Fostering Collaboration in the Non-Profit Sector

A Background Paper

by

David Hetherington
Executive Director, Per Capita

July 2009

Research Partner

Suite 205, 61 Marlborough St, Surry Hills, NSW, 2010
T: 02 9310 5000
percapita.org.au

50 Cardigan St, Carlton, VIC, 3053
T: 03 9650 0595
ABN 98 122 077 767

Introduction

At a workshop in late 2008, around 30 representatives from the non-profit sector came together to discuss social innovation. The Australian Government had announced an Innovation Fund for the sector, and attendees were keen to learn how to access the fund. Enthusiasm was high and ideas flowed.

But another undercurrent permeated the room. In a few days, tenders for the Government's new employment services contracts were due and participants were preoccupied with finalising their tenders. While the Innovation Fund rules encouraged organisations to collaborate with partners, the employment service contracts were fiercely competitive. No-one was sharing secrets. The atmosphere was friendly but the tension around the contracts was clear.

This illustrates a curious feature of the non-profit sector. While non-profit organisations share common goals around fulfilling social need and combating disadvantage, they often find it difficult to co-operate in pursuit of these goals. Instead the sector exhibits a high degree of competition, particularly around funding, reminiscent of the private sector.

The effect of this is a failure to share information and resources which would deliver greater social outcomes if pooled, rather than deployed in isolation. The financial instability inherent in the sector means that non-profits frequently fail and new ones regularly appear. This churn means that the sector is consistently spending a significant share of its limited resources on start-up costs – the HR, legal and financial investment required to establish a new non-profit organisation. Thus, there is considerable duplication of effort across the sector and, since resources are scarce, this creates a significant opportunity cost where those resources could be better utilized.

The growing recognition of this opportunity cost amongst funders is creating pressure to lift levels of collaboration in the sector. Private donors who support multiple organisations asking non-profits to share know-how and experience to ensure donations go further. Governments are making project-based funding conditional on the ability to replicate and share successful initiatives.

Non-profits are responding to this pressure, and a number of experimental platforms for collaboration have emerged. However, a significant cultural shift is still needed to ensure that collaboration is embedded as a behavioural norm within the sector. This does not mean that collaboration will replace competition. The challenge is to overlay healthy competition around funding with creative collaboration around results.

This briefing paper explores approaches to collaboration in the non-profit sector and provides suggestions to unlock collaborative potential. The paper is organized as follows. Section II will consider the theory of collaboration and competition, and discuss the ways in which one can complement the other.

Section III examines both intra-sector and cross-sector collaboration, drawing on examples to illustrate the benefits and pitfalls of each. Section IV covers different dimensions of collaboration –on systems, on data, on people and on funding. Section V concludes with observations on both behaviour and resources, and outlines several suggestions, including a central, accessible clearinghouse of data and tools for non-profit organisations.

Section II: Collaboration, not just competition

The emergence of collaboration in the non-profit sector parallels similar developments in the corporate sector over the last 20 years, as businesses have realised that innovation occurs more rapidly in networks than in stand-alone, silo-like organisations. Networks foster a more rapid transfer of ideas, and bring together new people, processes and norms. Companies in many sector embrace such 'co-opetition': mining companies jointly build the ports through which their products move; airlines form marketing and codeshare partnerships; car makers develop shared componentry platforms for new models.

As in the business world, collaboration in the non-profit sector occurs in different forms. Organisational collaboration involves new institutional structures. Project collaboration forms and dissipates around specific initiatives. Finally, platform collaboration builds ongoing, shared resources for the sector. Each of these forms can involve competitive rivals.

Yet collaborative competition has been slower to take hold in the non-profit sector than in the business world. One putative reason for this is that the private sector can afford to pay the best brains and give them the freedom to innovate. This answer is unsatisfactory. Many highly respected innovators have applied their talents to the non-profit sector. Bill Gates is just the latest example; Muhammad Yunus founded the Grameen Bank in 1976.

Another potential answer is found in game theory, a branch of economics. Game theory tells us that even when there are mutual benefits to be gained from collaboration between two parties, it is difficult to extract those benefits. One party may be tempted to underinvest in the exercise in the knowledge that it will still enjoy the benefits: the free-rider problem. This threat discourages all parties from collaboration. However, while the free-rider problem can inhibit collaboration, this still does not explain why collaborative competition has gained more traction in the private sector, itself not immune from free-riding.

Fragmentation in the non-profit sector

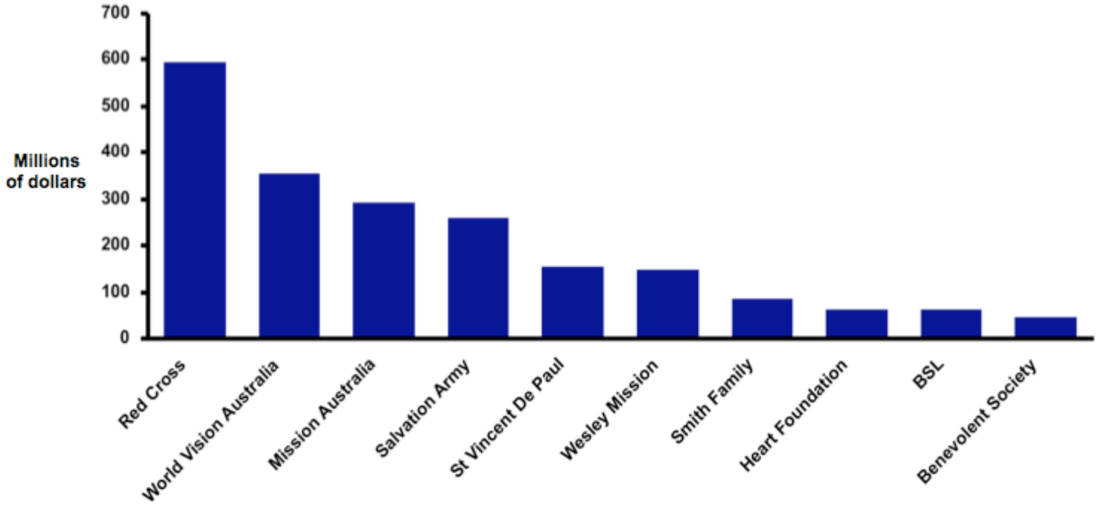
The most powerful explanation for low levels of collaboration in the non-profit sector is its fragmentation. The best available data is found in a study by Lyons & Hocking which suggests that there were approximately 517,000 non-profit organisations in Australia in 1995-96, and Australian Treasury data indicate that these figures had not changed greatly by 2008. The Australian Bureau of

Statistics estimates that the total income of the non-profit sector in 1999-00 was $33.5 billion. Taken together, these figures indicate that the average income of a non-profit organisation in Australia is around $65,000. However, this masks enormous variation.

The sector is characterized by a handful of extremely large entities with turnovers in the tens of millions and headcounts in the hundreds. These are accompanied by a long tail of hundreds of thousands of small organisations supporting at most 1-2 full-time staff.

Comprehensive data on this fragmentation is scarce. A 1997 survey by Givewell of 158 large non-profits suggested that their average turnover was almost $14m. Per Capita has assembled data on the turnovers of ten of the largest non-profits in Australia (not necessarily the ten largest), which shows that their average turnover is $206m. These ten organisations, less than one-thousandth of a percent of all non-profits in Australia, constitute over 6% of the total revenue of the sector (see Figure 1 below).

Figure 1: Annual Total Revenue of Selected Large Australian Non-Profits



*Note: Total revenue includes charitable fundraising, fees for service and investment income
Source: Annual reports

The flipside of this story is that the vast majority of non-profit bodies in Australia exist on the very edge of financial viability. This is the primary reason why collaboration in the non-profit sector is so difficult.

Two factors explain why poor financial viability reduces collaborative potential. Firstly, collaboration requires time. Yet for most small non-profits, paid staff time is completely absorbed by core activities: operational delivery and administration. Time spent on building and nurturing collaborative partnerships is perceived as an unaffordable luxury. Yet this view overlooks the fact that creative collaboration can actually provide net funding increases, either by cutting costs in shared services or by attracting new funds to a collaborative project.

A second factor is that the threat of financial failure drives intense competition for funds. It is challenging to collaborate with organisations when you are simultaneously competing against them for funding that may be the difference between survival and collapse. A behavioural shift is required here. As we observed above, private businesses frequently co-operate with fierce competitors on issues of mutual interest. The same should be possible in the non-profit sector.

So poor financial viability should not extinguish collaborative potential. In fact, through smart collaboration, organisations can improve their financial viability by demonstrating better outcomes to their funders. In game theory, this is the result when collaboration between competitors is embraced over outright competition.

Section III: Intra-sector versus cross-sector collaboration

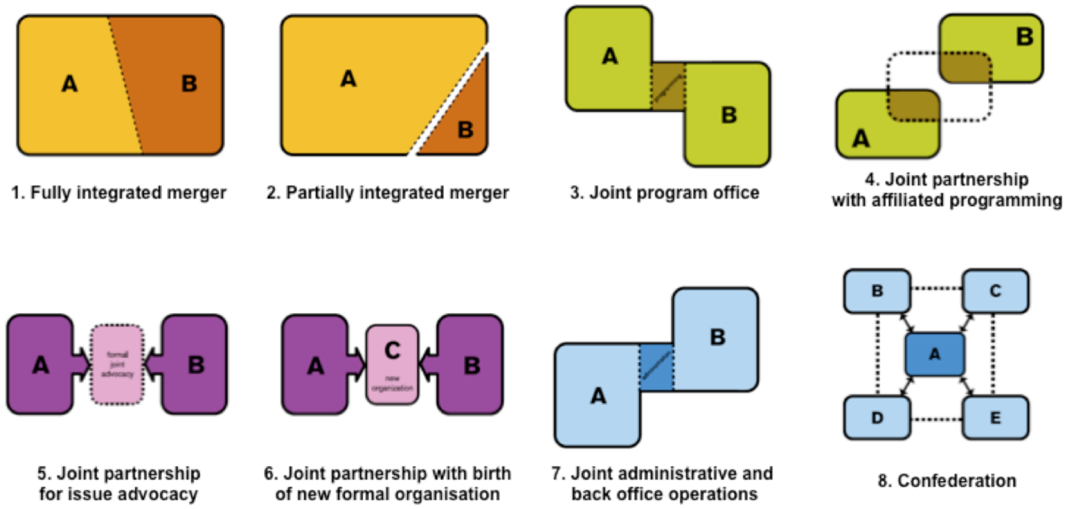
In this section, we distinguish between intra-sector and cross-sector collaboration: on the one hand, non-profits working with each other, and on the other, non-profits working with partners outside the sector, usually business or government.

Intra-sector collaboration

The most powerful form of collaboration in the sector is between non-profit organisations themselves. One reason this type of collaboration offers such potential is that it has historically been the weakest form of collaboration. There are many approaches to intra-sector collaboration. The Lodestar Foundation at Arizona State University analysed the entries of the 44 best nominations for its 2009 Collaboration Prize to assess alternative forms of intra-sector collaboration. The study identified eight alternative forms of collaboration between non-profit organisations (see Figure 2 below). The majority of these are organisational collaborations, rather than project or platform collaborations.

The Lodestar study argues that each approach is dictated by a different set of pre-conditions, and each generates distinct benefits and challenges. Some approaches, like full or partial mergers, require a shared organisational mission. Others, such as joint partnerships, suit cases where divergent missions mean both parties need to retain autonomy. The most common benefits are increased delivery efficiency, reduced duplication of services and access to greater funding. The biggest challenges are typically differences in culture and leadership style, as well as questions over project and organisational ownership.

Figure 2: Alternative models of intra-sector collaboration



Source: Lodestar Foundation

These examples of organisational partnership typically reflect collaboration at an advanced stage. Yet most intra-sector collaboration begins around specific projects. When non-profit organisations are seeking a partner for project collaboration, there are a number of criteria they must consider: domain expertise, geography, funding overlap and size.

Domain expertise

In terms of domain expertise, the key is to seek out complementary capabilities between project partners. In some cases, this will mean that the initiating organisation identifies non-profits peers whose strengths match its own relative weaknesses. An employment service provider may work with a migrant settlement charity in cases where the community receives an inflow of new migrant arrivals. A frontline delivery group planning to run a pilot program may partner with a research body to undertake program analysis and evaluation.

Geography

In some cases, the required expertise will depend on a second criterion, geography. Many collaborative projects are place-based, targeting a specific local community and (usually) drawing on non-profit organisations in and around that community. This requires the strengths of one partner to complement capability deficits amongst the others.

However, projects that encompass a broader geography will often set out to accumulate partners with similar domain expertise. A national parent-child reading program, or breakfast before school initiative, will target multiple communities across the country and seek to recruit partner organisations on the ground with similar specialist experience. So while local collaboration projects often seek a broad range of complementary capabilities within the partnership, geographically dispersed projects might choose to focus on a single specific domain expertise across a number of locations.

Funding overlap

Funding overlap is another vital consideration for intra-sector collaboration. Collaborative projects are unlikely to succeed in cases where one partner feels their existing core funding may be cannibalized by the project itself or by prospective partners. For this reason, it is important that partner organisations do not have too much overlap in their funding bases. Where overlap does occur, it is wise to fund the collaborative effort through these common funding sources.

Obviously, it is desirable that the collaboration is funded on top of the partners' ongoing funding streams, rather than out of existing funds for core activities. As we have noted above, one of the greatest threats to collaboration is funding instability. Collaborative projects are often perceived as an optional discretionary activity beyond core operations and are typically amongst the first items cut in a funding squeeze. For this reason, projects will ideally be fully and independently resourced at the outset.

Size

Considerations around funding lead us to the final dimension affecting intra-sector collaboration, organisational size. Size is probably the most important determinant of capacity to collaborate. More accurately, lack of size is usually the biggest barrier to collaboration. Most of the existing collaboration within the sector occurs between the larger organisations, as they have the capacity to collaborate without jeopardizing their core service delivery. The more forward-looking of the larger non-profits embrace smaller organisations in their collaborative projects because they recognize the collective benefits of fostering collaboration in the sector, and are not threatened by these smaller bodies.

The most difficult task is for small organisations to collaborate with one another. For many of them, financial viability is a year-to-year prospect and collaboration can appear to place that viability at risk. This results in a widespread lack of collaboration amongst the thousands of smaller non-profits, representing an enormous lost opportunity for the sector. One of the most pressing challenges for the non-profit sector, and for policymakers seeking to support it, is to foster collaboration amongst this group.

Cross-sector collaboration

In many ways, collaboration across sectors is easier than collaboration within the non-profit space. Collaboration usually involves larger non-profit organisations with business and/or government. Capabilities are typically complementary, geographical scope is typically national (although with specific local areas of focus), and funding is typically both dedicated and adequate.

In cross-sector collaborations, the assets which the parties share are capital, people and expertise. The non-profit organisation is often the catalyst for the project and provides the overarching mission, as well as specific domain expertise and networks. Corporations bring skilled people and support in specialist areas such as communications, IT and human resources. They usually bring some funding, but not to the extent that the project is dependent on a single business's financial support for its ongoing viability. Just as importantly, they bring access to funding networks.

Governments too can provide funding, often in seed form. They can harness the capacity of the public service to bring on board the many stakeholders needed to make a non-profit collaboration work –councils, schools, housing corporations, local interest groups. The involvement of government offers a particular credibility to a project when dealing with stakeholders and potential new partners.

Cross-sector collaboration can take a number of diverse forms. James Austin, a Harvard University professor, has identified three specific stages of collaborative partnership between the non-profit sector and the business sector; he describes these as the cross sector "collaboration continuum". Austin outlines the philanthropic stage, the transformative stage and the integrative stage. In the philanthropic stage, the corporation usually offers periodic donations of money or in-kind assistance, and the level of engagement with the mission is low.

In the transformative stage, the partners each invest core capabilities in the project for mutual benefit – Austin offers as examples cause-related marketing programs and event sponsorships. The National Australia Bank provides its employees with two days paid volunteer leave each year to work for non-profit and community organisations – another example of collaboration in the transformative stage.

Finally, in the integrative stage, the partners develop true strategic alliances in which core competencies are combined to create a new and valuable asset. This is the least common, but most powerful stage of cross-sector collaboration, and the one towards which the sector is gradually moving as its results are recognized. A wonderful illustration is found in the Grameen-Danone project, a joint venture between the Grameen Bank and Groupe Danone, a global dairy company, which provides nutritious food to poor Bangladeshi children. The partners produce high-nutrition yoghurt in purpose-built plants in Bangladesh, which is sold to villagers at an intentionally affordable price (around A$0.09 for an 80 gram cup). The venture is a social enterprise, run along commercial lines with no profit distributed to investors.

As collaboration moves through the continuum, the level of integration between the partners increases along a number of dimensions. Austin has outlined how funding, complexity and strategic value each increase as the partners become more tightly enmeshed (see Figure 3 below).

Figure 3: Cross-Sector Collaboration Continuum

	Stage 1	Stage 2	Stage 3
Nature of relationship	Philanthropic	Transitional	Integrative
Level of engagement	Low		High
Importance of mission	Peripheral		Central
Magnitude of resources	Small		Big
Scope of activities	Narrow		Broad
Interaction level	Infrequent		Intensive
Managerial complexity	Simple		Complex
Strategic value	Minor		Major

Source: J Austin, *The Collaborative Challenge*, (San Francisco, Jossey-Bass, 2000)

Thus far, our discussion of cross-sector initiatives has focused primarily on 'closed' project collaboration where a small number of partners are the primary contributors – by far the most common form of collaboration. However, we should not overlook 'open source' platform collaboration in which any organisation is able to contribute to a socially valuable initiative. Open source software is now commonplace, and open source platforms are being used to generate solutions to important global challenges from the financial system collapse to swine flu vaccinations. This approach holds considerable potential for the non-profit sector, and we will return to it in our concluding remarks.

Section IV: Dimensions of collaboration

All collaboration, whether organisational, project or platform, is built along numerous dimensions. Collaboration occurs around data and systems, around people, even around funding. In this section, we will briefly explore these dimensions, outlining their costs and benefits and examining specific examples.

Collaboration around data and systems

Too often in the non-profit sector, we undertake programs in isolation which do not inform each other. An adult literacy program might be trialed in Logan with mixed results. Two years later a similar pilot will be run by a different organisation in Doveton without drawing on any of the findings from the original study.

Why does this occur? Generally, organisations are not opposed to sharing data. While some are protective of data because they see sharing as a threat to funding or independence, most recognize the mutual benefit in doing so. Instead, failure to share occurs because of a lack of capacity to share. There are no common platforms for organizing and pooling data on non-profit outcomes.

This shortfall has been identified in other sectors. When the Gates Foundation began to fund research into malaria, it discovered that there was no single database of investment into R&D which new donors and researchers could access to identify research and funding gaps. So it provided Australia's George Institute with a US$8.8m grant to build a single unified profile of global R&D investment into neglected diseases. This database will be made freely accessible for the benefit of both researchers and funders.

This lack of public information occurs not only around research data, but around organisational systems. Some of the bigger non-profit players have been quite proactive around systems collaboration with the business sector: the Smith Family has enjoyed a productive partnership with Microsoft and Barnado's has worked with UNSW and the software developer Allette. However, the real systems need is amongst smaller non-profits. The fragmentation of the sector leads to considerable churn, with new organisations constantly appearing, which in turn absorbs enormous resources in start-up processes.

Time and again, new non-profits write business plans and governance documents from scratch because there is no common template on which to draw. The processes for incorporation, DGR and charity status registration and annual reporting are all hugely demanding for new, small organisations. Given this, a platform which provided uniform templates and advice would be immensely valuable. The Centre for Philanthropy and Nonprofit Studies has made an important starting contribution with its publication of a standard chart of accounts for non-profits. Additionally, the Australian Social Innovation Exchange has made important preliminary steps in this area. Yet it is clear more work needs to be done to develop a low-cost effective platform for sharing data and systems in an equitable way.

Collaboration around people

One of the great challenges faced everyday by non-profits is how to attract the right people. How do you match limited available skills with important, recurring skills gaps?

Human capital is the most valuable asset the non-profit sector possesses, yet it is the hardest to retain. If the manager of a pilot program is poached by the private sector, their invaluable experience goes with them. How can these challenges by addressed through collaboration?

Increasingly, the private sector is recognizing that providing people to non-profit partnerships provides win-win outcomes for all parties, particularly in periods of economic downturn like today's. Employers absorb spare capacity and save costs by increasing retention, employees enjoy both job security and an uplifting work experience, and non-profits get the benefit of subsidized, high quality people.

Many examples of this type of approach exist. The Boston Consulting Group provided staff to the Cape York Institute during its establishment phase. KPMG offers staff on secondment to Indigenous Enterprise Partnerships.

There are various models to undertake such placements. Non-profit organisations can approach private firms for employee secondments where the firm pays part of the salary and the social enterprise makes up the difference. The government may choose to support such arrangements through its Community Jobs Fund. Again, the firm retains valuable human capital through the downturn, the social enterprise gets a skilled, subsidized worker and the government saves a job.

Another approach proposed by Geoff Mulgan and colleagues is "tithes of working time" dedicated to supporting non-profits of the individual staff's choice. This is an extension of the Google model in which staff spend a day per week developing their own projects.

In addition to collaboration around people across sectors, non-profit organisations must become better at sharing skills and experience within the sector. At present, there is no overarching perspective on skills gaps, vacancies and available people in the non-profit space. One idea with great potential (outlined to the author by Mission Australia) is a non-profit recruitment agency owned and operated by non-profits. Another proposal would be a virtual 'bank' to facilitate temporary swaps of people between non-profit organisations as need arises. Collaboration around people remains weaker within the sector than outside it, and new initiatives like these may well deliver considerable value.

Collaboration around funding

Unquestionably, this is the area of least collaboration within the non-profit sector, but conversely it may also be the most fertile. At present, there is no established investment model for donors wishing to invest in social outcomes through the non-profit sector.

One prerequisite for this is a comprehensive framework to measure social return on investment. A number of parties are currently working on the development such a framework, including the UK SROI Network and the British Government's Office of the Third Sector. Many in the non-profit sector in Australia are following this framework with interest.

On the ground, the key question for non-profit groups is whether collaboration on funding initiatives has the potential to increase funding flows. Without trial initiatives, it is not possible to answer this question unequivocally, making such trials worthwhile exercises in and of themselves.

One approach might be for non-profits to form funding consortia around specific projects. Another would be for non-profit groups to seek to develop a venture capital approach to raising funds from social investors, based on demonstrated returns. Social Ventures Australia has taken early steps in this direction, but there is great scope for further involvement by other players in the sector.

A final idea is for the sector to engage the new social networking sites specializing in non-profit funding aggregation that have appeared in recent times, such as Kiva and Ammado. These offer early insights into new models of fundraising collaboration, and it is likely that additional models will emerge. Overall, it is clear that collaborative efforts around non-profit funding are at an early stage. The sector is keenly observing these developments, with a view to both participating in and shaping them.

Conclusion

This paper has argued that fragmentation in the non-profit sector has inhibited collaboration. Because most organisations exist on the edge of financial viability, collaboration is seen as a costly, discretionary activity. This view assumes that collaboration is necessarily a net drain on resources, but we have argued here that collaboration can both be low-cost and can provide a net increase in available funding.

Fragmentation also means that there is an opportunity cost to this lack of collaborative activity. Since fragmentation results in continuous churn of organisations disbanding and establishing, much scarce resource is devoted to widely duplicated start-up processes. The overall cost to the sector of these processes would be greatly reduced if common practices were made freely available through collaboration.

A further inhibition to collaboration is the prevailing view amongst many non-profits that they are in a fierce competition for funding, and that to co-operate with rivals may threaten their own funding sources. This view fails to grasp that collaboration can co-exist alongside competition so that it is possible to work constructively with other non-profits who share sources of funding. In some cases, collaboration can transcend competition by actually leading to additional funding for partner organisations. These observations suggest that a behavioural shift is required within the non-profit sector, particularly amongst smaller groups, to embrace collaboration alongside competition.

Beyond behavioural shifts, more tangible collaborative options present themselves to improve outcomes in the sector. Perhaps the most promising of these is a collaborative clearinghouse with freely available tools and resources for non-profits of all sizes. This platform would be a central, searchable repository of data on outcomes arising from non-profit project activity. In some senses, this would be similar to the research database being developed for neglected diseases by the George Institute. However, instead of tracking investment only, it would also organize data and findings in categorized, directory format.

It is possible the platform could go further than data aggregation, and contain templates for company constitutions, business plans, and procedures manuals. It might offer advice for obtaining deductible gift recipient status, tax concession charity status and checklists for complying with reporting processes for non-profit bodies. Finally, it could act as an online recruitment tool, advertising both vacancies and available people within the sector. Some of these latter functions are currently offered by the Australian social enterprise, Our Community, which provides a model for a platform of this type and may be a potential partner.

The platform could be funded by a seed grant from government, boosted by contributions from philanthropists and non-profit organisations themselves (based on size).

A final collaborative initiative with potential is the development of a venture capital investment fund from which investors seek a social, rather than financial, dividend. This dividend would be measured under a comprehensive social return on investment framework, and investors would direct their funds to the highest return opportunity. It is not envisaged that this approach replace traditional sources of funding for non-profits, but that it complement these, specifically attracting new investors who do not currently fund the non-profit sector.

Each of these ideas promises to improve outcomes through greater collaboration amongst non-profits. It falls to us in the sector to bring them to life.