Measuring the Impacts of NGO partnerships: The Corporate and Societal Benefits of Community Involvement

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Purpose: This paper addresses partnerships between corporations and non-governmental organizations (NGOs) dedicated to corporate community involvement (CCI). It focuses on how to measure both business and community benefits derived from CCI. We especially stress the need for developing indicators beyond the input level considering outputs and impacts.

Design/Methodology: This paper follows a case study research strategy in a subsidiary of a multinational chemical and pharmaceutical company. Data collection is based on triangulation of data using interviews, action research, and documents.

Findings: Based on the case study presented, we find that when CCI is an integral part of corporate strategy, it is also possible to develop advanced performance measurement systems for CCI. Such measurement systems include input, output, and impact level metrics for both community and business benefits. Community benefits are best developed and monitored in collaboration with the NGO partner. Further, we find that the measuring frequency partly transcends conventional reporting periods.

Practical implications: Our research should motivate companies which engage in corporate community involvement to go beyond input-level metrics in measuring the success of such initiatives.
However, in order to successfully operate a performance monitoring on output and impact levels, partnering with an NGO which has greater capability in socio-economic assessments, is key.

**Originality/value:** This paper shows how NGOs can contribute to performance measurement as part of the strategic performance management system of a corporation and how this allows for metrics beyond common input-level to address output or even impact-level metrics.

**Keywords:** Performance measurement systems (PMS), Corporate community involvement (CCI), Non-governmental organizations (NGO), Corporate social responsibility (CSR), Pharmaceutical industry, balanced scorecard (BSC)

**Type of paper:** Case study
1. **Introduction**

Non-governmental organizations (NGOs) have become an ever more important stakeholder for corporations (e.g., Dahan et al., 2010; Hansen & Spitzeck, 2010; Spitzeck, 2009; Spitzeck and Hansen, 2010). Besides other purposes such as policy development and innovation, companies often engage in partnerships with NGOs for addressing social or environmental community needs (Ählström and Sjöström, 2005; Hansen et al., 2010). The aim of such corporate community involvement (CCI) is to improve the community’s social or environmental conditions by contributing all kinds of resources (LaFrance and Lehmann, 2005). Whilst the company usually contributes financial resources to the partnership, NGOs provide the necessary know-how and reputation. Researchers have stressed that it is important to guarantee both company and community benefits when involving in CCI and to measure the engagement accordingly (Hess and Warren, 2008). Not a lot of empirical studies have investigated how these benefits are measured beyond pure inputs (e.g., money spent), and how the NGO partner is involved in this process. Against this background, we want to address the following research question: *How to measure the performance of NGO partnerships regarding both business and community benefits?*

Our paper is structured as follows: we introduce the concept of performance indicators first. Then we present an overview of the major findings of the case study at Merck Ltd., Thailand, a subsidiary of a large chemical and pharmaceutical company in Germany. Finally, we briefly discuss our results.

2. **Performance management and measurement for CCI**

**The link of performance management systems and performance indicators**

Companies use performance management systems (PMS) as means to visualize strategy and support its implementation (Neely et al., 2005). The balanced scorecard (BSC), for example, hierarchically links various company’s objectives in cause and effect chains and links individual performance indicators to each of the strategic objectives (Figge et al., 2002).
Thus, only measurable objectives can become part of a company’s PMS. Data for feeding such indicators is usually derived from accounting systems, whereby non-financial metrics are usually part of sustainability accounting (Burritt & Schaltegger, 2010). Thus, PMS and accounting have to be linked together (Schaltegger and Wagner, 2006).

The measurement and thus accounting information about CCI has its specifics, as performance relates to communities and their socio-economic development. Accordingly, the next section further elaborates on CCI indicators.

**CCI performance measurement**

As researchers have argued, CCI should be measured with the same standards as other areas of business (Bruch and Walter, 2005; Hess and Warren, 2008). Generally, a hierarchy of metrics distinguishes *input*, *output*, and *impact* measures (Epstein, 2008: 168; James, 1994; Olsthoorn et al., 2001: 461; PLF, 1999: 27; Weber, 2008). The necessary measuring period increases from inputs (about one year) to impacts (up to ten years) and thus transcends time frames common in business.

CCI requires an evaluation in two dimensions: first, to legitimize a meaningful CCI activity, a measurement of the *effects on the community* is required. Second, to prove the strategic relevance for the firm, *business effects* on employees and customers (and potentially other stakeholders) need to be evaluated (Weber, 2008). Both dimensions are further explained according to the three priory introduced measurement levels:

- **Community benefits.** First, *Input-level* metrics include in-cash, in-kind, and in-time contributions to the communities and are common practice in business (e.g. PLF, 1999). An additional category, the so called “leverage”, addresses inputs by other stakeholders wanting to support a CCI program to which a company has already committed resources (e.g., the local government supports an initiative by matching the company’s donations). Though, according to the LBG (2004) model, the leverage is considered to be a first result of the CCI program and thus an output, we more narrowly consider leverage still as an input. Further, metrics for community *outputs* and *impacts* strongly depend on the nature of the CCI activities and are thus not elaborated in detail here (cf. BITC, 2003; Epstein, 2008; UN, 2007). Examples are the
number of individuals which successfully participated in educational programs (output level) or the successful job entrance due to improved education (impact level).

- Business benefits. On an input-level, some of the indicators presented for the community benefits could also be utilized on the business level. For example, the in-time contributions by volunteering employees and customers (i.e. the active participation of stakeholders in CCI activities) is an important basis for stakeholders knowledge on and trust in CCI activities (Hansen et al., 2010). Still, business benefits are better measured on output and impact levels. Outputs relate to the effects on employees and customers (and potentially other stakeholders), such as CCI-induced employee-company identification and customer-company identification (Bhattacharya and Sen, 2004; Luo and Bhattacharya, 2006; Bhattacharya et al., 2008; Hansen et al., 2010). Based on the output metrics, the impact level indicates the ultimate effects on financial indicators (e.g., turnover).

The indicator types presented above can be evaluated using internal and external evaluation processes. Internal evaluation processes can include performance indicators and perception measures (e.g., an employee survey). External evaluation is available through benchmarking, social screening services, and NGO assessments, amongst others (Epstein, 2008; Luo and Bhattacharya, 2006; Spitzeck and Hansen, 2010). Whereas businesses have a lot of expertise in measuring business benefits even on output and impact levels, they usually lack expertise in evaluating societal outputs and impacts. In this latter arena, NGOs, which are often executing the CCI projects for the companies, have better competencies and can thus serve as partners in performance evaluation (Hansen et al., 2010).

As there exist few empirical studies on how to measure NGO impacts beyond the input level (cf. introduction), we conducted an exploratory case study in a corporation in Thailand to advance such knowledge. The method and findings are presented in the following chapters.
3. **Method**

We followed a case study research strategy. The single case study was conducted at Merck Ltd., Thailand. Merck Ltd., Thailand is a local subsidiary of the German company Merck KGaA[1], a chemical and pharmaceutical company with about 3240,000 employees operating in over 61–67 countries worldwide. Merck Ltd., Thailand (in the following simply “Merck“; when speaking of the headquarter we will refer to “Merck Group”) is the local subsidiary selling to the Thai market. We have chosen Merck Ltd. because it has been recognized by the local government, business initiatives, and academia for its leadership in NGO collaboration dedicated to CCI (e.g., Hansen et al., 2009, 2010; Kaufmann *et al.*, 2008) and can thus be considered an “extreme” case (Yin, 2003).

For data collection, we used triangulation of various data sources (Yin, 2003). First, data collection covered semi-structured interviews, corporate disclosures, and other publications from the public domain. Second, in the sense of action research (Greenwood and Levin, 2007), one of the researchers collected a huge amount of informal data through the participation in workshops, meetings, discussions etc (Huxham and Vangen, 2003). The research was executed from May to August 2008.

4. **Findings**

We present the case study findings in the following structure: first, we present Merck’s approach to CSR and corporate strategy. Second, we give details on the CCI programmes. Third, we show how CCI has been incorporated into formal corporate strategy. Last but not least, we present the measurement approach taken by the company.

**CSR strategy**

Merck Thailand was founded in 1991. The organization has performed successful operations with double digit sales growth per year since the company’s foundation (Landau *et al.*, 2005). In 2008, the organization employed about 200 people. Merck strives to position itself as a “caring company” and
follows a “Four-Stakeholder Approach” addressing customers, employees, Thai society, and shareholders. Its mission statement reads as follows:

“We will be the first in customers’ minds to provide outstanding customer care through innovations created by talented, satisfied employees, while positively contributing to Thai society.” (Merck Thailand, 2008: 6)

In line with its vision and strategy, the company embraced CSR. It has been publishing local CSR reports since 2002 and has experience with CCI since about the same time. It regards CSR as an integral part of corporate strategy. Merck also adopted a local CSR branding strategy (Landau et al., 2005; Landau and Woisetschläger, 2009).

NGO partnership and CCI projects

One of the main pillars of Merck’s CSR activities is the area of CCI. It addresses the societal part in its strategy with the betterment of local communities. Since 2002, Merck has engaged in a strategic alliance with Raks Thai Foundation (a local arm of the global organization CARE International), an NGO supporting disadvantaged communities in Thailand. Merck’s CCI includes two categories of programs. First, together with the NGO partner, Merck maintains three long-term CCI programs in different regions throughout Thailand. The primary contributions to these programs are donations from Merck and its customers. Merck uses cause-related marketing activities to source customer donations and matches the collected amount. Merck’s overall monetary contribution to the communities (via the NGO partner) since the beginning of the programs amounts to 20m Thai Baht (approx. € 400,000). Second, the company maintains an Employee and Customer Volunteering Program (ECVP), which is a platform for short-term activities addressing social and environmental causes. Suppliers are also invited to the events and, additionally, family members are allowed to join (Table 1).

Insert Table 1 about here
**Formalization of CCI in the strategic management system**

Furthermore, Merck decided to make CCI an integrated part of the balanced scorecard used in the two major business units (chemicals and pharmaceuticals). As presented in a prior publication of the first author, a pilot implementation of a community-enabled balanced scorecard (CBSC) incorporated CCI objectives into Merck’s prior existing BSCs (the managing director has left the subsidiary in early 2009 and thus, at this point of time, we do not have further data on whether the pilot implementation is still in operation). CCI was added in an additional social perspective of the balanced scorecard and, therein, as three explicit objectives. The first objective called “social contribution” relates to the community benefits of CCI whereas the second (“High employee engagement in CSR”) and third objective (“High customer involvement in CSR”) relate to the monetary contributions to and active participation in CCI activities by employees and customers, respectively (see *Figure 1*). In the present paper, we do not go into details about the balanced scorecard architecture, rather we focus on the performance measures of the BSC’s social perspective.

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![Image](Insert Figure 1 about here)

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**Measuring CCI effects on business and society**

In the next step, we address the development of adequate indicators to track the CCI-related strategic goals. We describe the community contribution goal first and then proceed to the employee and customer involvement goals (a detailed overview of the indicators related to each of the strategic goals is given in *Table 2*). For each area, the description of implemented measures are followed by a description of the challenges faced during implementation.
Community benefits

Regarding indicators for the community contribution goal, the CSR Manager was very critical to use input-level indicators:

“It’s unfair to reduce very emotional events to a number of statistics. Financial figures can never adequately express the practical advantages and the delight created with beneficiaries.” (CSR Manager)

Hence, Merck aimed at the highest possible measurement level (i.e. impacts). Because such community assessments require dedicated skills and experience, Merck assigned this responsibility to its strategic ally, the NGO partner. Community impacts are measured by the NGO using qualitative assessments on a biennial basis (every two years) and describe such as the income increase of households in target communities. Still, not all CCI activities allowed for such high-level measurement. Impact metrics were only possible in the project with the longest duration (P1).

The other projects (P2 and P3) could only be assessed on an output level. Outputs relate to e.g. the number of beneficiaries or graduates of community programs. For CCI program P4, the in-time contributions of the company’s Employee and Customer Volunteering Program (ECVP), this is the leverage, are measured.

Challenges of measuring community benefits with the NGO

The measurement of community benefits together with the NGO was subject to several challenges. First, a very pragmatic hurdle for the metrics development existed in the time constraints of the NGO. The NGO deploys most of its resources into field projects and thus has few administrative staff. In order to cooperate on the development of a performance measurement system, support from the NGO had to be wrestled for in a day-to-day manner. The good relationship between the company’s CSR unit and the NGO was key for such efforts.
Second, the initial meetings between the company and the NGO aimed at discussing the company’s measurement requirements revealed that NGO representatives suspected that the company’s motives for a measurement framework were an effort to better control the NGO’s activities. Only a huge effort in communication between both parties led to a mutual trust within the project.

Third, the development of community metrics, especially on impact level, required dedicated competencies. Before the project, the local NGO did not have such metrics in place. The development was only possible with the help from an external consultant sent by the NGO’s global headquarters, though – according to his statements – the task was even new to the overall NGO organization.

„I will try to introduce a framework for the systematic measurement of the program achievements. But within the NGO, we have not done anything similar so far.” (external consultant working for NGO)

Fourth, and probably the major challenge with impact level metrics was the different viewpoints between the company and the NGO. Whilst the company used business-oriented framework using input, output and impact levels (as described in the literature review), the NGO – in focusing on the evaluation of community effects – used a more complex evaluation framework from the development aid community. More specific, the NGO used a performance measurement management framework from the Asian Development Bank (2005) which distinguishes inputs, activities, outputs, outcomes, and impacts. Figure 2 presents the NGO’s measurement logic using the example of the tsunami relief program (P1). Whilst according to the NGO an accurate and meaningful evaluation of community effects depends on such a complex measurement framework, the company could only deal with a reduced level of complexity, as the final indicators in table 2 show).

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Insert Figure 2 about here

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Last but not least, the corporate strategy manager criticized the long reporting period of the community KPIs in responsibility of the NGO, as this conflicts with the annual or even semi-annual measurements of other KPIs: “I’m not sure if it’s a good idea to rely on biennial indicators.”
Business benefits

Concerning the employee and customer involvement goals, Merck decided to use indicators on both the input and output level. The impact level does not need to be considered here because it is inherent to the hierarchical BSC logic as applied in Merck’s strategy map (cf. Figure 1; impacts describe how CCI-related goals causally link to traditional strategic goals, such as customer and employee satisfaction, as well as how these goals ultimately impact the financial perspective). On the input level (more specific, the leverage), Merck decided to use indicators for employee and customer participation in volunteering activities as well as the increase in customer donations for the programs in partnership with the NGO. As all CCI activities have been documented by the company’s CSR unit, indicator development was straight forward. On the output level, the way employees and customers are affected by the communication about or active involvement in CCI and thus the CCI-induced employee-company and customer-company identification were measured. Several employee and culture surveys as well as external customer surveys and brand research with explicit questions on CCI were used to extract this data (see Table 3). As the data in Figure 3 shows, the customers’ interest in contributing to the company’s CCI activities mounted significantly from 2006 to 2008. Figure 4 shows the results of the employee survey with respect to the company identification induced by CCI.

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Insert Table 3 about here
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Challenges of measuring business benefits

Developing a sound CCI performance measurement system required modifications and enhancements under responsibility of various departments: the support of the HR department was necessary to make employee surveys assess attitudes and personal engagement with the offered CCI programs. The same support was necessary from the marketing and sales department for the revision of customer surveys. Furthermore, the support of the heads of the various business units was very important, as each division has its own specifics. Only with the support of the business unit head employees and customers could be motivated to engage more strongly in the company’s CCI activities and thus to contribute to CCI success measures. At Merck, these changes have only been possible with very strong top-management support, especially by the managing director.

Overall the huge development effort related to CCI performance measures on both business benefits and community benefits could only be justified as CCI has priority already been made an integral part of formal corporate strategy (as reflected in the vision statements and the BSC system) and, even more important, has been continuously preached by the managing director.

5. Discussion and Conclusion

Prior research focused solely on key performance indicators (KPIs) measuring business impacts of CCI and, if community benefits were evaluated, this had been done at best on input level (e.g., Weber, 2008). In contrast, our case shows that KPIs for measuring community benefits can also be developed on the output and impact level. As business organizations usually do not have the expertise to judge social and environmental progress in communities, partnering with NGOs becomes a critically capability, an observation also suggested by previous research (PLF, 1999: 45). Thus, these findings
give a first answer to the question of how companies can measure outputs and impacts of NGO partnerships benefitting local communities (Ählström and Sjöström, 2005). At the same time, it should not be underestimated that performance evaluation from the development aid perspective taken by the NGO is much more complex than it can be reflected in a company’s actual performance measurement framework. The interface between the business performance logic, on the one hand, and the performance logic used by NGOs for evaluating socio-economic development of communities, on the other, is hence an interesting alley for further research.

One issue about measuring community benefits is that they are rather program-specific and, thus, it is often difficult to find a general set of indicators. Further, according to Ditz (1997), a major challenge with impact indicators exists to what extent observed impacts indeed stem from the company’s activities and not from other external influences (e.g., contributions of other firms to the same community). Further research might explore how companies contribute to clusters of local development (Porter & Kramer, 2011).

Another insight is closely related: corporate performance measurement tools usually apply a short-term logic (quarterly, semi-annually, or yearly). However, to address community progress, longer-term metrics are necessary. At Merck, impact-level indicators for some of the CCI programs (in responsibility of the NGO partner) are scheduled with a biennial frequency. This shows that short and long-term views can be integrated in business metrics.

We have shown that the measurement of NGO partnerships requires considering both business and community benefits on input, output, and impact levels. The case study, despite its limitations, shows the general practicability of such an approach. We thus recommend companies to measure their CCI activities in order to build a stronger link between the aims of their community engagement and the company’s overall strategy.
6. References


7. **Acknowledgements**

We thank Heinz Landau for providing us with access to the company. Further, Martin Sextl deserves our gratitude for conducting parts of the empirical analysis on site and for working with us on the previous publication on the BSC.
8. **Tables and Figures**

<table>
<thead>
<tr>
<th>Category of Programs</th>
<th>Programs and objectives</th>
</tr>
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</table>
| Long-term involvement through the strategic alliance | *P1) Tsunami Relief and Rehabilitation Program:*  
- Occupational recovery  
- Infrastructure rebuilding  
- Improvement of Disaster Risk Management  
*P2) Young Leadership Development Program:*  
- Increase of livelihood perspectives and reduction of relocation rate  
- Development of leadership skills with youths  
*P3) Community Caring & Action Partnership Program:*  
- Increase of natural resource management capacities  
- Development of sustainable livelihoods |
| Short-term activities through volunteering schemes | *P4) Large diversity of programs with social and environmental objectives,* e.g.:  
- tree planting events, services for children, elderly, or disabled |

*Table 1.* Overview of Merck’s community involvement programs (source: based on Merck Thailand, 2008)
Figure 1. Strategy map for the community-enabled BSC of Merck Thailand’s Pharmaceutical Division (Source: Hansen et al., 2010)
OR, operating revenue; EBIT, earnings before interest and tax; ROS, return on sales; ROCE, return on capital employed; FCF, free cash flow.
<table>
<thead>
<tr>
<th>Strategic goals</th>
<th>Indicators</th>
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<tbody>
<tr>
<td></td>
<td>Inputs</td>
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<tr>
<td>I. Community benefits</td>
<td></td>
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<tr>
<td>• Communities (“social contribution”)</td>
<td>([$] donations by employees, customers, Merck Group, etc.)</td>
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<tr>
<td></td>
<td>[#] volunteering activities per half-year (P4)</td>
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<tr>
<td>II. Business benefits</td>
<td></td>
</tr>
<tr>
<td>• Employees (“high employee involvement”)</td>
<td>[%] participation rate¹ (P4)</td>
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<tr>
<td></td>
<td>[h] average volunteering (P4)</td>
</tr>
<tr>
<td>• Customers (“high customer involvement”)</td>
<td>[%] increase in donations</td>
</tr>
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<td></td>
<td>[%] participation rate¹ (P4)</td>
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</tbody>
</table>

Table 2. KPIs used to measure community and business effects of the NGO partnership (indicators in brackets are measured but not considered KPIs)

P1-P4, CCI activities (see Table 1); Q-EX, Q-CX: related survey questions (see Table 3)

¹ Participation rate is calculated as follows: no. of volunteering participants divided by no. of expected participants
**LEVEL OF EFFECT:**

**Intended Impact**
- Restoring and strengthening livelihood security of Tsunami affected villages

**INDICATORS OF ACHIEVEMENT:**

**Desired outcomes**
- Occupational groups (OGs) and revolving loan funds in Tsunami affected communities contribute to household and income savings

**Required Outputs**
- Establishment of at least 80 OGs that are increasingly able to generate income for participating households
- Establishment of loan funds for each community that are increasingly able to manage their operations

**Community Activities**
- Revolving fund
- Occupational development

**Inputs**
- Donations and funds raised by Merck Thailand (not tracked here)

- % of households in the target communities that have increased their income since project launch
- % of target communities that have increased resilience to livelihood shocks caused by natural disasters
- % of OGs generating profit which is used to support household income and savings
- % of revolving loan recipients using their loan for occupational activities that support household income and savings
- % of OGs reporting profit
- % of revolving funds showing clearly recorded and controlled operations
- % of revolving funds borrowers repaying their loans on schedule

*Figure 2.* Measurement logic from the NGO’s perspective using the example of the Tsunami relief program (P1) (Source: internal documents)
Survey Questions

Employees
- Q-E1: Our company’s commitment towards society gives me a stronger identification with my working place. (from strongly agree to strongly disagree)
- Q-E2: Our company is highly respected by customers for our social contribution to the Thai society.
- Q-E3: I am satisfied with the progress that Merck Thailand has made in its work with the community.
- Q-E4: Do you agree to get actively involved in activities of Merck Thailand & CARE Thailand/Raks Thai Foundation. (yes/no/don’t know)

Customers
- Q-C1: Merck contributes significantly to local community programs. (from strongly agree to strongly disagree)
- Q-C2: As a customer of Merck I feel proud of Merck’s work in society through their local community programs.
- Q-C3: Which of Merck’s community programs are you aware of? (choices from a list)
- Q-C4: Would you like to be involved in Merck’s social contribution activities? (yes/no/don’t know)

Table 3. Survey questions as basis for metrics (source: Internal documents)

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Figure 3. Results of customer survey for one of the divisions (Source: internal documents)
Figure 4. Results of the employee satisfaction survey (source: Hansen et al., 2010)
9. Endnotes

[1] Clarification of Merck KGaA vs. Merck & Co. In a continuing effort to alleviate confusion with all parties involved, Merck KGaA of Darmstadt, Germany wishes to clarify that it has no connection with Merck & Co. of Whitehouse Station, NJ, USA. Although the two companies still share the same name, they are no longer associated with each other. Merck KGaA owns worldwide rights to the name except in the USA and Canada, where it uses EMD. Merck & Co. uses the name in North America and MSD in the rest of the world.