

# A **CommonBond** White Paper



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## **The Power of Partnerships**

By Robert Zdenek, DPA

*with*

Audrey Winkler, MS

Barbara Heisler Williams, M.Ed.

Tonia Papke, MBA

Founding Partners, CommonBond

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### Executive Summary

Organizational partnerships are a powerful tool for increasing the effectiveness and impact of nonprofit and public sector entities in New Jersey and beyond. CommonBond brings considerable experience and expertise in initiating shared services, joint programs and projects, collaborations, and mergers. Organizational partnerships encourage a continuum of services and products; greater marketing capabilities; new business models and approaches; economies of scale; and access to new resources. Private and public sector funders can utilize innovative financing tools from challenge grants to recoverable grants/loans to purchase service agreements. The current economic and political environment offers an excellent time to expand partnership initiatives and CommonBond is encouraging public and private sector leaders to create guiding principles and strategies for partnership development; fund cross-sectoral work; identify increased market-based opportunities; and launch demonstrations and pilots for testing new partnership models.

### Introduction

In recent years, greater responsibility for a range of human service and community development programs has been transferred from the government to the nonprofit sector. Indeed, In New Jersey we have seen an enormous reliance on nonprofit organizations to provide human services such as job training, low income housing, and care of distressed children; artistic, cultural



and educational support to our strapped public school system; and services to aid our aging infrastructures.

The dilemma New Jersey faces is that the need for effective nonprofits has never been greater. Yet many nonprofits find themselves both strapped for resources and at the same time themselves duplicating the work of other nonprofits and enterprises.

One proven approach that can lead to greater efficiency, effectiveness, and impact on the part of nonprofits is for their funders and supporters to encourage shared services and initiatives, collaborations, and mergers.

Exploring partnerships enables nonprofits to discover new approaches, ideas, and strategies that can be used towards solving the mounting challenges that their constituents and communities face. Committed leadership at the state, local, and nonprofit level will make a huge difference in creating the climate for sharing and building new knowledge and tools that can strengthen the economic and social fabric of families and communities throughout New Jersey.

### **Background**

According to The Center for Nonprofits (NJ), there are close to 29,000 nonprofit organizations in New Jersey<sup>i</sup>. The vast majority of these organizations are small and have budgets under \$500,000. The

combination of small nonprofits and fragmented public and private funding streams have led to duplication of services, overlapping geography, and parallel administrative and human resource systems.

These conditions are not unique to New Jersey, but what is different in a number of other states is that the public and private sectors have taken the lead in encouraging nonprofits to partner through shared services and collaborations and explore mergers. The Bridgespan Group<sup>ii</sup>, a leading research firm on the trends of nonprofits, surveyed a sample of nonprofit leaders in four states (Massachusetts, Florida, Arizona, and North Carolina) found that 20 percent of nonprofit executive directors in these states said that mergers could play a role in how they respond to the economic downturn. The Bridgespan Group also evaluated the merger filings in those four states over an 11 year period, and found that the cumulative merger rate was 1.5%, which does not include shared services or joint ventures. This percentage compares favorably to the cumulative rate of 1.7% for the for-profit sector. Newspapers are replete with articles on for-profit mergers, while nonprofit mergers appear to be invisible. This data suggests that partnerships are underutilized in New Jersey.



### **Leveraging Success: The emergence of partnership tools**

The last decade has seen a growing usage of partnership tools from shared services to collaborations to mergers. Shared services are agreements which seek to improve the financial bottom line. Examples include joint purchasing, subcontracting of services, or joint staff activities. Shared services are not limited to accounting and administrative support but can be seen as a way to increase market share and fundraising resources. Collaboration is when several organizations work together for a common goal or activity and are limited in time and may include a joint program or special event.

Nonprofits that have built strong relationships with each other could benefit from exploring mergers especially where there are similar goals and complementary strengths. The merger process is not simple but with professional guidance successful mergers can occur, leading to greater impact for the new organization and elimination of duplicative functions and costs.

### **The rationale for encouraging partnerships**

There are a number of important reasons for encouraging partnerships in the current fiscal environment. A few of the more compelling reasons are:

- **Continuum of services and products**

Nonprofits that combine services and products can offer a continuum of services and programs for families and communities. Child care services can be combined with workforce development training and credit counseling when organizations are able to combine their program expertise.

- **Greater marketing capabilities**

Small and medium size nonprofits often have limited marketing capacity, and many prospective clients or potential funders are not aware of the services of the organization. A coordinated and shared marketing campaign can generate greater outreach, client usage, and new financial resources.

- **New business models and approaches**

A thoughtful planning and assessment process can lead to new business models and approaches for delivering services and products that may be more cost-effective in today's competitive environment. A number of organizations resist change, but partnerships offer a new way to look at designing and implementing new services and products.

- **Economies of scales**

Shared services and joint projects can lead to greater economies of scale, offering savings in reduced overhead and ability to reach more constituents and communities.



- **Access to new fundraising resources**

Funding resources are often tied to different sectors and activities (health care, arts, affordable housing, child care, education, etc.) and are hard to combine unless organizations partner with others to attract and combine funding sources. Partnerships are a natural way to link diverse funding sources in a coherent framework. This can also lead to an increased donor base, increased audiences, client services, etc.

### **Changing for the future: how to start partnerships**

There is a growing body of practice on launching effective partnerships. Successful initiatives begin within prospective partnering organizations. The first step is for the respective organizations to undertake an organizational assessment that answers a series of questions including:

- Is the organization ready for change and growth?
- Does the organization have the capacity to make the impact they desire?
- What will it take to move the organization forward? What new resources and partnerships does the organization need?
- What are the strengths of the organization and where can they improve?
- Does the organization have any underutilized capacity that can be utilized by others?

Once these questions are answered, the organization is ready to explore partnerships.

CommonBond has developed a partnership identification process called The CommonBonder™ that asks a series of questions and based on the answers can identify appropriate partners for the organizations to pursue joint activities.

Our research has identified several critical factors for success in early stages of partnerships. These include: committed leadership at the board and senior staff level; clear goals among the partners; defined roles between the partners; dedicated resources and staff towards the partnership; and ongoing evaluation on a regular basis.

### **Major roles for public and private sector funding entities**

Many public and private sector funding resources have declined significantly in the past few years, and with the exception of some limited federal dollars, there is no prognosis for increased funding in the next two to three years. The current situation of more applicants chasing fewer dollars is not tenable or sustainable, resulting in long-term damage to the capacity and leadership of the nonprofit sector.

Partnerships are an important tool in solving this crisis. Collaborations offer critical opportunities to combine resources, build expertise, expand



initiatives, and reduce the number of grantees. Funders, whether at the state or local level, can offer important incentives to share services, joint project collaboration, and where needed to preserve an essential service, encourage mergers or acquisitions.

An incentive approach will lead to greater creativity on the part of the nonprofit sector in designing new ways to work together in a way that can be sustained over time. Funders can use different tools to promote partnerships from challenge grants, recoverable grants, pre-development, and working capital grants that augment existing financing strategies. Partnerships lend themselves to a longer horizon and that is an important factor for funders to consider.

Funders that are committed to a partnership strategy can invest resources over a longer-time frame to achieve increased effectiveness and impact on the part of the partnership. A good example is the emerging interdisciplinary practice of sustainability in which different sectors and organizations (housing, transportation, energy efficiency, economic development) draw from each other and emphasize life-cycle strategies and costs (for example, siting, building materials, and energy systems).

### **Applicability to public sector shared services and partnerships**

Shared service strategies and tools are not unique to nonprofit organizations, and can be adapted and tailored to local public sector entities.

New Jersey has hundreds of small municipalities and townships that have duplicative services from their neighboring community. Several counties, notably Somerset County and Union County, are encouraging shared services among and between schools, public facilities and equipment, health services, police and fire departments. While there have been some state-level incentive programs offered, these programs have not been strong enough to drive political will for change.

While elected leaders and citizens are interested in saving money, shared services and other partnerships require political leadership with considerable voluntary involvement in the process to identify and implement the initial opportunities. One interesting approach is to search for governmental units and programs that seem to have resources that are not fully expended and can be offered to other agencies or service units that don't have capacity to deliver programs and services.

Before launching a joint service, a careful assessment and feasibility study should be completed, again comparable to partnerships within the nonprofit sector. The feasibility study



may determine that there are not significant cost savings or it may require considerable capital expenditures without a clear source of funding.

Additionally, municipalities should be encouraged to look within their borders for opportunities for partnerships. These opportunities may occur between nonprofits and BIDs, as public-private partnerships, between offices/committees within a municipality or between governmental units such as the municipal government and school districts.

### **Next Steps**

There is nothing like an economic crisis to provide an opportunity to re-think and re-position ways to partner and collaborate. CommonBond suggests that there are key activities that are needed.

- **Create guiding principles and strategies for partnership development** Public and private sector funders need to have clear understanding of why partnerships are important. While revenue savings are important, partnerships offer much more. Organizations need to consider what the driving principles (expanding service, utilizing existing expertise, saving time, leveraging, etc.) are behind their partnership vision and approach.

- **Cross-sectoral work** Simply stated, State and local government programs too often operate in silos. Families and community members need to be able to access and connect key services - from child care and after school programs to affordable housing and credit counseling. Partnerships can help facilitate cross-sectoral work. Funders need to consider what cross-sectoral work they would fund and support utilizing a partnership model.
- **Identify increased market opportunities** We must find ways to connect underutilized services to underserved and/or untapped markets; often due to lack of awareness and understanding of a particular community. There are some services that are oversubscribed, but many services and programs that could assist more families and communities improve their education, job skills, health, and financial independence.
- **Explore partnership opportunities through pilots and demonstrations**  
An excellent way to learn how to manage and design effective partnerships is to test partnerships through pilots and demonstrations. Funders can set aside a percentage of their budget and/or select programmatic areas that are conducive to partnerships (e.g. arts and culture with community development; affordable housing and green building design, etc.). Effective program design requires learning and



adaptability and that can be applied to the key factors for success with partnerships.

### **About CommonBond**

CommonBond provides guidance and tools to leaders of nonprofit organizations and their stakeholders interested in exploring and implementing organizational partnerships that lead to increased effectiveness and impact.

CommonBond combines a unique set of tools from assessments that focus on organizational readiness for partnerships to identifying and recruiting potential partners through the CommonBonder™, a unique on-line tool to developing and negotiating agreements to coaching and facilitation skills.

Once fully developed CommonBond's new online site, [www.commonbondonline.net](http://www.commonbondonline.net) will host the latest data and resources on partnerships; a discussion forum; a blog sharing the most recent learning, best practices, and information from thought leaders in the field; tool kit downloads; as well as the CommonBonder™.

CommonBond partners and associates have extensive experience in financial management; organizational processes and systems; leadership development and governance; organizational change and strategic direction; and managing diverse organizations and cross-sectoral initiatives at the federal, state, and local levels.

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<sup>i</sup> This number includes 2,586 arts and culture organizations; 5,182 education nonprofits; 6,096 public societal benefit organizations; and 4,972 religious-related organizations.

<sup>ii</sup> Cortez, Alex; Foster, William and Smith Milway, Katie Nonprofit Mergers and Acquisitions: More Than a Tool for Tough Times February 25, 2009 (Accessed December 21, 2009). <http://www.bridgespan.org/Nonprofit-M-and-A.aspx>