

Lecture Text

Professor James Austin

Strategic Alliances: The Power of Partnering Between Nonprofits and Businesses

(edited for clarity)

Introduction

There's a whole other arena of collaboration that's important to look at that has been emerging, and that is alliances and collaborations across sectors. So what we want to explore with you right now is the potential, the possibilities, and the processes of partnering between nonprofit organizations and businesses. This phenomenon has been emerging with considerable vigor over the last ten to fifteen years at an accelerating rate. And there is a very important discovery process that is going on that is leading the institutions from both sectors to discover greater potential for these kinds of collaborations; that's what we want to explore with you now.

We did a lot of research, and we want to share with you some of the findings from that research on different kinds of alliances. And you can see that many of these organizations will be quite familiar to you in terms of the companies and the nonprofits.

We studied them in-depth. Beyond this set here, we continued the research, did a series of additional surveys and research on a whole other range of organizations, and beyond this, dozens more. The important thing about this is simply to say, that the research that we have done covers a wide diversity of types of nonprofits and a wide range of types of companies, so that the findings that we want to present to you are fairly robust in terms of their general applicability. It's not specific to a particular type of business or a particular type of nonprofit.

Collaboration Continuum

The most significant finding that emerged from our research is that there is a continuum, a collaboration continuum. Consider it to be a spectrum of sorts, in which one can identify, quite clearly, different types of relationships. There are basically three stages, or three different types of collaborations.

The Philanthropic Stage

The first collaboration stage is the philanthropic stage. This is what typifies, traditionally, the relationships between businesses and nonprofit organizations. A nonprofit will approach a company, they'll request a donation. If the company is feeling generous and has some resources, then it might, in fact, give that donation.

It's a common one. I'll give you an example and we can pursue this example over the three stages. The apparel and boot company Timberland has some operations up in New Hampshire, but operates nationally and globally. It was approached about ten years or so ago by a new little nonprofit called City Year. City Year was formed in Boston. It had the purpose of promoting public service by youth. So it would organize a group of youths together, and they would be put into teams, and they would work with community organizations.

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Well, when they organized it, the people at City Year said, "We're going to have a bunch of kids tromping around the streets of Boston, and, gosh, it'd be nice if they had some good boots to wear." So somebody in City Year just picked up the phone and, because they didn't know anybody there, they made a cold call to Timberland—reaching an assistant to a vice president of manufacturing. So when you make a cold call, that's with some uneasiness. Well, the assistant on the other end of the phone said, "Sure, thirty-five pairs of boots? Yeah, we can do that."

This was a company with a philanthropic spirit that had made donations before, and so they donated the boots to these folks at City Year. And that was terrific. The pilot project was great, City Year was off and running, they doubled the number of kids the next summer, and they were going to have them out there for a year. And, "Geez, now we need seventy-five boots!"

And so they picked up the phone, again with great trepidation, and asked, "You don't think you can give us seventy-five pairs of boots?" And Timberland responded, "Sure, we can do that." This person on the other end of the line at City Year was ecstatic: "This is terrific, that's just great!" Well, that was clearly a philanthropic relationship.

It's just kind of giving, helping out, and you're either writing a check, or giving some merchandise to the nonprofit organization. You get a little bit of a halo and you feel good about it if you're on the company side, and the nonprofit gets some additional resources. It's basically a check-writing relationship.

This is important because we all like to receive checks. Cash or merchandise in-kind is really important. There's no doubt about that. But what is interesting is that we discovered that what is happening in the world of relationships between businesses and nonprofits is, in fact, that there are additional ways that one can collaborate.

The Transactional Stage

And so this second stage, a transactional stage, has emerged. In the transactional stage, all of a sudden we see the relationship becoming more of a two-way value exchange, and it goes beyond just the money. They begin to mobilize other kinds of resources and capabilities. They focus in on specific activities. So sponsoring events, cause-related marketing, particular kinds of volunteer activities by company employees with the nonprofit, exchanging of expertise—usually very clearly defined as to what it is that we're going to do. So it's transactional here: I'm going to do this for you, you're going to do that for me, and there's going to be interesting value for both of us. And so this has really emerged in the last eight to ten years.

This is a very big portion of a lot of the collaboration that is occurring, particularly in the cause-related marketing. But we actually discovered, in the cases that we studied, that there is yet a third stage.

The Integrative Stage

And we refer to that as the integrative stage. In this type of relationship, the organizations' missions, and their strategies, and their activities begin to mesh together in a very close way. They broaden out the kinds of activities that they have. They become, in a sense, fused organizationally, so that it begins to take on the appearance much more of a joint venture, rather than as just simply a transaction.

Let me just give you some of the characteristics that occur as you go along these transitional stages here. The level of the engagement becomes much higher. The importance of this collaboration to each of the organization's missions becomes much more central. The resources that get deployed also begin to magnify.

Importantly, it's not just the scale of the resources, but the type of resources, because what begins to become mobilized is much more than money. Each of the organizations begins to mobilize their capabilities, their talents, their critical assets. And that's very important, as we'll visit later, in terms of the value creation.

They find new activities to collaborate on, so there's a broadening of the dance, and of the activities that they are engaged in. The interaction level no longer is kind of a once-a-year dinner or a once-a-year visit and a writing of that check. It really becomes much more intensive.

But of course it also becomes much more complex. It's not complex to write a check, to send out a pair of boots, or something like that. But to manage any type of strategic alliance is very demanding managerially. So the complexity and, obviously, the costs in terms of time, increase significantly. But the payoff is that the strategic value to the partner also increases, which justifies that larger operation.

Portfolio of Collaborations

This framework, this collaboration continuum framework, is out in the field. It's being used by practitioners, by companies, by nonprofit organizations. And what they find as particularly useful to them is that it is a way to think about their portfolio of relationships, because almost all companies have multiple relationships with nonprofits. And lots of nonprofits have multiple relationships with different companies. And so the first utility of this framework is that it allows you to analyze systematically your portfolio of collaborations. You can say, "Where are they? Are all of mine here in the philanthropic stage? Do I have any that are here or over here? What does it look like?" So you take stock of your existing relationships.

This is a continuum, so any one of these parameters, and even others, can fall at any one of these stages. So you can have a relationship that is partly this, and on some aspects, it's over here, and maybe there's something even over here. But what is important here is not simply using this to assess my inventory of collaborations. As a proactive management tool, this allows you to ask the very important question: Given where I am, where do I want to be? What is my optimum portfolio? What should it look like? Do I have some that are over here that have the potential to move into here? Or are there some others that I really want to make a much larger investment in, and migrate all the way down to this end?

So it becomes a guideline. And then what are the implications of these parameters of what you have to do, in order to make that move forward? If you think about a portfolio of collaborations, what you want to try to do, as in any portfolio management task, is achieve an appropriate mix, an optimum balance here.

And what are the things that you want to consider here? You want to consider the purposes of each one of these different kinds of alliances. This can be a cash cow. Low investment and I get some cash back—not a lot, but I get some cash back. And so that can serve a very important purpose for you.

But a transactional one might serve a very different purpose. You're going to get different kinds of benefits out of that. And similarly over here, this becomes a very powerful relationship. So you want to have a balance in terms of the functions or purposes of the different alliances, and be clear about that.

In a portfolio, you also want to diversify risk. That's one of the purposes of portfolio management. So you can think about, in my partners, am I too dependent on some partners? Should I increase the number and the type in order to manage my risk through diversification of the dependency there? And so that's an important category to think about in that regard.

You also then finally want to say, "OK, is the mix of my portfolio here compatible with my organizational capacity to manage it?" That's the other equilibrium that you're searching for. I can't overextend and I don't want to undermanage it. And so you want to say, "Do I have the capacity to make the migration over there?"

And what is important is that where you are on the continuum is the result of your decisions and your actions. Nothing automatic about moving along that continuum, my friends, nothing. These are strategic decisions, and so they require the input of boards as to the policy and the guidance, and the critical managerial judgment and execution capabilities of the staff here.

The Process of Partnering

So let's move on and explore a bit further the process of partnering here. One of the critical issues here is, how in the world do we even start one up. That requires making a connection.

Making a connection

The marketplace of collaboration, if you will, is a very imperfect marketplace. You have folks out there on the corporate side that might be willing to partner, and you've got folks out there on the nonprofit side that might be interested in partnering. But nobody necessarily knows who's who.

And so there is this process of trying to make the connection. What did we find in that regard? Sometimes this connection here, making the connection, was, on the surface, random. You encountered somebody and they kind of connected with your cause. Somebody in the business world connected with a cause over there.

But what we actually found is that this marketplace, although it's imperfect, is a place where the opportunities are capitalized on and captured by the prepared mind. Those managers who are alert to, seeking, interested in having partners, and have thought about the kinds of partners they want, can spot those opportunities when they come across their screen.

What we found is that the most powerful alliances oftentimes involved touching a personal experience of the CEO, or some other manager, or somebody in the company—that your cause, as a nonprofit, really connected.

Also we found that hitting core values was critical. In the Timberland case—just to show you how that progressed across the continuum—Timberland was, early on, trying to crystallize corporate values. And floating around in CEO Jeff Swartz's mind was to have community

service as a critical piece of its corporate values. They thought that there would be some good benefits to the business of doing that.

And so there was some compatibility there with City Year, the mission of which was to foster community service and that was what the company was exploring. And so the people from City Year—the leaders, the founders, Michael Brown and Alan Khazei—met with Jeff Swartz, up in New Hampshire, and began to enter into a dialogue there.

So there was this engagement at the highest level of both organizations. And you have to have engagement at the top if you want to create strategic alignments. You can have a lot of collaborations with folks further down in the organization, and that's fine, and that can create some value. But if it's strategic, then you require the top engagement.

What we found, interestingly, was that oftentimes that initial engagement crystallized. The partnership crystallized when the people on the business side would actually go and see what the nonprofit was doing, and experience face-to-face that organization's actions and the fulfillment of its mission in the flesh.

City Year did this with Timberland. They said, "You're interested in community service. Let us organize for you a service day." They took a halfway house up in New Hampshire, got all of management, and the other workers, and employees. They all went out there and they were organized into teams by City Year, which organized the people from Timberland into task forces.

"And you're going to fix the wall over here, and you're going to do the floor, and you're going to clean up the bushes, and you're going to paint the walls over here." So they're all working. The entire establishment of Timberland, on a Saturday, was out there doing this. About halfway through the day, Jeff Swartz kind of stood up and looked around, and what did he see?

Over here, he saw four guys working and they're being directed. And the person that's leading them, the team leader, was a chap, a young guy that worked on the loading dock of the company. He was leading the CFO, the vice president of marketing, and somebody else.

And Jeff said, "Wow, he's doing a really good job, you know?" Jeff further reflected, "I didn't know that that kid had that leadership talent. That's really cool. Boy, I just identified a resource that I didn't see before." And he said, "You know what? My leaders are learning how to follow, and that's pretty healthy, too!"

Then he looks over here, and he says, "Wow, look at that. There's somebody from marketing, and finance, and manufacturing, and they're all painting a wall together. And look at them, they're talking to one another, and they're working together, and what teamwork!"

And they're passing the brushes and the paint cans. "Boy, I don't want silos in my business, in my departments. That's how I want my departments working together! I bet that, when they get back, having interacted in this way, they're going to have a different kind of relationship in doing stuff back in the business." Terrifically powerful.

At the end of the day, these Timberland managers and other employees were exhausted. They had worked really hard. But they had smiles on their faces, they were enthusiastic.

They had set out to accomplish something, they worked together, and they did it at the end of the day, and they felt really good about it.

Jeff said, "Man, that's how I want them to end every day at work!" And so, by actually engaging, he discovered the process of community service and how powerful that was for them. So, this motivation came by actually seeing what the nonprofits do; such was often a critical task in terms of engaging business leaders.

Ensuring strategic fit

But you must have strategic fit. There must be alignment between the organizations if you're going to have a powerful alliance. You have to discover that sometimes. It may be automatic. So, you can have Time Warner partnering with a nonprofit that was promoting literacy, and that's pretty obvious. They're both interested in having folks learn how to read.

You had Visa, a credit card company, also partnering with a nonprofit that promoted literacy. That's not so obvious. But Visa had gone out. It had asked its credit card holders, its members, "What social cause are you most interested in?" "Literacy" came back at the top of the list. So they said, "OK, then that's what we're going to out and partner with." So they did it.

So sometimes you have to invest upfront. You've got to go through a process of discovering the fit. Oftentimes in a philanthropic relationship you begin interacting with people and you get to know the organization, both the business and the nonprofit, and you discover that there is some alignment.

What you're needing to do, though, is to have alignment of three things: of your mission, of your values, of your strategy. And alignment is most powerful when it's broad. That is to say, you have connections on any of these—not necessarily have to, but the broader it is, the better. But on each one of those, also think about the intensity. How deep is that fit, that alignment, with my values or with my mission or with my strategy? And if it's really deep, that gives your alliance power, also.

Creating value

But it's all about creating value. All relationships represent a value exchange. And the value that we're talking about here is, what is it? That's the critical question that you must answer, and it is value in terms of benefits and costs.

There is no such thing as a free collaboration, my friends. You must spend in order to earn. But there are benefits to the nonprofit. There are benefits to the company. And in the end, the reason that you are collaborating is to also create superior benefits to the larger society. You're generating social value here.

So what are the sources of value creation? Interestingly, one source of value is the type of resources that you're deploying. If you're just using generic resources, these are the kinds of resources that any company has. Companies all have money, they can all write checks. Nonprofits can give back some good feelings, and some halo, and some reputational enhancement. Those are generic. Everybody has them.

Where you ratchet up, we discovered, the value creation, is when the sides begin to take the skills, the competencies, the special assets that they have that they're best at doing when they do their own business, and figure out how to use those to give benefit to your

partner. So it's not the generic. It is, what am I best at, and how might that be of use to my partner, and mobilizing and deploying that.

There's even another way to generate higher value. That's when both sides take their core competencies and they combine them. So I'm going to take my competencies. I'm a Bidwell Training Center, in Pittsburgh, and I train disadvantaged low-income minority groups on specialty skills. I know how to do that really well.

They teamed up with Bayer, the chemical company, which said, "You know? Nobody in the educational systems is producing chemical technicians for us. So could you do it?" And they said, "Well, let's see if we can combine our talents and resources to do that."

So Bidwell says, "I'll recruit the folks. I know how to mobilize them, motivate them. I've got training facilities here. I can administer programs." Bayer, along with other chemical companies, said, "We'll provide the technical specialists to do the teaching. We'll give you the special equipment to have the training done on the right kinds of technology."

They did that. They fused their resources together and ended up with a dynamic training program. The folks get trained. The companies hire them at the end. The companies not only get trained technicians, they also have a more diverse workforce, which was one of their objectives, too. So the combining creates a distinctive asset.

It's very important, if you want the value creation to really work, that there be balance. It needs to be two-way flow. The two-way flow here needs to be equitable. It's not that the benefits on each side are different—nonprofits seeking one kind of benefits, the companies seeking another kind of benefits. What's important is that both feel that the benefits they're getting represent a fair exchange.

If you don't have balance, then you have these risks. One side's just going to become demotivated: "I'm not going to invest anymore. I'm putting it all in and not getting much out." Or they're going to say, "I'm putting it all in. I'm going to call the shots." And then you no longer have a partnership.

So, another aspect is really critical here: it's important also to recognize that the value that you transfer is a depreciable asset. That is to say, once you give something to your partner, it may be a skill. So City Year taught Timberland how to do community service projects.

It's a whole art and science of organizing, and mobilizing, and setting it up. I can assure you that, after about three or four years—Timberland's pretty smart—they now can set up community service days. They don't need City Year to do that. That asset was transferred, the skills were internalized, the knowledge was internalized. So City Year had to invent other kinds of skills to give.

And so they entered into team building and diversity training—other competencies that they had that were giving value to Timberland. The needs of your partner may change. What was terrifically valuable at one point is no longer so valuable because the contexts changed, the needs changed.

Or, in some instances, things seem to be going so well that everybody gets happy and complacent and fat. And then they wake up one day and say, "What are we getting out of this?" So be careful. You just simply have to keep innovating, like with any kind of value

creation, any kind of enterprise. If you want value to be preserved, you need to continue to create more value.

Managing the relationship

You can have a great connection, you can have alignment, and you can be creating value. But if you don't manage the relationship explicitly and critically, it can all evaporate. So you need to have responsibility assigned for managing your partner relationship. You need to have great communication over here, and all of that is critical to building the kind of trust, which is the intangible asset that holds all of the collaborations together.

And you want to be able to hold your partner accountable. Strong alliances have partners that are willing to hold each other accountable. But let us not kid ourselves. This is not easy. Creating collaborations is complicated. It's tough.

Barriers to Collaboration

So let me just talk to you about the **Seven Cs** that represent barriers to collaboration.

Culture. The world of nonprofits and the world of businesses are often very different. There are different languages and terminologies. There are different ways to take decisions. There are different timelines for action. It's almost like going into a foreign country, where there's a foreign language and a foreign culture. So it's a barrier.

Conflicting goals. You oftentimes don't have the same goals, and so that's a source of tension there.

Confusion. Not exactly sure why is it that we're partnering there, and that can cloud things.

Control. Every partnership, every alliance demands that both sides cede control. People don't like to give up control. So it's an uneasy piece of a relationship.

Capabilities. Will your partner have the competencies to deliver on the goods that you need to create the value? Not always, so that can be a barrier.

Competition. There may be many nonprofits competing for a single corporation. There may be many corporations competing for a single nonprofit. Or there may be competition for taking credit for the good work done for the collaboration, even across the partners. So a lot of interesting dimensions—competition.

And then finally, **costs**. No freebies here. You're going to have to invest, and that can be a barrier, too. We can look at this list and quickly get very depressed, and say, "Ugh. You told us all this stuff, but look what you expect us to do. Forget it!" All of these barriers are real. But all of these barriers are superable.

Collaboration Guidelines

And so, let me just share with you, as a final sort of listing here, another set of **Seven Cs**. And these are the **Seven Cs** that characterize the strongest alliances that, in fact, have been able to overcome these barriers.

The first C:

Clarity of purpose. Really important that you are clear about why you are partnering. Because lack of clarity creates confusion, confusion breeds conflict, and then it all

disintegrates. So write out an explicit statement of why you are partnering, and share that partnering purpose statement with your partner, to see, in fact, if there is some compatibility there.

Connection. Interestingly, what we found are two kinds of connection. The first connection is really with the purpose—that where there is a deep, emotional connection with the cause, the underlying social cause, and it becomes a tremendous source of energy for the partnership. But secondly, a connection with the people. You must have really good interpersonal chemistry, because that's the glue, the organizational glue that holds an alliance together.

Congruency. You need to have your missions meshing. You need to have your strategies synchronized. And you need to have compatibility of your values. For nonprofits, and even for for-profits, there will be instances when the temptation to partner and the enthusiasm is so great that you might overlook this issue of fit. Scrutinize it very carefully, because if the fit is not right, if there in fact are some fundamental incompatibilities on any one of those, then you are asking for trouble. So take care on this one.

Creation of value. We talked a lot about that. I simply want to pass on to you, that in the strongest alliances, the first question that the partner would ask was not, what am I going to get out of this deal? It was, what can I do to create value for my partner? And if both partners are asking that question, then you create a virtuous circle of reciprocity, where value begins to increase in ever-larger amounts.

Communication. Certainly, we know that you have to have really good communication between the partners. That's what generates a lot of the trust, but also, communication internally to your own organization. You want to be sure that everybody in your organization understands why this is of strategic importance to you. And secondly, externally: you want the rest of the world to know, hear, learn, and appreciate the alliance that you have.

Continual learning. A discovery ethic was present, and they're trying to discover two items. First of all, they're trying to discover, how can we partner better together? Just learning the process, because it is a learning process. And secondly, how can we create more value? Always looking for those two things.

And then finally, very deep **commitment to the partnership**. Those organizations that have come together, and are partnering for a longer period of time, are willing to confront the difficulties that will occur in your partner's life and will try to help manage those. That's a reality. There will be conflicts, there will even be crises, and so, figuring out how to manage those, and be committed to managing those, is really important.

And so, simply, in the end, what we are trying to do is to harness the power of collaboration. It's achieving much more than we simply could do by ourselves. And so, in this century, as we move forward, we will be living in the age of alliances, in the era of collaboration.

So we, as board members, as CEOs, need to screen the horizon and look for potential partners whose resources and forces can be mobilized and combined with ours to, in fact, enhance the achievement of our missions. So I simply urge you: go forth, and collaborate. Thank you very much.