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Adapting an American Non-Profit Model to an International For-Profit Model: A Case Study of Clean the World Business Model in Hong Kong

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**Adapting an American Non-Profit Model to an International For-Profit Model:
A Case Study of Clean the World Business Model in Hong Kong**

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A professional paper submitted in partial fulfillment
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May 2014

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May 2014

Abstract

The non-profit sector in the United States had grown at a fast pace in the recent decades, partially as a result of the economic development and the influence of social and political factors. By pursuing mission rather than bottom line, nonprofit organizations faced fierce competition for government grants and private donations. Limited financial resources constrained their efforts to create social and environmental value. The emerging hybrid nonprofit business model offered a new approach for nonprofits to pursue self-sustainable development both domestically and internationally. However, adapting a unique American nonprofit model into an international for-profit model could be challenging because of the creation of the for-profit organization in an international setting. Thus, the purpose of this case study was to show how an American hybrid nonprofit business model adapted its mission and operational approach to an Asian licensing for-profit business model. A comparative analysis was conducted on both nonprofit and for-profit operations of Clean the World operated respectively in the United States and Hong Kong, including expansion drivers in Hong Kong, differences and commonalities, advantages and disadvantages, and lessons learned thus far. This case study demonstrated that a

hybrid nonprofit could seek self-sustainable growth in a foreign country under certain circumstances.

Key words: NGOs, Hybrid business model, American, Hong Kong, Asia, Clean the World, nonprofit

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**Adopting an American Non-Profit Model to an International For-Profit Model:
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Part I

A traditional business could be either not-for-profit or for-profit. Any organization in the public, the private or the third sector needed to have a business model to deliver value. With that said, non-profit organizations had business models as well (Kaplan, 2012). More recently, a hybrid business model for non-profit organizations emerged.

In the past decade, the non-profit sector had been growing at a fast pace. Between 2001 and 2011, the number of nonprofits in the United States increased by 21.5 percent with a total of 1.58 million nonprofit organizations (Pettijohn, 2013). Due to the constraints on nonprofits pursuing profit, the growth of nonprofit organizations had been primarily relying on government grants and donations. However, the fast growth of the nonprofit sector and the cutting back on the federal grants had caused intensified competition for grants among nonprofits. Thus, the scarcity of resources and the constraints on nonprofits pursuing profits had hindered the development and growth of those organizations. Traditional nonprofit organizations faced a bottleneck to grow.

The emerging hybrid business model was also called “social enterprise,” which allowed nonprofits to pursue their mission and financial incentives at the same time in order to overcome the economic limitations while delivering value to more people. This case study of Clean the World demonstrated a showcase of the emerging hybrid nonprofit business model, through which, we could expand our knowledge and further understand how the model could be used.

Clean the World Foundation, Inc. (CTW Foundation) was registered as a not-for-profit organization in 2009 in Orlando, FL, the United States. Since its inception, CTW had been collecting partially used hotel amenities, such as soap bars and bottled shampoo, which would be sanitized and recycled in an environmentally and hygienically safe manner, and then distributing the new hygiene products to children and families in desperate need through Non-Governmental Organizations (NGOs) around the world, including the United States and Canada. In 2011, Clean the World Global, LLC (CTW Global) was founded in Florida as a social enterprise, an emerging hybrid business model for nonprofit organizations in the United States. September 2013, CTW initiated its Asia project in Hong Kong as a locally operated for-profit organization designed as a licensing program, through which third parties were authorized as licensees to run CTW recycling facilities under specific rules and regulations.

Purpose

The purpose of this case study was to show how an American hybrid nonprofit business model adapted its mission and operational approach to an Asian licensing for-profit business model.

Statement of objectives.

There were two objectives in this study. First, it was to explain why a for-profit licensing business model was adapted in Asia for CTW. Second, it was to define the emerging hybrid business model CTW adapted as an international social enterprise.

Justification

This case study addressed that the CTW business model had two operational methods: non-profit and for-profit operating in two geographic areas. Traditionally, each business model had unique operational boundaries dictated by the for-profit or non-profit environment. With the rapid economic globalization, organizations strived to achieve their goals by thinking out of the box or breaking traditional business approaches. After a successful four-year operation in North American, CTW decided to expand into Asia by adapting a different business model. Doing so enabled CTW to fulfill its mission while obtaining sustainable economic resources to grow in a broader scope. Further, the CTW hybrid business model provided a new approach for other NGOs to reinvent capitalism and growth.

Constraints

This study solely focused on Clean the World. No comparison with other NGOs was conducted. One assumption in this study was the operational conditions and circumstances for NGOs were identical and equal. However, that was not always the case in reality, whereas each organization faced some unique and specific problems and barriers. Also, a conclusion that CTW's operations in North America were successful was based on the numbers of its hospitality partners, NGO partners, and soap collected and recycled. No data analysis was conducted in this case study.

Glossary

Non-Profit Organization (NPO): an organization where none of the members has property right over any fraction of the difference between its revenue and costs (Gassler 1986, 99).

Stakeholder: refers to individuals or groups who affect or are affected by an organization's activities. Groups include investors, shareholders, customers, communities, employees and suppliers, NGOs, and government agencies (Ross, 2012, p. 15).

Corporate social responsibility (CSR): actions taken by the firm intended to further social goods beyond the direct interests of the firm and that which is required by law (McWilliams and Siegel, 2001).

Shared value: defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates (Porter and Kramer, 2011).

Hybrid business model: a business model, which strikes a balance between social mission and commercial enterprise, is a promising approach for nonprofits (Havlat, 2014).

Part II

Introduction

Nonprofit organizations (NPOs), also called nongovernment organizations (NGOs), private voluntary organizations, community associations and so on, were constrained from distributing a monetary profit to their members (James, 1989). Nonprofit institutions accounted for a sizable and growing share of the American economic activity (Hansmann, 1980).

Foundation of Nonprofits

NGOs belonged to an independent sector apart from both the government (the public sector) and for-profit businesses (the private sector) (Heyman, 2011). This sector included symphony orchestras, foundations, zoos, art museums, and advocacy groups (Knauff, Berger, Gray, 1991). NGOs could be classified into five categories: 1) northern and southern geographic entities, 2) grassroots and community-based organizations, 3) faith-based organizations, 4) trade unions, and 5) people associations (Ross, 2012).

In the United States, nonprofit organization included public charities, private foundations, religious congregations, and membership associations, which were all classified by the Internal Revenue Code as 501 (c)(3) public charities or public benefit organizations (Heyman, 2011).

NGOs were mission oriented instead of bottom-line driven (Brody, 1995). They worked with other nonprofits, corporations, and/or government agencies (Conhaim, 1996). The role of NGOs was to 1) advocate for key social and environmental issues, 2) conduct key research, and 3) implement social and environmental programs, primarily for disadvantaged and vulnerable

groups (Ross, 2012). In contrast, the role of the business sector was to maximize shareholder value and to make a profit (Brody, 1995).

In the United States, several theoretical views attempted to explain the role the nonprofit sector played in American society (Worth, 2012). These theories included gap fillers, altruism and giving, and supply-side.

Nonprofits as Gap Fillers theory. This theory emerged as a result of multiple failures including market failure (Hansmann, 1987; Billis, 1998; Wolf 1979) and government failure (Le Grand, 1991;). According to Hansman (1987), whenever the market did not function effectively or efficiently, market failure occurred. For instance, market could not function efficiently due to information asymmetry; even equal information acquisition was under the assumption while exchanges occurred. Government failure resulted from centralized monopoly provision, self-interested providers and professionals (Billis 1998). Also, Meyer (1993) argued that government levels of public services left some customers unsatisfied causing government failure, to which nonprofit sector rose to respond to. Nonprofits filled the gaps left by both market and government failures (Worth, 2012).

Theories of altruism and giving. The fact that nonprofits were perceived more trustworthy than for-profit organizations led to other theories: altruism and giving (Worth, 2012; Rose-Ackerman, 1996). These theories attempted to explain the nonprofit sector based on the motivations underlying altruism and philanthropic giving and these theorists found not only altruism played a role in giving, but did self-interest (Worth 2012). Donors gave for a “social exchange,” in which money was exchanged for positive feelings, influence, recognition, tax

benefits (Worth, 2012), social responsibility fulfillment, positive publicity (Dennis Ocasio, personal communication, February 25, 2014), among other rewards.

Supply-side theories. These theorists focused on the entrepreneurship theory of the nonprofit sector to explain that nonprofit entrepreneurs were motivated by religious zeal or strong secular values of idealism and social justice (Rose-Ackerman, 1996; Worth, 2012). They went beyond the failure theories to explain the nonprofit sector based on the motivations given to the production side instead of the demand, in other words, these theories focused on the push side of the market rather than the pull (Worth, 2012).

Purpose of American Nonprofits

Individual affluence at the turn of the twentieth century was fundamental in the development of American philanthropy (White, 2010). In the early 20th century, the America's modern nonprofit sector began along with the rise of great wealth resulting from the Industrial Revolution and the organized activities of charity and philanthropy. Great philanthropists, such as John D. Rockefeller and Andrew Carnegie, started endowing universities, libraries, colleges, and other institutions nationwide (Worth, 2012). Heyman (2011) indicated what nonprofits fulfilled was diverse, vast, and invaluable to American life.

There were two categories for nonprofit organizations: 501 (c)(3) and 501 (c)(4) category of Internal Revenue Code (Heyman, 2011; Rose-Ackerman, 1996; Salamon, 2012) while this case study focused on the former only. According to Rose-Ackerman (1996), the 501(c)(3) category includes organizations, which were "organized for charitable or mutual benefit purposes" and have religious, charitable, scientific, testing for public safety, literary, or educational purposes. To qualify, organizations must "assure that no part of their net earnings

inures to private shareholders or individuals, and that they did not engage in political activity.” (Commerce Clearing House 1983, section 501, p. 181; Hodgkinson et al. 1992, p. 189. As cited in Rose-Ackerman, 1996).

These purposes of nonprofits must be beneficial to the public interest, including 1) relief of the poor, distressed, or underprivileged, 2) advancement of religion, 3) advancement of education and science, 4) Creation or maintenance of public buildings or monuments, 5) lessening of the burden of government, 6) elimination of prejudice and discrimination, 7) defense of human and civil rights, and 8) combating of community deterioration and juvenile delinquency (BoardSource, 2010). For instance, nonprofits played an important role in natural disaster response and recovery missions worldwide as Natural Disaster First Responder. More recently, some events, including the 2004 tsunami in South Asia, Hurricane Katrina in 2005, the Haitian earthquake in 2010 (Worth, 2012), and the Philippines earthquake in 2013 (Shawn Seipler, personal communication, February 26, 2014) had reawakened the spirit of public service among the current generation of Americans. Public-nonprofit partnerships (PNPs) bridged the “critical gap in service delivery” that public agencies could not meet alone, as Kapucu (2006) pointed out.

Characteristics of Nonprofits

Some characteristics of nonprofit organizations separated nonprofits from government (the public sector) and businesses (the private sector). In the United States, a 501 (c)(3) nonprofit organization needed to meet several criteria: 1) with non-distribution constraint, 2) formally organized, 3) with social responsibility, 4) as social change agents, 5) eligible for donations, and 6) with voluntary characteristic.

Nonprofits with non-distribution constraint. Any nonprofit organization was barred from distributing its profit or net earnings, if any, to any individuals who had control over it (Heymann, 2011). According to Hansman (1980, 1981d, 1987), the “non-distribution constraint prohibited the distribution of residual earnings to individuals who exercised control over the firm, such as officers, directors, or members.” This constraint made a formally organized firm a “true” nonprofit organization (Hansman, 1987). However, a firm that was not allowed to distribute profits did not mean it could not make profits (Brody, 1995). While the non-distribution constraint made nonprofits be considered more reliable and accountable, it often caused nonprofits another problem known as “entrepreneur vacuum,” which indicated low incentive compensations to top management members made nonprofits unattractive for professionals and entrepreneurs (Ross, 2012).

Nonprofits formally organized. According to Hansmann (1980), most nonprofit organizations and institutions were incorporated. However, even it was uncommon, some nonprofits of insignificance were organized and operated as trusts with non-distribution constraint imposed by the law of trusts. And some nonprofits were organized as unincorporated associations (Heyman, 2011). Typically incorporated tax-exempt nonprofit organizations were governed by a board of directors (Heyman, 2011) because the law required a board of directors in a nonprofit organization due to the lack of shareholders, and the board of directors controlled the nonprofit assets and operations (Brody, 1995).

Nonprofits and corporate social responsibility (CSR). In 1960s, the environmental movement became the first to focus on the concept of sustainability and was led by NGOs (Ross, 2012). In 1980s, the CSR agenda was significantly broadened when some Multi-national

Corporations (MNCs) were publicized causing environmental disasters, therefore, MNCs were pressed to comply with NGO led environmental movement by taking their social responsibilities (Winston, 2002; Ross, 2012).

Winston (2002) proposed that the contemporary CSR movement led by NGOs should persuade MNCs to focus on the “triple bottom line”: the financial account, the environmental account, and the social account with a “voluntary code of conduct.” Weiser and Zadek (2000) proposed the following benefits that companies could gain by embracing the contemporary CSR movement: (1) enhance their compliance with local and international laws; (2) benefit from better control over their supply chains; (3) protect their reputations and brand images; (4) enhance their risk management strategies; (5) increase employee productivity, morale, and loyalty; (6) reduce operating costs, enhance financial performance and increase stock value; (7) and improve business relationships with external stakeholders generally.

More recently, there had been discussion and recognition about expanding the business role to include social responsibility into a broader society and some new concepts emerged encouraging the business sector and NGOs to work more closely to create social, environmental, and economic values (Ross, 2012). One of these concepts was Emerson’s (2003) “blended value proposition” (Ross, 2012). Corporations had sought to maximize economic value while NGOs had strived to maximize social or environmental value; however, the blended value proposition suggested that more strategies could be utilized to intentionally blend social, environmental, and economic value (Emerson, 2003). Also, Emerson proposed that corporations could achieve the “value vertex” from both social and economic capital, which was called the “blended return on investment (ROI).”

Another concept “shared value” was as redefined by Porter and Kramer (2004). They argued that companies would be able to make real progress on a specific issue, “when they treated it as a productivity driver rather than a feel-good response to external pressures” (Ross, 2012). Porter and Kramer (2011) suggested that companies could create economic value by creating social value and the concept of shared value blurred the line between for-profit and nonprofit organizations.

Non-profits as change agents. Heyman (2011) claimed that nonprofits were the primary drivers of social change while they also provided a variety of goods and services to the American society. They identified societal problems and were committed to making changes. The Economist (2003) indicated that NGO activism had been responsible for major changes in corporate behavior and governance.

Rossi (2000) presented some examples of social change actions taken by NGOs in the past. First, the concept of “triple bottom line” claimed that three performance factors should be measured: economic, environmental and social. Second, sustainability leader concept started focusing on the important role that visionary entrepreneurs played in social change. Third, the concept of product innovation made connection between manufacturing and sustainability by focusing on improvements on innovation and redesign.

The proliferation of nonprofit organizations would be more likely to increase their power and influence globally, especially in the emerging economies where democratic transition was opening up political and social space for NGOs (Doh, 2003).

Nonprofits source of funding. A unique characteristic of the 501 (c)(3) category of IRS allowed organizations to accept contributions, which were deductible for donors (Budrys, 2013; Rose-Ackerman, 1996). Those registered as 501(c)(4) organizations were tax-exempt, but donations to such organizations were not tax deductible to donors (Commerce Clearing House 1983, section 501, p. 181; Hodgkinson et al. 1992, p. 189. Cited in Rose-Ackerman, 1996).

Due to the scarcity of resources, NGOs were in a position to compete with one another for private funds, donations and government grants (Conhaim, 1996). Also, Aldashev (2009) pointed out that NGOs competed with each other for donations and the competition for donors was a “long-standing and well-known” problem for NGOs.

Thornton (2006) argued that, fund-raising, as the “primary mechanism of interagency competition for scarce donor resources,” had positive effects on both donors and nonprofit organizations. Through fund-raising messages, the donors acquired valuable information about specific characteristics of the nonprofit at a reduced cost of finding their preferred charity; meanwhile, the nonprofits created “awareness and attracted gifts to their specific programs.”

Nonprofit as the voluntary sector. According to BoardSource (2010), nonprofits are also known as “voluntary sector” to acknowledge the importance of volunteers and voluntary activities in this sector. The volunteerism carries much of the distinctive value claim of the nonprofit sector, through which individuals contribute to social, cultural, religious, as well as other values (Salamon, 2012).

In 2006, 26.7% of American adults reported 12.9 billion volunteered hours, which are equivalent to 7.6 million full-time employees (Heyman, 2011).

Nonprofit Collaboration

NGOs competed with one another for private fund, donations, as well as government grants, as aforementioned. Meanwhile, nonprofits were considered as natural collaborators. According to Ross (2012), many NGOs saw that, by incorporating business practices into their management strategies and by creating new ventures and partnerships, they could better deliver on their social and environmental missions. Laidler-Kylander (2013) stated that organization partnerships among all three sectors proliferated over the past decade and the boundaries between sectors were blurring. Two primary factors drove the increase in partnerships including: 1) the growing realization that nonprofits were not able to achieve their social missions alone, and 2) the economic climate and shifts in funding and its requirements (Yankey and Willen, 2010).

There were different ways for nonprofits to collaborate with other NGOs, government agencies, and for-profit organizations, such as partnerships, alliances, and mergers.

Partnerships were voluntary collaborations (Kapucu, 2006), which required strong incentives for all the partners in each sector –NGO, private, and government -- to be committed to better developed innovative and sustainable solutions, according to Ross (2012). Nonprofits' drive for revenue and private firms' drive for profit indicated great opportunities for both to gain from collaboration (Weisbrod, 1997). Partnerships between NGOs and the private sector could benefit both parties. For NGOs, benefits could include: (1) operational and organizational strategy enhancement and implementation at scale, (2) access to human resources and skills, (3) access to new product development and technology, (4) access to networks and greater visibility (Ross 2012, p. 102).

Alliances were an alternative of mergers for nonprofits without giving up control and could be operated on three levels of collaboration below Corporate Structure: Operations, Responsibility, and Economics; however, they are not considered being well developed conceptually or operationally as are mergers (McLaughlin, 2010). The key to strategic alliances was partners commit to specific arrangement within a certain set of parameters (Heyman, 2011). Compatibility between two organizations could be critical for forming an alliance successfully, according to McLaughlin (2010).

Mergers were a corporate-level collaboration among nonprofits (McLaughlin, 2010). Corporate integrations required much closer partnerships than did strategic alliances (Keyman, 2011). Mergers or corporate integrations changed all levels within the nonprofit organizations involved, including Corporate Structure, Operations, Responsibility, and Economics (C.O.R.E.) (McLaughlin, 2010).

Hybrid Model

A hybrid business model provided organizations with a promising approach to balance their social mission and commercial purposes (Havlat, 2014). A hybrid organization reportedly produced both social and commercial revenue (Battiliana, Lee, Walker, and Dorsey, 2012). With a hybrid business model, NGOs could operate in part as a for-profit company with a socially responsible goal (Ross, 2012). Also, Hudnut (2006) suggested that hybrid nonprofit organizations, in designing which market, legal, political, and social factors were considered, could provide sufficient funds to sustain an enterprise without continued infusions of capital or donations. There had been organizations operating as a hybrid model by separating the nonprofit

and for-profit sections. Some examples are Goodwill Industries, Delancey Street, Juma Ventures, and Rubincon's (Ross, 2012).

According to Ross (2012) and Seipler (personal communication, March 10, 2014), there were three types of hybrid business models for NGOs: 1) B Corporations, 2) Certified Benefit Corporations, and 3) Low-Profit limited liability corporations (L3Cs). However, not all were accepted in all states.

B Corporations used business power to achieve social and environmental goals and were accepted in 14 states and under consideration in 18 states (S. Seipler, personal communication, March 10, 2014). Ross (2012) pointed out that these organizations had to 1) meet comprehensive and transparent social and environmental performance standards, 2) legally expand the responsibilities of the corporation to include stakeholder interests, and 3) build collective voice through the power of the unifying B Corporation brand. B Corporations had high level of transparency and accountability while aiming to maximize the value of stakeholder, including investors, shareholders, customers, communities, employees and suppliers, NGOs, and government agencies (S. Seipler, personal communication, March 10, 2014).

Certified Benefit Corporations were another type of hybrid business model committed to accomplishing social or public goals. It was required that they must have at least one "benefit" board member to ensure the mission to be achieved other than profit goals. A benefit corporation had to be certified by an independent certifying agency. It was also called B Lab certification and had been adapted by more than 750 companies covering more than 60 industries in 26 countries (S. Seipler, personal communication, March 10, 2014).

Low-profit Limited Liability Corporations (L3Cs) had low liability with a charitable purpose (S. Seipler, personal communication, March 10, 2014). Generating income was not a significant purpose of the company. In contrast, this model was designed for private foundations to make program related investments achieving a mission at a level equal to or greater than profit generating by a venture (Ross, 2012). L3Cs remained as a business structure.

According to Boyd (2009), nonprofit hybrid businesses had conducted several unique practices, such as: (1) implementing the mission in action, (2) uncommonly close and personal relationships with suppliers, producers, and customers, (3) both financial and non-financial patience required for all stakeholders, (4) limits to growth rate while balancing mission and profit goals, (5) market premium products with rare competition on prices.

Battiliana et al. (2012) point out some challenges for hybrid business model, including legal structure, financing, customers and beneficiaries, as well as organizational culture and talent development. Meanwhile, they suggested that hybrid organizations be supported continuously since “hybrid models offered a promising vehicle for the creation of both social and economic value.”

Internationalization of Non-Profit Organizations

NGOs operated in more than one country were called International Nongovernmental Organizations (INGOs). They were not confined to one country and not considered as domestic organizations. Some INGOs were well known worldwide, for example, Red Cross, Save the Children, Greenpeace, CARE International, Oxfam and Amnesty International (Worth, 2012).

Worth (2012) suggested two drivers that influenced the globalization of nonprofits. First, the spread of democracy and capitalism around the world removed barriers to economic interaction for nonprofit organizations. For instance, the establishment of free-trade organizations including the European Union (EU), the North American Free Trade Agreement (NAFTA), the World Trade Organization (WTO), as well as others had been playing an important role in the economic integration around the world. The second driver, the development of advanced technology, especially in communication field, caused national borders in many business fields to disappear and some industries to restructure while the pace of globalization accelerated.

Ross (2012) pointed out a third driver, the widening income inequalities among developed and less developed countries as well as among all segments of the population with a given county. According to United Nations' Human Development Report 2007-2008 (2008), the poorest 40% of the world's population accounted for 5% of the global income while the richest 20% for 75% of the world's wealth. There were disadvantaged groups at each corner of the world. In 2012, there were more than 72 million children under age 18 years in the United States, of which 45% (that was 32.3 million) lived in low-income families and 22% (that was 16.1 million) lived in poor families (Jiang, Ekono, and Skinner, 2012).

Facing rapid economic globalization, nonprofit organizations must adapt themselves with international mindsets into the new settings, which included international fund-raising and philanthropy, delivering value to those in need globally, and fulfilling their mission at a wider scope (Worth, 2012). Also, Aldashev (2009) argued that, along with increased international trade and investment flows, the globalization of the market for donations to charitable causes had been happening in the last decades. In other words, development-oriented NGOs initiated fund-

raising in the countries where they founded and, more recently, they started relying on funding from their foreign affiliates.

According to the Yearbook of International Organizations (2014), the number of INGOs raised from 13,232 in 1981 to 23,635 in 1991, from 27,190 in 1992 to 48,202 in 2002, and from 49,471 in 2003 to 58,588 in 2013.

Figure 1. Examples of NGOs Globalization (Aldashev, 2009)

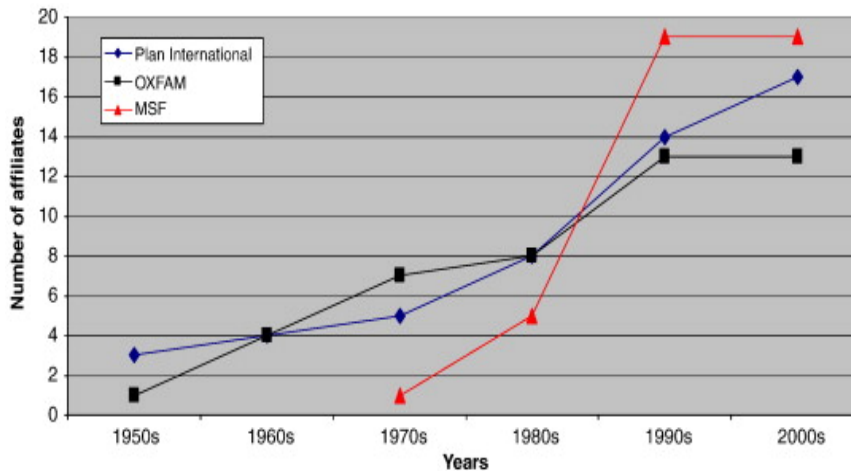


Figure 1. Presented the historical timeline of the globalization for three well-known NGOs: Plan International, Oxfam, and Médecins Sans Frontières (MSF) or Doctors Without Borders. We saw that the main surge in globalization (that is, the opening of foreign affiliates) happened mainly during the 1980s and 1990s (Aldashev, 2009)

Meanwhile, INGOs were facing challenges and barriers, including managing across cultures, legal systems, languages, and geographic distances, in addition to the challenges that they were facing at home, such as growing needs along with declining government supports,

increasing called for governance and accountability, the balance between commitment to mission and the increasing competition for resources. Among all the international barriers, understanding a culture of a country in which an INGO operated was critical for its success since culture was invisible and difficult to detect (Worth, 2012).

Summary

Nonprofit organizations were defined as the third sector with distinct characteristics, which differentiated these organizations from others in the public and private sectors. While nonprofits filled the gaps in our economy and society by creating environmental, social and economic value, their growth and development were constrained and limited because they were mission-oriented and pursuing economic gain was not their goal. Traditionally, nonprofits strived to deliver as much value as possible by collaborating with other businesses, organizations and agencies, no matter which sector they belonged to while globalization of nonprofit organizations led the collaboration to a wider scope both domestically and internationally. Previous studies and research pointed out that the emerging hybrid business model would be an alternative approach for NGOs to gain self-sustainable growth. How would a nonprofit operate as a hybrid nonprofit? How would it operate its nonprofit and for-profit sections simultaneously, especially in an international setting? What problems would the nonprofit management face operating a hybrid nonprofit? These questions still needed to be answered.

Part III

Introduction

Clean the World Foundation that was registered under 501 (c)(3) of the IRS code in the United States works directly with customers, hospitality partners, NGO partners, vendors and volunteers while fundraising and accepting government grants and donations. The mission of CTW states as: 1) to reduce the waste created by discarded soap and shampoo products, and 2) to prevent the millions of deaths caused by hygiene related illnesses every year. Through its Hospitality Partnership Program and other programs, such as ONE Project, Clean the World is leading a world hygiene products revolution. By end of 2013, more than 2,000 hotels in North America joined CTW Hospitality Partnership Program, including Marriot International, Hyatt Hotels, Starwood Hotels and Resorts, InterContinental Hotels and Resorts, Walt Disney World, Wynn, Sands Corporation, Caesars Entertainment as well as other international hospitality corporations. During the same period, a total of 1,907,285 kg hotel waste was avoided from filling landfills and 16,602,474 soap bars were distributed to save children's lives from diarrheal diseases and acute respiratory infection. CTW is also a Natural Disaster First Responder with its Haiti Earthquake Relief efforts (2010), Japan Earthquake and Tsunami response (2011) and Hurricane Sandy (2013) to name a few.

Clean the World Global has an additional mission element, which states as “create and deploy a best-in-class social enterprise organizational structure that leverages sound business practices enabling all appropriate forms of revenue, funding and capital growth to further advance Clean the World's mission” (Shawn Seipler, personal communication, March 10, 2014). Based upon an Operating Agreement, CTW Global provides management and operational services to CTW Foundation, including management, admin and finance,

communications, sales and marketing, equipment leasing, and operations. In return, CTW Global receives service fees from CTW Foundation at fair market rates valued by third party valuers (Shawn Seipler, personal communication, March 10, 2014).

Currently, CTW is headquartered in Orlando with two Recycling Operations Centers (ROCs) located in Orlando, FL and Las Vegas, NV respectively. September 2013, CTW launched its Asia project: Clean the World Asia Common Limited (CTW Asia) in Hong Kong as a licensing program, through which CTW ROCs are to be established in Hong Kong, Macau and Singapore and be operated by third parties.

Expansion drivers for Asia

Introduction

As aforementioned, CTW had more than 2000 hospitality partners December 2013, many of which operate internationally, for example, Marriott International, Inc. (2014) has 18 brands, in excess of 3,900 properties, and located in 72 countries. Las Vegas corporations, also partners with CTW, have properties in several cities including Singapore and Macao (Sands Corporation, 2014). The Venetian Macau Resort Hotel becomes the first partner in Asia and sponsors and promotes CTW Asia locally. Other existing CTW hotel partner brands in Asia include Mandarin Oriental, Westin, Sofitel, Sheraton, Holiday Inn, and Conrad hotel. Meanwhile, CTW's NGO distribution partners operate internationally as well, including World Vision, World Food Program, Children International, Heart to Heart, and Harvest Time International. This international base of its hospitality partners and distribution NGO partners played an important role for CTW going global.

Moreover, Asia has a rapidly expanding hotel industry, especially in Hong Kong, Macao, and Singapore. Part of the rationale for CTWs expansion into Asia is based on Asia's hotel development. According to Frank (2013), the number of hotel rooms in Singapore will be reaching 53,000 by 2015 based on a forecast of annual increase of 20%. The Macau government tourist office (2014) reports that Macau had 97 hotels with 23,423 rooms in 2013 and will add three hotels with 5,800 rooms in the next two years. Hong Kong government official website (2014) shows 3,808 hotel rooms added between July 2012 and July 2013 creating a total number of 68,753 rooms in 217 hotels. The high density of hotel rooms in this region provides a hospitality environment for CTW to operate successfully.

These areas are challenged to meet the growing waste management issues and in need of more sophisticated ways to reduce solid waste due to their limited land area and dense population. According to Singapore's National Environment Agency (2013), for example, an efficient waste collection and disposal system becomes critical for the country since it generates more than 8,000 tons of solid waste daily while having the last offshore landfill, Semakau Landfill, located about 8km south of Singapore. Hong Kong Environment Protection Department (2014) explicitly states that they encourage NGOs to develop projects as Hong Kong government strives to achieve good results in solid waste reduction.

In addition, Hong Kong has relatively lenient rules and regulations for business operations. According to Lowtax Global Business Portal (2014), Hong Kong offers an unusually stable and efficient business environment with modern telecommunications, infrastructure and a strictly non-interventionist government policy.

CTW Adaptation in Hong Kong

CTW Asia was registered in Hong Kong as a fully owned subsidiary of CTW Global. It collects partially used bars of soap discarded daily by its hotel partners in the designated areas and countries in Asia including Hong Kong, Macau, Singapore, Japan and other countries in Southeast Asia. Unlike its operations in the United States, in Asia, third parties licensed by CTW operate CTW recycling operations centers (ROCs).

CTW licensing program is designed to authorize qualified third parties to operate CTW ROCs, which must adhere to operational standards, standard operational procedures (SOPs), rules and regulations stipulated in CTW's licensing program package. An important part of the program involves the licensor and licensees achieve economic goals. Licensees pay upfront licensing fees to CTW (the licensor) and share a percentage of their revenues with CTW. Meanwhile, licensees strive to maximize their own profits through their operations. Upon signing the licensing program, licensees are lawfully obliged to operate a CTW recycling center by strictly following the agreed upon quality control standards, operational procedures, rules and regulations.

As a social enterprise, CTW carries the same mission in Asia as in North America. In order to pursue profit, CTW Asia allows its licensed ROC operators to distribute up to 25% of their recycled hygiene products at market price through regular marketing distribution channels and a minimum of 75% through other NGOs as charitable donations.

Like CTW in the U.S., CTW Asia charges hotel partners a fee assessed on a per room basis in each property on a monthly basis. The partnership fee varies from areas to areas for each partner and is subject to negotiation based on the number of their properties participating in

the program in both North America and Asia. These fees are primarily used to cover the cost of operating the CTW Asia program and include, among other things, shipping, purchasing and maintaining collecting bins and local recycling costs.

Volunteers are another important factor in CTW Asia operations. They are encouraged to help CTW sort collected hotel amenities before they are sanitized and recycled. Their donated hours are critical for recycling those hygiene products for charitable donations directly by CTW or through other NGOs. Without volunteers, CTW operations cannot occur, in Asia or the United States.

Comparative Analysis

Through a modified comparative analysis, CTW Asia is compared with CTW North America from several aspects, including commonalities, differences, advantages and disadvantages. Doing so helps us better understand the entire CTW operation organized as a hybrid nonprofit business model.

Commonalities and differences

Purpose. Both CTW Foundation and CTW Asia are committed to carrying out the same mission: saving the environment and children's lives while focusing on the hygiene product revolution CTW is leading in the hospitality industry. Thus, social responsibilities for preserving the environment and helping disadvantaged children and adults are the primary goal of both CTW operations. Additionally, CTW Asia adds business incentives to its operations through the licensing program, which allows both CTW Asia and its licensees to pursue profit. CTW Licensees operate CTW ROCs and are allowed to distribute up to 25% of their recycled soap

bars at market price through regular marketing distribution channels and the remaining recycled products through NGOs, while CTW receives licensing fees from licensees.

Characteristics. Both CTW Foundation and CTW Asia are formally organized, but operated as a nonprofit and a for-profit respectively in the United States and Hong Kong. The former is allowed to accept donations and government grants as a traditional American nonprofit while the latter pursues economic incentives by working together with its licensees.

Encouraging and accepting help from volunteers to recycle soap bars comprises an important part of their operations in both the United States and Asia due to the need of cost control on recycling soap bars for charitable donations. Both CTW operations are proactively involved in corporate social responsibility programs by working closely with CTW hospitality partners in both regions. As a change agent, CTW Asia also aims at protecting the environment by avoiding hotel waste from filling local landfills or incinerators. Providing hungry children and adults with hygiene products adds more value to corporate social responsibilities.

Collaboration. In North America, CTW owns its ROCs and distributes all recycled hygiene products through NGOs; while, in Asia, CTW collaborates closely with both NGO partners and the business sector, including licensees and the regular marketing distribution channels. The distribution of CTW recycled hygiene soap bars through NGO partners is another commonality for both its nonprofit and for-profit operations.

Advantages and disadvantages

Pursuing profit as a hybrid nonprofit business breaks the boundary and constraints affiliated with traditional nonprofit organizations. Doing so, a social enterprise or hybrid nonprofit gains advantages and disadvantages.

Advantages. The CTW Asia business model creates opportunities and resources for a nonprofit to grow in an international marketplace where insufficient resources exist for a traditional NGO. It provides a self-sufficient approach to fulfill their commitment to their NGO mission with social responsibilities. Adding business feature to these organizations can also buffer, if not solve, another problem with traditional nonprofits, known as entrepreneur vacuum, caused by the non-distribution constraint on nonprofits. In other words, high incentives are not allowed to pay to nonprofit top management members causing the lack of business talent in the nonprofit sector. A hybrid nonprofit is able to provide its personnel more competitive compensations compared with traditional nonprofits.

Disadvantages. By adding the pursuit of profit as a goal to the operations, the accountability and reliability of a social enterprise can be compromised. Since traditional nonprofits only pursue their mission by creating social values, they are considered more accountable and reliable than their business counterparts. As an emerging business model, a hybrid nonprofit can cause confusions among donors and volunteers, who might perceive a social enterprise as a for-profit business and become unwilling to donate their money or volunteer their work in the future. The acceptance of social enterprise by laws and local jurisdictions can help educate the public, including individual donors and volunteers. Thus, having a high transparency of its operations is important for a hybrid nonprofit business. According to Clean the World (2014), over 95% of its received cash donations and program fees goes directly into program operations. By disclosing facts and numbers to the public and being audited by third party evaluators regularly, CTW remains high transparency of its operations.

Summary

Clean the World Global is organized as a B Corporation aimed at creating and deploying a best-in-class social enterprise organizational structure to further advance Clean the World's mission: saving the environment and children's lives. It operates as a nonprofit in North America and as a licensing for-profit in Asia carrying the same mission of creating social value. By adapting the emerging hybrid nonprofit model, CTW offers public clarity to define success in its social business and strives to meet a high standard of transparency through third party evaluations. It also set up goals of providing high quality jobs, enhancing personnel compensation and improving community life quality.

Potential issues

Challenges exist for entrepreneurs managing an international social enterprise operated in two different business models.

Cross-cultural differences are unavoidable for any international organizations. It can be more challenging for NGOs. Understanding other cultures in which a business operates is critical for a business's success. Learning ways to dealing with cultural conflicts requires patience. In this case study, the CTW management faces two management styles: American style in North America and Hong Kong style affiliated with personnel hired locally. Conflicts occur where the both styles overlap. In other words, the differences between the two styles cause confusion, frustration, low productivity and even higher turnover. Communications and interpersonal skills become even more important.

In addition to understanding cultural differences, an international hybrid business has higher requirements on its management team's business expertise, especially their ability to

manage and control the entire organization under onshore nonprofit and offshore for-profit models. The offshore business requires a new set of skills from the existing management. In the CTW case, management members have business experience and expertise obtained by working in the private sector previously. However, the licensing program can still be new for most of them. Before launching CTW Asia, the management dispatched personnel to Hong Kong investigating the local and surrounding markets. Financial projections and planning were prepared accordingly. Meanwhile, a licensing program package was outsourced, including License Agreement, Standard Operational Procedures, Disclosure Agreement, and so forth. Even though, barriers are expected to come along the way of the company's development in Asia.

The growth of a hybrid nonprofit business is limited because it has to balance the pursuit of mission and profit. Unlike businesses, social enterprises do not have sufficient economic resources to utilize in their further expanding. Market research and investigation has to be conducted based on the availability of resources. Moreover, the local development can also be carried out under limited budgets.

Conclusion

This case study demonstrates a hybrid nonprofit model that CTW adapted from the United States to Asia. With growing environmental and social needs, CTW expanded into Asia following its existing hospitality partners and NGO partners in the new markets. While CTW struggles to grow with limited financial resources, the emerging hybrid nonprofit model offers it an alternative approach to pursue self-sustainable development. The traditional CTW nonprofit mission oriented only model has been challenged. Operating as a hybrid nonprofit, CTW is

facing more challenges while embracing more opportunities to have greater impact on resolving environmental and social issues. Clean the World aims at pursuing the triple bottom line: environmental, social, and economic.

Implications

Although it is far too early in the process to make suggestions of success and recommendations of adaption of the CTW Asia model, it does suggest a potential that such endeavors may alter how NGOs might enter an international market, especially one without a strong culture of social responsibility. Through the CTW case, we can imply that establishing international NGOs might work more effectively and efficiently by adapting a for-profit business model. Moreover, the borderless global economy offers NGOs a great opportunity to follow the needs internationally. This model was grounded in an international marketplace that already had American enterprises willing to broaden their CTW engagement to an international arena. A more effective assessment will occur in the three to five year period when success will be measured by how effectively CTW Asia embraces local hotel properties.

An international nonprofit hybrid enterprise has the potential to deliver more value by creating more services and/or products to more people in need. Its mission might be carried out in a much broader scope. Finally, in order to achieve more goals related to finance and mission, a social enterprise needs to work more closely with the private sector. Also, sophisticated connections between future development and mission are critical for a hybrid NGO's success.

However, CTW case can be unique in terms of its specific mission and operational conditions. This case study only demonstrates a showcase of hybrid business model for other NGOs. Its duplicability and repeatability must rely on some circumstances and conditions,

including but not limited to existing nonprofit operation model, business concepts, current industry development level, social, legal and environmental surroundings, management perspectives and so forth.

Recommendations

Further studies on other hybrid nonprofit organizations, especially those are operated internationally and in a variety of industries, are highly recommended. Future researches can also focus on hybrid nonprofits' operational model, organizational structure, financial performance and conduct comparative analysis between their nonprofit and for-profit sections. One example can be Goodwill Industries International, Inc. (2014), which has over 2,700 retail stores and an online auction site as well as other operations to generate revenue; meanwhile, it has a social mission to help people with education, training and employment. Case studies on those hybrid nonprofit organizations will be able to offer more insights on the emerging business model for both academic and empirical purposes. Another recommendation is a future study to be carried out on CTW because operational and financial analysis on its for-profit section, that is CTW Asia, cannot be conducted at the time of this case study due to its short operation period.

Appendices

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