philanthropy in the vicinity of its corporate activities (thus the growing attention for so-called strategic philanthropy). The active company accepts (partially) responsibility for the issue of poverty, in particular where it is directly related to its own activities and responsibilities. Poverty (the bottom of the pyramid) is explicitly addressed as a morally unacceptable issue for which perhaps entrepreneurial solutions exist. The (indirect) job-creating effects of the company with its suppliers are also specified. In case this company embraces, for instance, micro-credits, it is seen not only as a regular market opportunity or a public relations (PR) instrument but also as a strategic means for reaching the real bottom of the pyramid for which concrete criteria should be developed to measure its effectiveness and create ethical legitimacy.

A *proactive* CSR approach materialises when an entrepreneur involves external stakeholders right at the beginning of an issue's life cycle. This proactive CSR approach is characterised by *interactive* business practices, where an 'inside-out' and an 'outside-in' orientation complement each other. In moral philosophy, this approach has also been referred to as 'discourse ethics', where actors regularly meet in order to negotiate/talk over a number of norms to which everyone could agree (cf. Habermas, 1990): 'doing the right things right' (or 'doing well by doing good'). This form of Corporate *Societal* Responsibility (Andriof & McIntosh, 2001, p. 15) shifts the issue of CSR from a largely instrumental and managerial approach to one aimed at managing strategic networks in which public and private parties have a role and firms actively strike partnerships with non-governmental organisations to come up with more structural solutions to poverty. The former CEO of Unilever, Anthony Burgmans, in this context equates 'CSR' with 'Corporate *Sustainable* Responsibility' – thus combining inclusive business and inclusive growth. Firms that aim at a proactive poverty strategy are most open to the complex and interrelated causes on poverty and acknowledges that poverty can only be solved through partnerships and issue ownership of all societal stakeholders involved. This type of firms is also willing and able to see the problematic relationship between low wages and/or low prices with low economic growth which could hamper a more structural approach to poverty. A possible legal elaboration has been provided by Lodge and Wilson (2006) who introduced the construct of a 'World Development Corporation' – a UN-sponsored entity owned and managed by a number of MNEs with NGO support.

THE ROLE OF CROSS-SECTOR PARTNERSHIP PORTFOLIOS IN INCLUSIVE BUSINESS MODELS

Cross-sector partnerships form an increasingly important tactical and strategic link between inclusive business and inclusive development strategies. At present, every large company seems to have a 'portfolio' of cross-sector partnerships.

Portfolio management is a well-established discipline in management research, but not (yet) in cross-sector partnerships. The area that comes closest is that of intra-sector strategic (firm–firm) alliances. The dynamics, logic and performance of strategic alliances between firms have been a topic of research for the last 30 years. But the actual management of alliance portfolios at the consolidated level of individual firms has not been addressed until relatively recently, mostly due to methodological and theoretical complexities. Many, very basic questions therefore remain unresolved. In a professional development workshop on managing alliance portfolios at the 2010 Academic of Management Meeting, the following basic questions for further research were listed:

- Why do firms build alliance portfolios?
- How do they make specific choices?
- How do alliance portfolios evolve?
- How can alliance diversity be measured?
- How can an alliance portfolio be governed?
- What capabilities are needed to have a successful alliance portfolio?
- What is the relationship between the actual portfolio and the firm's performance?

Unfortunately, even research on intra-sector partnerships is in its start-up phase, notwithstanding its obvious relevance. Managing strategic firm–firm alliances is an extremely challenging and difficult task to many companies. According to several studies, between 40% and 70% of all alliances fail to achieve their objectives (cf. Lavie, 2009). As a result, alliance termination rates are over 50% (Lunnan & Haugland, 2008), and in many cases terminations have resulted in shareholder value destruction for the companies involved (Kale, Dyer, & Singh, 2002). Firms have engaged in an increasing number of alliances due to growing competition, rapid technological change and discontinuities within most industries. This (potentially) allows them to have better access to resources, enter new markets or arenas more easily and to minimise their risk (Kale & Singh, 2009). Managing individual strategic alliances is already challenging, but successfully dealing with the diverging needs of all the strategic alliances it is engaged in is an even greater challenge. The increasing number of strategic alliances managed by one firm adds considerable complexity to the issue. Lavie (2009) explains that managing the bundle of strategic alliances poses increasing challenges for managers, regardless of whether a company establishes a dedicated alliance function or delegates partnering decisions to alliance managers.

Firm–firm alliances are comparable to cross-sector partnerships for at least four reasons: (1) the alliance partners want to keep their independence, (2) they work on shared goals, (3) they search for complementarities in their resources and/or skills and (4) in the actual project, they have to deal with important practical (dependency and power) questions that are different from their 'normal' way of organising in order to make the partnership effective. The first and third reason in particular distinguish inter-firm alliances from Mergers & Acquisitions (M&As). The general problems that firm–firm alliances face are exacerbated in cross-sector partnerships. For instance, cross-sector alliances involve actors from different spheres in society that clearly 'speak a different language' – often combined with different organisational cultures. Firms, NGOs, government organisations, universities, international organisations and local communities have different goals, objectives and identities. Although firms might share a 'profit' goal, alliance partners from different sectors by definition have different goals. However, firms can also have very diverse goals (even if they operate in the same industry), whereas some societal groups increasingly resemble corporations.

Too simplistic comparisons between intra-sector alliances and cross-sector partnerships are not warranted: cross-sector collaborations present unique challenges. 'Managers who view cross-sector relationships as a completely new type of collaboration may not see how to leverage their firms' existing expertise in alliance-building. Alternatively, treating these alliances the same as typical business alliances can doom them from the start' (Rondinelli & London, 2003, p. 62). 'Managers seeking to successfully create alliances with non-profit organization (NPO), especially those that focus on the corporation's internal operations, must rely on strategic criteria that can both effectively utilize the firm's existing competencies in intra-sector (business-business) alliances and develop the new skills needed to make cross-sector (business-NPO) alliances succeed' (Rondinelli & London, 2003, p. 63).

A holistic approach is needed to manage the whole portfolio (cf. Parise & Casher, 2003). This includes the following activities: (1) partner selection based on portfolio fit, leveraging knowledge across partners and managing alliances as a set of competences (Duysters, de Man, & Wildeman, 1999); (2) performance measurement on the individual alliance, alliance portfolio and alliance strategy level (Bamford & Ernst, 2002; Hoffmann, 2005; Parise & Casher, 2003); (3) exploiting synergies and avoiding conflict across the entire portfolio (Hoffmann, 2005; Parise & Casher, 2003); as well as (4) developing and implementing the portfolio strategy, monitoring and coordinating the portfolio, and establishing an alliance management system (Hoffmann, 2007). Synergies in alliance portfolios include knowledge transfer across alliances (Powell, Koput, & Smith-Doerr, 1996), economies of scale and scope (Doz & Hamel, 1998), and the development and institutionalisation of firm-level alliance capability (Kale et al., 2002). In the literature, this holistic and synergy-oriented approach is also known as the *alliance portfolio effect*, which makes the overall value created by an alliance portfolio greater or smaller than the sum of the values created by each individual alliance in the portfolio.

There are three general portfolio characteristics that are particularly relevant – next to a host of other characteristics related to the quality of the partner, the fit with the own organisational goals and the actual management of the portfolio, which will not be covered in this chapter:

Portfolio size: The literature on firm–firm alliance portfolios argues that engaging into simultaneous alliances with different partners can help firms accelerate their learning on how to design and manage alliances (Anand & Khanna, 2000), as well as provide them with a broader range of resources (Ahuja, 2000; Gulati, 2007). The size of a portfolio is not considered a sufficient determinant of performance. Factors such as portfolio breadth, efficiency and alliance partner quality are also important factors (cf. Wassmer, 2010). Being connected to high-quality alliance partners, for instance, is said to enhance the reputation of a focal firm (Stuart, 2000). In addition, the literature says that a small set of alliances with diverse partners may yield more diverse resources, information and capabilities for less cost than a large set of alliances with similar partners (Baum, Calabrese, & Silverman, 2000). This line of argument could apply to cross-sector partnerships in particular, but has not been researched.

Portfolio density: In the firm–firm alliance literature, the density of the ties in the partnership relates to the quest for an optimal alliance portfolio. An optimal portfolio contains a balance between both 'cohesive' and 'sparse' collaboration patterns (Padula, 2008) or between weak and strong ties. For instance, cohesive and sparse alliances have been shown to play complementary roles in supporting firm innovation, each adding to the value of the other. Firms combining both cohesive and sparse relationships in their alliance portfolio show higher rates of innovation than those which employ either pattern of collaborative agreement alone. It was found that the relationship between tie strength in firms' alliance portfolios and firm performance is contingent on the density of ties in the alliance portfolio as well as the investments in exploration and exploitation required by the external environment (Rowley, Behrens, & Krackhardt, 2000). A first impression of the density of the cross-sector partnership portfolios as built up by the world's largest firms can be elaborated along the four dimensions: (1) partner density (more dense = more bilateral collaborations with one single type of actor), (2) organisational density (more dense = more aimed at one form of engagement), (3) issue density (more dense = aimed at related issues) and (4) geographic density (more dense = more concentrated on one geographic area of activity that is related to the own activities).

Portfolio diversity: In the inter-firm alliance literature, characterising the diversity of partners has been primarily related to their resources and technological capabilities as well as to their country of origin. For instance, it was found that a small set of alliances with diverse partners may yield more diverse resources, information and capabilities for less cost than a large set of alliances with similar partners (Baum et al., 2000). In international business research, Goerzen and Beamish (2005) found a negative relationship between the international diversity of a firm's alliance portfolio and economic performance. The diversity of the partnership portfolio of firms can be researched by considering the degrees of specialisation/diversification of the portfolio for each of the above four dimensions.

Partnership Portfolio Strategies

With regard to their partnership portfolio approach, MNEs can also adopt an inactive, reactive, active and/or proactive attitude. Table 3 operationalises relevant indicators to assess the business models adopted by MNEs along the general characteristics as discussed in the third section. Every inactive strategy in principle does not acknowledge the importance of partnerships. Reactive strategies acknowledge the importance of partnerships, but do this primarily for a variety of stakeholder-related reasons: either because of government regulation, risk reduction, spread of liabilities or quality enhancement. Active strategies often involve a firm's strategic core activities. Proactive strategies can contribute to sustainably solving societal problems and the future strategic position of the MNEs (for instance, as regards the bottom of the pyramid).

The classification of the actual partnership approach strongly depends on the nature of the partnership, its relation to the core business of the corporation and the issues involved. In particular, partnerships with NGOs for community development and those that change the institutional rules of the game in whole industries (aimed at fair trade, labour or fair taxation) are illustrative of more pro-active business models. Partnerships on education, literacy, health issues are rarely part of the core business of a MNE, so these represent at best active business models. In case of partnerships that were

Table 3. Application of CSR Approaches to Partnership Portfolio Strategies.

Passive		Active	
Inactive	←------------------------→	Active: go-it-alone	
	Reactive	←------------------------→	Proactive: partnership
Focus of the partnership (issue addressed):			
• No partnership			
	• Disaster relief • Arts/culture	• Micro-finance (narrow approach) • Education/literacy partnerships • Health (HIV/Aids)/water and electricity provision partnerships	• Community development • Sustainable/fair trade/wages/taxes • Financial sector development (broader than micro-finance)
Forms of engagement:			
• No parnership	• Single issue consultation • Employee training/volunteerism	• Research cooperation	• Strategic partnerships
	• Sponsorship	• Certification/Eco-labelling	• Systematic dialogues • Common projects/programmes
Type of partner			
• No partnership	• Profit–nonprofit/public–private (from a narrow/defensive perspective)	• Profit–nonprofit/public–private (involving strategic core activities) • Business–research org/university	• Tripartite partnerships • Multi-stakeholder initiatives
Region of implementation			
• No Partnership			
	• Western Europe • Northern America • Oceania	• Latin America and the Caribbean • Eastern Europe	• Africa • Asia

(temporarily) founded for disaster relief – in the case of ecological disasters such as tsunamis, earthquakes or hurricanes – the approach has to be qualified as 'reactive' at best. The same is true for sponsorship and even for most of the philanthropic partnerships in which the link with the core activities of a company are often non-existent.

SAMPLE AND GENERAL PATTERNS

The set of firms targeted for this exploratory study has been the world's largest firms as represented by the top 100 firms of the Fortune Global list for 2010. We analysed the content of these firms' CSR reports for the year 2009 (or the latest available CSR report), for their approach towards partnerships and for inclusive business strategies. In case of lacking CSR reports, Annual Reports or websites were consulted. The concept of 'partnerships' was taken broadly in this chapter to include what the firms themselves referred to as partnerships or partners. The sample consists of firms that all have activities in developing countries and can therefore be considered interested in inclusive business strategies.

In a pre-testing phase, three researchers used different research strategies to compare and select the optimal data collection method. The first researcher used keywords to locate possible cross-sector partnerships reported in the CSR or annual report of a sample firm. The second researcher read the entire report, and a third researcher used a combination of both keywords and quick scanning of the entire report. The same firm report was analysed using these three approaches. This was followed by a brainstorming session to compare and discuss the results. After clarification (and when needed modification) of the variables that resulted in different results, a new firm report was analysed by the same three researchers. After this second round, no major differences were found in the data collected by the three researchers. Since no substantial differences were found in the different methodologies, the keyword strategy was adopted. Five main keywords were selected to search for 'partnerships' in the report: partner/partnership, collaboration, cooperation, participation, work with. These keywords were selected based on pre-tests with a much larger selection of keywords (partner, partnership, collaboration, cooperation, participation, coalition, alliance, stakeholder, engage, government, NGO, NPO, ministry, municipality, province, World Bank and United Nations). We experienced that the five chosen keywords covered most partnerships. Regular brainstorming sessions were held throughout the process. After data collection, the results (totals) for each variable and category of each of the researchers were compared to guarantee consistency. After the entire data collection, a fourth researcher analysed the results of 10 firms (out of 100) to check for consistency and to confirm the reliability of the data. No major problems were encountered.

The first compiled impressions on the actual portfolio of cross-sector partnerships of the world's 100 largest companies reveal that companies do not release comprehensive statements on the way they manage their whole portfolio of partnerships. But all firms do have a portfolio of partnerships, although they are perhaps only recently becoming aware of the need to actually manage this portfolio. The development of many cross-sector partnerships tend to be ad hoc, uncoordinated and decentralised, which raises serious but very basic questions. What pattern of partnerships has emerged, with whom and why? How should success be measured? What is the impact of this portfolio on the performance of the firm? What is the role that a firm's partnership portfolio plays in its inclusive business strategy?

DRIVERS OF PARTNERSHIP PORTFOLIO APPROACHES

This section classifies the partnership portfolio approach of the world's 100 largest firms based on the indicators presented in Table 3. This classification enabled a first count of prevailing business models for the whole sample and consequently a first explanation of possible patterns. The following pattern emerges (Table 4). Most firms have a reactive approach towards their partnership portfolios when it comes to inclusive business models.

Portfolio size: In total, we identified 1,753 cross-sector partnerships by the largest 100 firms in the world. The size of the cross-sector collaboration portfolio of large corporations ranges from 0 (four cases) to more than 51 (in three cases). On average, the size of collaboration portfolios of large corporations is almost 18. But these 18 collaborations often represent a 'mixed bag' as regards performance, orientation, choice of partners and the roles they play in inclusive business strategies.

Partner density: The portfolio density of collaboration types is relatively low. Two-thirds of the top 100 firms chose a very diversified portfolio of collaboration types. They do not show a particular preference for either public, private, profit or non-profit actors. It is more likely that these

Table 4. Inclusive Business Strategies and Partnership Portfolio Approaches.

	Inactive	Inactive–Reactive	Reactive	Reactive–Active	Active	Active–Proactive	Proactive
Total ($N=100$)	4%	15%	61%	15%	5%	0%	0%
Region							
Asia ($N=23$)	0%	4%	61%	35%	0%	0%	0%
Europe ($N=40$)	3%	15%	68%	13%	3%	0%	0%
North America ($N=35$)	9%	23%	51%	6%	11%	0%	0%
Oceania ($N=1$)	0%	0%	100%	0%	0%	0%	0%
South America ($N=1$)	0%	0%	100%	0%	0%	0%	0%
Industry							
Chemicals, pharmaceuticals and cosmetics ($N=7$)	0%	0%	43%	14%	43%	0%	0%
Computers and electronics ($N=14$)	0%	14%	43%	43%	0%	0%	0%
Food, beverages and tobacco ($N=3$)	0%	0%	33%	33%	33%	0%	0%
Heavy industry ($N=5$)	0%	40%	60%	0%	0%	0%	0%
Motor vehicles & parts ($N=11$)	9%	0%	73%	18%	0%	0%	0%
Oil ($N=19$)	5%	11%	74%	5%	5%	0%	0%
Telecommunications ($N=8$)	0%	0%	100%	0%	0%	0%	0%
Transportation Services ($N=3$)	0%	33%	67%	0%	0%	0%	0%
Utilities (electric, gas, railroad and energy) ($N=8$)	0%	25%	63%	13%	0%	0%	0%
Wholesale and retail ($N=16$)	13%	31%	44%	13%	0%	0%	0%
Other ($N=6$)	0%	17%	67%	17%	0%	0%	0%

diversified portfolios are the result of tactical (ad hoc) choice, rather than a strategic choice for diversity. A specific subset of the sample (21%) is slightly more focused with more than 50% of their partnerships on profit–nonprofit relationships (partnerships with NGOs or communities, or both). No firm in the sample has a partnership portfolio specialised on tripartite partnerships alone. The prevalence of bilateral partnerships helps to increase the relative density of the partnership portfolio, while allowing the corporation to have more control over the actual partnership process. Zooming in on the question whether specific types of portfolios prevail in either regions or sectors creates the following patterns: European firms tend to favour a diversified portfolio of collaborations more than American companies, whereas the share of Asian firms in diversified portfolios neatly represents their overall numbers in the sample. The oil industry comprises many firms that choose a diversified portfolio of collaboration partners. Forty-eight percent of the firms that have a portfolio focused on profit–nonprofit relationships are North American (which is substantially above their relative share in the sample). Wholesale and retail have bilateral portfolios towards non-profit actors. For these particular industries, the partner density is relatively high.

Organisational density: The density of partnership portfolios in terms of engagement forms is comparatively low as with partner portfolios. Sixty-nine percent of the top 100 firms combine quite different forms of partnership engagement. Different forms of engagement are related to the collaboration partner or the issue to be addressed. One quarter (26%) of the companies, however, have a more dense organisational engagement orientation. The preference for either common projects/programs (12%) or systematic dialogues (5%) prevails. Almost half of the firms that have a diversified portfolio are European. Asian firms show a slightly lower than expected preference for diversified portfolios. Types of collaboration and forms of engagement are often closely related for European firms in particular. The portfolio density for common projects/programs is quite high with 67% of Asian firms. Apparently, there is a cultural tendency towards involvement in this type of engagement. When considering the region of the firms that have a portfolio focused on systematic dialogues, European firms represent 40%, North American 20% and Asian firms are completely lacking.

Issue density: The portfolio density for issues is the lowest for all firms, with almost three-quarters of the firms adopting a (very) diversified issue portfolio. This can imply two things: either most firms have no clear strategy (yet) for the issues they would like to address through cross-sector partnerships, or the largest firms are so big and are confronted with many diverse issues that, strategically speaking, it would be unsophisticated to make a specific choice. In both cases, however, the picture looks rather scattered. Nevertheless, it can be considered more remarkable that 22% of the firms do focus their partnership portfolio management on one specific issue. This can imply two things: either their partnership strategy is very sophisticated and focused, or it is only in its start-up phase and focuses on the 'low hanging fruit', which can either be the most important issue or the one in which cross-sector partnerships are easiest to establish. In both cases, a focused issue strategy reveals a higher level of strategic thinking than a less focused strategy. The issues that receive most focused attention in the partnership portfolio management of firms are environment and health. Ten percent of the firms focus more than 50% of their collaborations on environmental issues. Thirty percent of these firms are in the oil industry. An obvious explanation for this relatively large number relates to the high environmental impact of their day-to-day business practices. Oil firms might seek a way to compensate this effect through partnerships. The oil industry has the highest percentage of firms that focus their partnerships on environmental issues, but also the highest that have a diversified portfolio approach. Dealing with one major issue might push towards a broader portfolio of issues as well. Firms addressing health in their portfolio of partnerships have a particular sector density: half of the group originates from the chemicals, pharmaceuticals and cosmetics sectors. These companies focus their partnership portfolio on their core business and their prime responsibilities (as, in particular, in the case of pharmaceutical companies).

Geographical density: The portfolio density for geographical area is the highest. Less than half of the largest firms in the world operate a diversified portfolio of implementation areas. When leaving out the firms with no partnership, 51 firms do focus most of their partnerships on a specific area of implementation. Asia (18%) and Northern America (11%) have the largest share in this respect. No firm has chosen Africa as a particular focus for the partnerships portfolio, even though this is the continent that faces the biggest sustainable development challenges. There is a particular home bias when firms choose the geographical area for their activities. Asian firms focus more on Asia, and North America firms prefer North America as their main implementation area. More than half of the firms that have a diversified geographical portfolio are European. This is particularly interesting since the 100 largest firms in the world also are amongst the most international firms. Firms still choose to implement their partnerships in the vicinity of their home country, regardless of their degree of internationalisation.

Although a holistic approach towards alliances might be favoured in the literature, this research suggests that none of the world's leading firms has yet developed such an approach. Parsimony prevails. This might be best illustrated by the impossibility to find any official statements on something that could be characterised as a sophisticated, integrated and/or holistic cross-sector partnership portfolio approach for the company as a whole.

Four types of portfolio strategies have actually emerged with these companies:

a. Firms that have no official partnership strategy at all ($N = 4$) or do not report on this.
b. Firms that have a consistent specialised portfolio approach: a focused orientation along all four categories ($N = 5$).
c. Firms that have a consistent diversified portfolio approach: a diversified orientation along all four categories ($N = 28$).
d. Firms that have a mixed portfolio approach: a combination of a consistent portfolio approach for some categories while diversified for others ($N = 63$).

Firms with a consistent approach will find it easier to evaluate and monitor the effectiveness of their partnership portfolio. This, however, does not imply that a consistent approach is always better than a mixed approach. Firms have a consistent portfolio in case more than 50% of their partnerships have the same focus, for each category separately. For instance, a firm that focuses seven out of its total of ten partnerships on environmental issues is considered to have a consistent issue portfolio approach. This does not necessarily mean that the firm has adopted an overall consistent partnership portfolio approach. This depends on whether they also have consistent strategies for the other (three) categories. Not having a consistent partnership portfolio for the type of issue addressed does not mean that the firm does not have an issue focus in general. A firm might have a very specific focus on environmental issues in its core activities and strategy as a whole, but prefers to do it alone instead of engaging in partnerships (for that specific issue). Only four firms have no official partnership strategy (or do not publish about it). Five firms adopted a consistent specialised portfolio along all four categories (type of collaboration, form of engagement, issue addressed and area of implementation). Only one of these firms has a portfolio larger than one partnership. In total, 28 firms developed consistently diversified portfolios. They abstained from any type of specialisation in the four density categories. The majority of the firms (63) chose to be 'dense' in one category, but not in all four combined. Distinct patterns can be observed in these four groups as regards size and internationalisation. The smallest firms (with average sales of 68 billion annually) constitute the most inactive group with the lowest degree of internationalisation (75% below 40% transnationality index [TNI]), whereas a consistent diversified portfolio – combined with a higher internationalisation degree – was adopted by the biggest firms (with average sales of around 98 billion US$ and a TNI above 41% for 80% of the group). European companies are over-represented in the latter group. The mixed Portfolio group also represents a mixed bag in terms of relative size (in between inactive and consistent specialised) and internationalisation (in between consistent specialised and diversified).

CONCLUSIONS

This chapter reported the first results of an exploratory study on the inclusive business models of MNEs focusing on their partnership portfolio approach. The literature is still in need of concepts and taxonomies, so the chapter concentrated on developing a first taxonomy of different types of approaches. In order to operationalise these generic business models, the strategy towards partnership portfolios was considered in detail.

This study can provide material for further studying leading (better-practice) cases in order to help policy makers and business strategists to develop better business models for inclusive growth. This is not a luxury. The area is still poorly conceptualised and empirically tested. The exploratory approach in this study – which comes with a large number of limitations – should help to bring this particular area of research further.

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