

The Transformative Possibilities of Nonprofit Collaboration

Annette Mattei and Bill Hangle, Jr. 23 January 2013

It may seem counterintuitive, but economic slow-downs are known to spark entrepreneurial ventures. A Kauffman Foundation study showed that more than half the companies on the 2009 Fortune 500 list were launched during a recession or bear market, along with nearly half the firms on the 2008 Inc. list of America's fastest-growing companies. Nonprofits manifest similar urges toward reinvention when times are tough, and the tumult of the past decade has accelerated their cooperative and collaborative efforts. Recent trends underlying accelerated collaboration in the nonprofit sector include:

- Tremendous growth. Between 2000 and 2008, the total number of nonprofits in the five counties of southeastern Pennsylvania grew by 36% (from 11,000 to 15,000). At the national level, nonprofits also experienced similar growth across every subsector.
- Squeezed balance sheets. The Nonprofit Finance Fund's (NFF) *2011 State of the Sector Survey* reported that roughly one-third of responding nonprofits had a deficit and 10 percent had "no

cash;" 41% of respondents believed 2011 would be harder than 2010. The Economy League of Greater Philadelphia reported similar findings for southeastern Pennsylvania.

- Greater demand for services. With the nation struggling with high unemployment, home foreclosures, and other tough economic conditions, 41% of NFF's survey respondents said demand for their services increased significantly in 2010, a trend evident since 2008.
- Contracting budgets. Most states are dramatically cutting programs in order to cover budget gaps. The Center for Budget and Policy Priorities reported that despite stronger-than-expected state revenues for 2011, 42 states and the District of Columbia had to plug \$103 billion in budget gaps for fiscal year 2012.
- Sector contraction. The IRS's recent decision to revoke the tax-exempt status of approximately 275,000 nonprofits for failing to file legally required annual reports will undoubtedly result in many nonprofits merging together or even closing their doors.

The impact of these changes cannot be understated. If the federal government accorded the nonprofit sector the same status it does other economic sectors (e.g., manufacturing), it would qualify as this region's third largest, with 242,000 employees earning more than \$11 billion in wages.

Innovating Through Collaboration

The NFF *2010 State of the Sector Survey* provides a valuable snapshot of how nonprofits have adjusted to these external pressures. Tellingly, a growing number reported partnering with another organization to improve or increase services offered – 47% followed this path in 2010, and 51% were expecting to do so in 2011.

Similarly, 21% expect they will be collaborating with other nonprofits on reducing expenses in 2011, up from 14% in 2010.

Collaboration between nonprofits can take many forms, from coordinated programming to full-fledged mergers. No one model is right for all nonprofits, but experts agree that successful collaborations are driven by the organizations' missions rather than by defensive reactions to external pressures. "Wise organizations choose strategic restructuring to further their missions," concluded La Piana Consulting, a firm specializing in nonprofit collaborations. "Saving money can be a result of strategic alliances and corporate integrations, but it is rarely the sole or even the primary reason most often any 'savings' are plowed back into higher impact programs and services."

As nonprofit collaborations grow in number, researchers have begun to mine the data and arrive at some interesting observations. These include:

- Nonprofit collaboration does not necessarily mean mergers. La Piana conducted an analysis of the applicants to the Lodestar Foundation's newly-created Collaboration Prize and found that of the 175 highest-ranking applications, 25% were actual mergers; 50% involved joint programming, administrative consolidation, or some combination of both.
- No one subsector dominates nonprofit collaboration. La Piana's analysis also found that applicants represented every subsector of the nonprofit world.
- Certain subsectors are more favorable to merger activity than others. In a study of nonprofit merger filings made between 1996 and 2006 in four states (MA, FL, AZ, and NC), The Bridgespan Group was able to identify market characteristics of subsectors favorable to nonprofit mergers. Merger-friendly subsectors tend to be large areas of concern served by many small organizations in which funding sources are impersonal (i.e., government as opposed to individual donations) and which face major barriers to "organic growth," such as government regulations. For example, the study cited "child and family services" as an example of a subsector humming with merger activity.
- Nonprofits as a group are no more likely to merge than their for-profit counterparts; the exception is large organizations. Bridgespan's study found that the "cumulative merger rate" for nonprofits was

essentially the same as that of for-profits: 1.5% versus 1.7%. The vast majority of mergers – nonprofit and for-profit – are by organizations and companies small in size. However, the merger rate of large nonprofits (i.e., budgets of at least \$50 million) is one-tenth that of large for-profits. Bridgespan attributes this disparity to the difference in incentives. For-profit mergers are driven by financial incentives, particularly payouts to individual parties and fees paid to third party “matchmakers.” Nonprofit mergers, in the best of circumstances, are strategic decisions driven by organizational missions; theoretically, it is the community as a whole, not individual parties, who benefit from nonprofit mergers.

Our understanding of nonprofit collaboration surely will expand in the coming years as organizations continue to explore new ways of operating in persistently difficult economic conditions and with increasing demand for their services. The entrance of new intermediaries such as the Lodestar Foundation’s Collaboration Prize and Boston’s Catalyst Fund is likely to help step up the pace of nonprofit collaboration.

Furthermore, research initiatives such as the AIM Alliance, a Lodestar-supported project involving universities in Arizona, Indiana and Michigan, will offer up new insight into nonprofit collaboration and identify effective models and best practices relevant to our own region’s nonprofits.

In the not-too-distant future, we may look back on this period and realize it was a time of entrepreneurial innovation among nonprofits as they collaborate in new and transformative ways.

Author Bios

Bill Hangle Jr. (billhang@msn.com) is a freelance writer based in Philadelphia.

Annette B. Mattei (abmattei@gmail.com) is a Philadelphia-based independent consultant of research and project management for government and non-profit organizations.