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# Humanitarian Versus For-Profit Operations: When Lines Blur



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## **What are the repercussions when humanitarian organisations adopt a commercial structure?**

The primary goal of humanitarian operations is to deliver life-saving goods and services as quickly and efficiently as possible to people in crisis situations, such as natural disasters or armed conflicts. In humanitarian emergencies, response time is critical, and delays can result in the loss of lives.

Humanitarian operations are characterised by high levels of **uncertainty, unpredictability and urgency**, where plans are expected to fail, default partners are unfamiliar actors and infrastructure is limited (or at times non-existent). These are highly volatile conditions that are vastly different from for-profit settings. Commercial operations, driven by the goal to maximise profits, are designed to support the production and delivery of goods and services to consistently meet customer demand in a more predictable, routine type of environment.

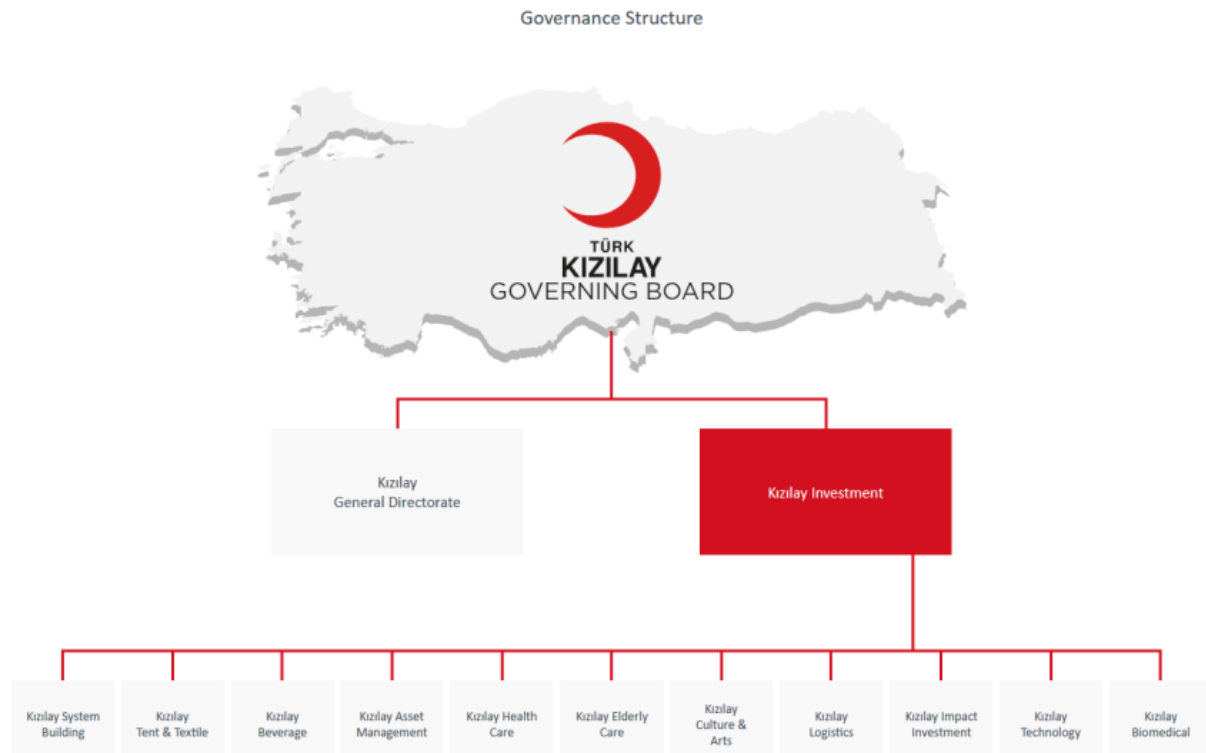
Given the different goals and operating environments of commercial and humanitarian operations, the risks – and stakes – of having a mismatch in demand and supply is higher in humanitarian operations, which can result in insufficient supplies, more waste and increased cost. There are real dangers when the lines between the two are blurred.

### **When the lines blur**

Humanitarian organisations typically depend on external funds, which can be highly unpredictable. Therefore, some have turned to generating revenue through commercial operations to reduce this dependence. This may be a valid strategy but could also cause tensions between the organisation's for-profit and humanitarian arms, as seen in the case of the Turkish Red Crescent, Kızılay.

Kızılay is part of the [International Red Cross and Red Crescent Movement](#), whose mission is to alleviate human suffering, protect human dignity and prevent and respond to crises and disasters. Kızılay is involved in disaster response, health, social services, education and blood services, among others, and, like most humanitarian organisations, is expected to aid those in need, regardless of their ability to pay.

Since November 2018, Kızılay has adopted a [conglomerate structure](#) (see below) by establishing 11 for-profit subsidiaries under Kızılay Investment. Kızılay's long-running softdrink plant now falls under the for-profit Kızılay Beverage (which is currently [preparing for an IPO](#)) and its tent-production plant now falls under the for-profit Kızılay Tent & Textile.



*Kızılay's conglomerate structure (source: [Kızılay Investment website](https://www.kizilay.com.tr/en))*

In addition, the humanitarian arm of Kızılay had to transfer its assets ( **including operational infrastructure** such as warehouses and manufacturing facilities) to the for-profit subsidiaries, with the goal to provide stable revenue for humanitarian operations. In terms of governance, Kızılay Investment reports to the same governing board as the Kızılay general directorate, which continues to house Kızılay's humanitarian operations.

The new commercial structure led to impressive financial success. Kızılay's subsidiaries had a consolidated revenue of over **520 million Turkish liras in 2021** (equivalent to about US\$27.31 million) based on the most recent data available – an almost 300 percent increase from the previous year. On the other hand, Kızılay's response in the aftermath of the earthquakes in February 2023 that killed more than **45,000 people** in Turkey alone and left millions homeless has raised the question: Does the commercial structure of a humanitarian organisation affect its relief operations?

Public scrutiny of Kızılay's for-profit operations brought to light the fact that three days after the earthquake, Kızılay Tent & Textile **sold tents** worth 46 million Turkish liras (equivalent to about US\$2.44 million) to Turkish

humanitarian organisation AHBAP, which wanted to distribute them in the affected region. Kızılay's for-profit subsidiary Kızılay Logistics also sold **30,000 meal packages** to AHBAP. Meanwhile, Kızılay Tent & Textile sold tents to the **Turkish Association of Pharmacists**, which needed them to operate not-for-profit temporary pharmacies in the affected areas.

Kızılay argued that revenue from the sales was necessary to cover the costs of production and any profit would be used for humanitarian operations. Despite this argument, critics maintain that this for-profit model conflicts with Kızılay's humanitarian mission. Most importantly, such scrutiny can negatively influence Kızılay's credibility and, in turn, ability to raise external funds.

## **Humanitarian versus for-profit operations**

In practice, commercial and humanitarian operations on different fronts.

### *Planning and forecasting*

Humanitarian organisations are driven by the immediate needs of the affected population. Due to the need to respond quickly to sudden, unexpected crises, humanitarian operations often have short-term planning and forecasting horizons. On the other hand, for-profit organisations operate within planned, predictable and longer time frames and therefore are better able to optimise production schedules, inventory levels and transportation routes.

While commercial supply chains are typically designed to operate within established protocols and routines to achieve efficiency and predictability, humanitarian supply chains require greater flexibility and agility to respond to changing circumstances and unexpected events. It is also worth noting that, with surging turbulence in commercial operations (e.g., due to supply chain consequences of the war in Ukraine and Covid-19), collaboration between commercial and humanitarian organisations is increasingly important to create common knowledge on operating under high uncertainty. Notably, **INSEAD's Humanitarian Research Group** has been a pioneer on research in this domain.

### *Procurement and inventory*

In humanitarian supply chains, inventory management is geared towards ensuring sufficient aid supplies when and where they are needed, which

comes with its own set of challenges. On the demand side, the needs of affected populations are dynamic and can be difficult to assess. By the time the needs are known, access to supplies can be hindered by market forces such as competitive markets and unavailability of supplies. Moreover, on the supply side, the reliance on donations and in-kind contributions can make access unreliable. In contrast, in commercial supply chains, more predictable demand makes it possible to maintain optimal inventory levels to meet customer demand and minimise inventory costs by working with reliable suppliers.

### *Logistics and transport infrastructure*

Infrastructure such as warehouses, distribution centres and transportation networks forms the backbone of commercial supply chains, especially in developed or established markets. Humanitarian supply chains, on the other hand, are often set in challenging environments with limited infrastructure – be it geographically remote locations or hard-to-reach areas due to destruction.

### *Collaboration and coordination*

For-profit organisations are motivated to collaborate and coordinate with stakeholders such as suppliers or customers mostly for reasons including maximising efficiency and minimising costs. In the case of humanitarian organisations, amid the pressure of delivering aid in a timely manner, collaboration and coordination may be a prerequisite to provide aid to those in need. With more diverse and sometimes unfamiliar actors – such as international organisations, local governments, community groups and private sector entities – in the humanitarian setting, these stakeholders can act as enablers or gatekeepers.

### *Performance metrics and funding*

Success in for-profit organisations is often measured in terms of profitability and efficiency. In contrast, success for humanitarian organisations is measured by the number of people reached, the amount of aid supplies delivered and the effectiveness of aid provided. These metrics are often difficult to measure, yet they can influence the amount of external funding that humanitarian organisations receive in the form of donations, grants and government aid.

Due to the unpredictable nature of external funding, some humanitarian organisations have designed commercial activities such as revenue-generating subsidiaries or social enterprises to support their humanitarian operations (see examples in box), with excess profits reinvested into their programmes and services. A common feature across these examples is the clear distinction between their for-profit and humanitarian operations.

### **Humanitarian organisations with revenue-generating subsidiaries or social enterprises**

1. Oxfam operates several social enterprises, including [Oxfam Shops](#), which sell donated items to raise funds for their programmes.
2. CARE operates an impact fund subsidiary called [CARE Enterprises](#).
3. Save the Children operates a social enterprise called [Save the Children's Gift Shop](#), which allows individuals to purchase gifts including school supplies, food and medicine to support children in need.

### **Need for transparency and governance**

The ongoing Kızılay controversy shows the importance of transparency and governance for humanitarian organisations. It also raises the question of efficiency and flexibility required in the humanitarian context, which may be hindered by bureaucracy in a conglomerate structure.

Prior to its transformation in 2018, Kızılay operated [26 warehouses and 600 local disaster stations](#) across Turkey, with each warehouse owning its own vehicle fleet to respond quickly in case of an immediate need nearby. The stations had the authority to act right away while communicating and collaborating with the central management for further response. After the creation of the for-profit Kızılay Logistics, only the central management based in Ankara has the authority to make procurement and logistics decisions, which can increase response time in emergencies.

The new corporate structure also affects long-term operational planning and therefore future preparedness. The humanitarian arm now requires approval from Kızılay Tent & Textile, as well as several rounds of evaluation in planning the production of tents, for example. These extra layers of

bureaucracy may hinder the necessary agility required in humanitarian operations.

Kızılay is just one example among many where the blurring lines between for-profit and humanitarian activities raise challenges. Humanitarian organisations face both increasing demand for humanitarian aid and reduced funding. While creating income-generating activities to sustain humanitarian operations may be an option, it also brings significant potential risks. This is especially true given that the requirements for achieving operational excellence in commercial and humanitarian settings are vastly different. Developing the operational structure necessary to excel in humanitarian response demands a fundamentally different set of capabilities, culture and mission than in commercial settings.

Although the need for a more reliable source of revenue is understandable, transforming the operational and organisational structure to accommodate commercial activities may jeopardise the primary mission of a humanitarian organisation. To strike this delicate balance, humanitarian organisations venturing into commercial activities need advanced systems and excellent management, as well as carefully designed communication channels between their commercial and humanitarian branches. Above all, transparency and good governance are essential.

#### Find article at

<https://knowledge.insead.edu/operations/humanitarian-versus-profit-operations-when-lines-blur>

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