

# Achieving Effective Inter-Sectoral Alliances

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## Abstract

This paper raises some important questions about the formation of effective alliances between the business and community sectors:

- Is the community sector so under-resourced and focussed solely on survival that it limits their ability to make the sort of impact that government, business and the public expect from them and their work? Are resources therefore being wasted because they are left to do too much with too little?
- Can the merger and acquisition approach used by business be applied to develop effective community sector alliances? What is the business case for doing so? What value can be created? And importantly how do you find the 'sweet spot' where advantages will flow from leveraging partners competencies and resources?
- Would businesses benefit from doing 'good'? Will the public be supportive of businesses who do 'good' thereby developing a virtuous cycle of business and community sector engagement?

There is latent potential and value to be created through considered and structured alliances between the business and community sectors. In practice, the alliances will be strengthened through engaging with the knowledge, resources and expertise of government agencies and their not-for-profit arms. But for simplicity and ease of explanation this paper focuses purely on business and community alliances.

In Australia, non-government, charitable and not-for-profit entities are known collectively as community or third-sector organisations. Largely, they are organisations with limited resources but far reaching operational goals. At the same time, government is increasingly relying on them to respond to and meet social needs. Therefore this sector needs to find ways to achieve more with less.

Business is encouraged to view engagement with community organisations as a responsibility. This often results in arms-length relationships known as philanthropy, and these handouts are made with little strategic thought and application. Minor attention is paid to where and how maximum value can be created for both parties and therefore opportunities for mutual gain and value is missed or overlooked.

What would happen if a business carefully selected its community partner as it would for a business partner in a merger and acquisition? This paper argues that businesses need to investigate ways of finding the 'sweet spot' where objectives are aligned, organisational goals and risks met so strengths and

competencies are leveraged for maximum gain. The result of such an 'alignment' is an alliance of mutual benefit where more is created than the sum of the parts — the business case for community engagement.

The onus for finding optimum value in business–community partnerships needs to be shared. As the community sector continues to grow and competition for resources increases, intra- and inter-sector collaboration will become an essential strategic tool to add capacity, skills, and scale to effectively execute core business.

This paper commences with a brief introduction to the community/third sector, describing how it often works alone with 'leftovers' and little strategic assistance. A process is then presented to locate the optimal business and community partner for your organisation. Here the focus is on aligning strengths and competencies within the context of their own organisational or business goals. It also provides an opportunity to develop and enhance stakeholder relationships that include governments, clients, suppliers and employees.

The paper concludes with a framework to begin a cycle of innovation that strengthens organisational operations and maximises the use of resources. Thereby achieving the social and business outcomes we would all like to see.

"Perfection is unattainable and therefore we must be satisfied with the next best thing: a society that holds itself open to improvement" (Soros 1999).

### **What is the community sector?**

The 'community sector' or 'third sector' consists of community foundations, charities and incorporated associations, all usually qualifying to be called not-for-profit entities. Call them what you like, but they are little understood in relation to their impact. According to Australian Bureau of Statistics data, the sector contributes 4.7 per cent of the national gross domestic product.<sup>1</sup> It is larger than the telecommunications and mining sectors, and is estimated to have grown 20 per cent over the past five years.

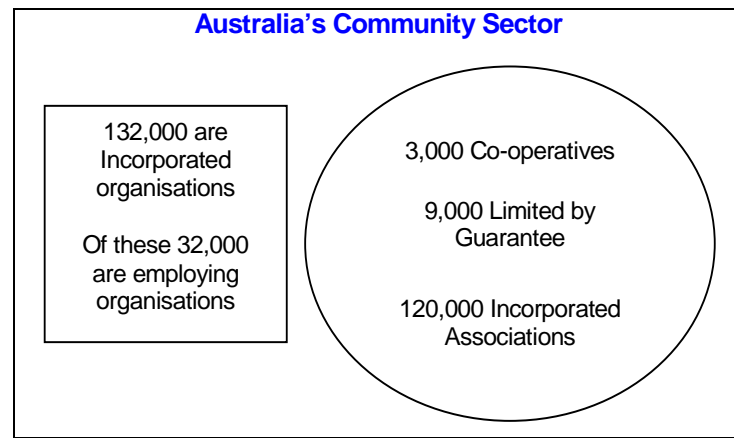
There are many organisations within this sector variously classified, according to our tax laws, as not-for-profit organisations and/or charities and they include religious, professional, sport, economic cooperation and community service provision organisations. There are purported to be 32,000<sup>2</sup> entities classified in this way that employ people. Most are very small, but some 6000 entities employ around 220,000 people.<sup>3</sup>

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<sup>1</sup> 'Non-profit organisations worth their weight in G.D.P.' — Matt Wade, *Sydney Morning Herald*, 16 December 2002.

<sup>2</sup> 'Australia's nonprofit sector', *Year Book Australia 1999* — Mark Lyons, Associate Professor Centre for Australian Community Organisation and Management, Faculty of Business, University of Technology, Sydney.

Over the years, Australia has benefited from the innovations of the community sector. For example, it was the cooperative effort of individuals in the late 1940s who created the terminating building society model, which founded our now active home loan and mortgage markets.<sup>4</sup>



**Figure 1. Outline of Australia's community sector (Mark Lyons 1996, *Third Sector*, Numbers of Third Sector organisations, Table 2.1)**

### **Contemporary contributions of the community/not-for-profit sector**

Community/not-for-profit organisations are increasingly becoming the providers (or at least co-providers) of support services for people with disabilities, those seeking employment, health and safety promotion, education, the environment, social justice and small business creation. The benefits they provide to society are often intangible and difficult to measure but have largely been identified as:

- enhancing social capital — recognised as an important factor in creating the trust and cooperation that lowers transaction costs and contributes to economic and social development<sup>5</sup>
- building healthier and stronger communities — evidence suggests that community foundations/groups have the power to improve population health<sup>6</sup>
- better allocation of resources. Governments are increasingly contracting community organisations to deliver social services.

<sup>3</sup> 'Employees miss out on benefits at not-for-profits' — James Eysers, *The Australian Financial Review*, 2 December 2003.

<sup>4</sup> *Third Sector: The contribution of nonprofit and cooperative enterprises in Australia* — Mark Lyons, p. 85.

<sup>5</sup> *Social Capital: Reviewing the Concept and its Policy Implications*, Productivity Commission Research Paper, 2003.

<sup>6</sup> 'Communities in Control: Giving voice and support to grass roots community and non-profit groups', Conference, Melbourne, 7-8 April 2003, viewed 7 October 2003, <[http://www.ourcommunity.com.au/article/view\\_news.do?articleid=544](http://www.ourcommunity.com.au/article/view_news.do?articleid=544)>.

### **Value creation — A not-for-profit perspective**

Therefore, not-for-profit/charity organisations create value by maximising returns from the resources devoted to building social capital and reducing social costs. Like all organisations they want to find innovative ways to deploy their resources so they will make the most impact.

Much of their work could be regarded as investments in future capacity for growth and development or to reduce current and future social costs. Despite their limitations, this sector receives business and public support as it is widely accepted that their work is worthwhile and necessary.

### **Limitations of the community sector**

While very few would contradict the validity of the work community organisations do, it is not unusual to hear criticism from government and business people about *how* they do it.

The context is that these are organisations with limited resources but with far reaching operational goals. Governments also see the opportunity to maximise their resources by engaging this sector to meet various social needs.

Community organisations, though, are often left to work alone with uncertain income streams and limited non-financial resources. This environment is not conducive for planning and developing business strategies, alliances, and effective processes. The result is an entity that becomes focussed on 'survival', living 'hand to mouth' and with 'leftovers'. A 'modus operandi' of delivering programs with minimal administrative or management support. This begets a minimal, not an optimal, mindset that reduces these organisations capacity to provide accountability and importantly to develop the skills and methodologies to assess how they could do things better.

This raises important questions: Is the community sector so under-resourced and focussed solely on survival that it limits their ability to make the sort of impact that government, business and the public expect from them and their work? Are resources therefore being wasted because they are left to do too much with too little?

### **Businesses and community engagement — Responsibility or opportunity**

Businesses are being encouraged to engage with communities and be socially responsible. Unfortunately, businesses are burdened with enough responsibilities. Therefore, couching social engagement in terms of 'responsibility' inhibits business from looking further and deeper to create value in this area.

This is slowly changing, but the community engagement paradigm has usually been conducted as 'arms length' philanthropy, a 'nice thing to do', rather than an opportunity to examine where tangible and intangible value can be produced.

Value is found by looking where you haven't looked before.

Opportunities exist to develop alliances across the sectors that will deliver value to both parties. What is required is some diligence to the task of aligning strengths and matching needs.

Businesses prepare well thought-out plans to succeed. They present a case for the appropriate resources to do so. Their funding is dependent on stringent analysis that presents and details their strategies, processes and management to implement their business model. Increasingly, their strategies are including intra sector alliances, mergers and acquisitions, which are all carefully planned.

So it begs the questions: Can the merger and acquisition approach used by business be applied to develop effective community sector alliances? What is the business case for doing so? What value can be created? And importantly how do you find the 'sweet spot' where advantages will flow from leveraging partners competencies and resources?

### **Value creation from a for-profit perspective**

Since the beginning of mercantile business models, the emphasis has been on continually developing and refining ways to maximise the return on invested resources. This is often through changes in technology but it also includes changes in public and consumer behaviour, expectations and values. The choice for business is to be *proactive* or *reactive*. Considering the unexpected benefits that businesses found (and are still finding) from examining environmental impacts, so too will exploring the untapped value available through business community alliances.

Business will generate maximum value from community involvement when it compliments and converges with their business models, bringing an 'investment' perspective to these engagements. It will be an alliance based on both parties 'bringing their strengths to the table and seeking to reduce their partner's risks'. The relationships do not need to be all pervading but alliances shaped around 'sweet spots'; where maximum leverage can be gained from minimal resources.

### **Leverage**

Leverage occurs in alliances when knowledge and networks are shared and resources and competencies married to enhance operations and objectives.

If, for example, a business spends heavily on sophisticated targeted marketing to the public and then turns to the community sector to just give money away without any strategic forethought, then they are potentially wasting an opportunity and resources. They are doing themselves and their shareholders a disservice.

There is no doubt money is important and a conduit, but it isn't the only resource. Non-financial and in-kind contributions can replace fiscal ones in these partnerships. Well thought-out alliances will draw

strategically on partner's knowledge, skills and capabilities: operating around strengths. Organisations will therefore be assisted to maximise its assets, minimise their liabilities, and improve their processes to best meet their individual social and business needs.

### **Time for change**

At what point do we recognise that good enough isn't great enough? Corporate executives have admitted, when contemplating their business community contributions: "We are just bumbling along, learning as we go", "I don't know why we don't do anything different", "We don't have time to think we just want to give money away" and "Give us another year to determine our direction. We are in strategic review at the moment". These comments indicate the need to develop a new way of doing. Even the process of ensuring value for themselves will result in the maximisation of resources devoted to need.

Businesses can improve the context of their business, workplace and external stakeholder relationships and the value created from their expenditure, if they look where they haven't looked before.

Admitting there could be a better way is the first step. But what is the next step?

### **The business case for business community alliances**

The business case for business–community alliances is an essential argument for boards, management, and shareholders. This will allow partnerships to secure the appropriate financial and non-financial resources, endure changes of leadership and provide accountability to determine the best way of doing.

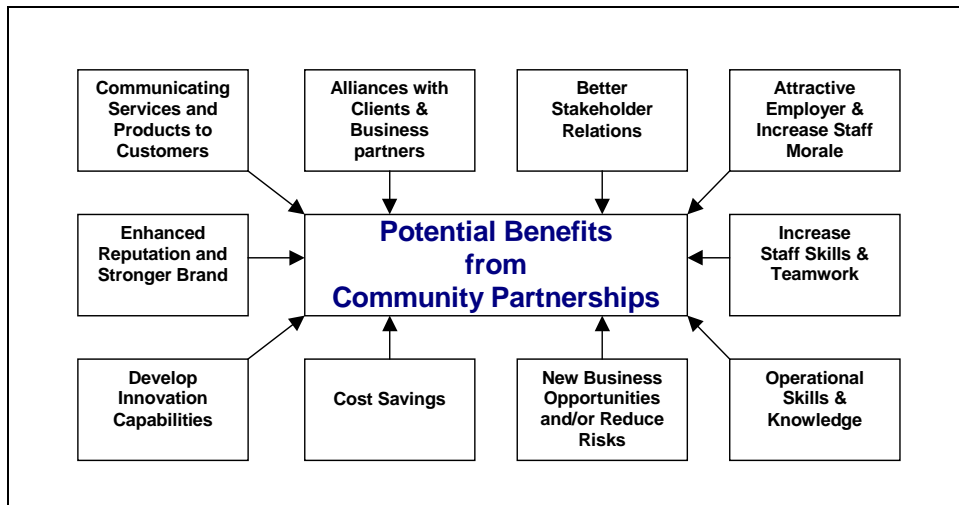
There are quite a few examples where business and community have developed working relationships but there are many more where the paradigm has been restricted to a narrow view of doing what is deemed to be right, not what is best. Building an alliance around the 'sweet spot' will reveal new opportunities if both parties are open to new ways of venturing. Benefits that have been identified for business include:

- better risk management
- cost savings from existing services being delivered by community partners
- researching and communicating new products and services to the public
- better stakeholder management
- improved performance culture<sup>7</sup>
- introduction of new techniques and processes
- managing intangible assets appropriately such as brand and human capital
- the creation of an innovative atmosphere to maintain continual improvement.<sup>8</sup>

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<sup>7</sup> 'Job satisfaction linked to profitability' — Barrie Dunstan, *The Australian Financial Review*, 5 December 2003.

<sup>8</sup> *Corporate Sustainability – an Investor Perspective, The Mays Report.*



**Figure 2. Potential benefits from business–community partnerships**

The Prime Ministers Community Business Initiative outlines benefits to be derived from community partnerships<sup>9</sup> as does the respected strategic business thinker, Michael E Porter, Professor at the Harvard Business School. He believes companies should explore the opportunities that exist in community partnerships to improve their competitive advantage.<sup>10</sup>

#### **Process to locate the ‘sweet spot’ and create value through inter-sector alliances**

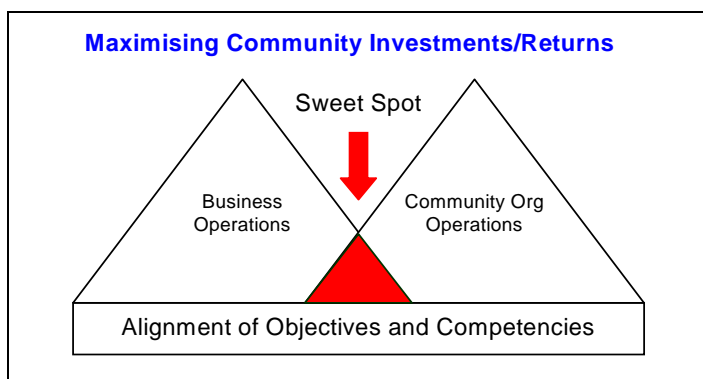
Opportunities usually manifest themselves when the right amount of planning and background research has been conducted. Locating the most appropriate community or business partner for your organisation will require developing expertise and a process that can be applied diligently. The process of alignment and mutuality is an approach aimed at meeting organisational needs, producing synergistic results for the parties where outcomes are, ‘greater than the sum of the parts’.

#### **Alignment and mutuality**

A process of alignment is already used by businesses in mergers and acquisition. It is dependent on locating organisational synergy where objectives and models overlap or are complementary. Alignment uncovers the ‘sweet spot’ where the partnership works together strategically. This approach utilises strengths (competencies) and managing weaknesses (risks) to find: how to do more with less by marrying and leverage resources, skills and competencies.

<sup>9</sup> Viewed 29 August 2003, <<http://www.partnerships.gov.au>>.

<sup>10</sup> ‘The Competitive Advantage of Corporate Philanthropy’ — Michael E Porter and Mark R Karmar, *Harvard Business Review*, December 2002.



**Figure 3. Framework for maximising community/investments returns**

Identifying the ‘sweet spot’ ensures mutuality. That is where both parties benefit and therefore the social outcomes targeted, improved. If an organisation is not concerned with its partners welfare nor the social context of where they operate then it is unlikely that mutual benefits will be acquired.

This framework raises important questions that assist business and community to extract maximum value from their alliances that is not just about branding or cause-related marketing. It becomes a process that includes both those functions but with the additional capacity for long-term strategies with win-win outcomes for the business and its community partner — ones they then can be proud of sharing with the public and their shareholders.

### **Community organisations also need to be proactive**

Community organisations also have a necessity to consider intra- and inter-sector partnerships for mutual benefit. Due to the growing trend of establishing community organisations,<sup>11</sup> there will be increased competition for resources. And this should not be restricted to inter-sector partnerships with business they need to also consider intra-sector alliances within their own sector.

Not-for-profit organisations will also increase the value they create by harnessing an alliance approach. Working in partnership within and across sectors, when carefully designed, will deliver results greater than an organisation can provide alone.

One case study comes to mind. A small event-based not-for-profit organisation sought to meet client needs for ongoing materials that would complement their successful functions. There were a few problems that seemed insurmountable due to the resources required. The material was highly specialised and their clients were spread out all across Australia.

Initially, the not-for-profit organisation was going to devote time and energy into developing these materials themselves. But they thought first of using their networks and contacts. Eventually they located

<sup>11</sup> ‘Non-profit organisations worth their weight in G.D.P.’ — Matt Wade, *Sydney Morning Herald*, 16 December 2002.

an intellectual property partner who provided the materials they sought. The next issue was cost effectively delivering the material across Australia. So they formed an alliance with an IT company who had a platform accessible to their clients. The alliance was based on the fact that they shared the same clients and the IT company needed support to increase exposure and uptake of their service. The outcome was an Australia-wide delivery platform that reduced the not-for-profit organisation's costs of production and the IT company had an opportunity to increase the uptake of their service.

Community organisations need to think of creative ways and take the initiative for developing partnership strategies. Up-front planning and awareness will assist them to engage business by identifying the likely benefits and it will also enable them to maintain the integrity and values of their mission. Alignment strategies will add capacity to deliver on their mission. This will provide the basis for increased support from donors and volunteers, who will see their efforts leading to tangible benefits for the community.

### **Initial steps to create effective alliances**

There is a chasm between the ideologies, purposes, practices and operations of organisations from these disparate sectors. Both parties should take time to appreciate each other's differences and then work within them. This is evident in the different language the sectors use. In some ways, brokers or alliance technicians will be required to plot the best alliances (strategies) to combine around strengths and, most importantly, bring them to fruition (execution of strategies). It can be hard for corporate and not-for-profit executives to make good decisions on their own because of imperfect or incomplete information. They may only be seeing part of the issue, considering it from one perspective or making incorrect assumptions. There are benefits from 'standing in each other's shoes and seeing the alliance from the other's perspective'.

Businesses need community 'investment' skills and measurements to deliver and determine the effectiveness and value of their contributions and efforts. They must be prepared to take a strategic alliance view sharing infrastructure, capabilities and competencies that will assist the partnering community organisation in the delivery of its mission.

Community organisations need to be aware of business imperatives. A successful partnership will only occur if they have first planned and developed their own strategies and business plan. Where they have addressed how best to make a difference, analysing the resources, skills and capabilities it genuinely requires to do so. They also need to be willing to share their skills, knowledge, and networks to make a positive contribution to the aligned business. Further questions are raised: Would businesses benefit from doing 'good'? Will the public be supportive of businesses who do 'good' thereby developing a virtuous cycle of business and community sector engagement?

Partnerships need to be well framed from the outset. Having clear and measurable outcomes articulated from the beginning will aid in tracking progress and adapting to change. Memoranda of understanding or some such written contracts are useful at this point to engage both parties in open discussion so they clearly communicate what they seek and require from the alliance. The relationships can also start as a pilot so the model can be tested and improvements made along the way.

There is a growing body of excellent material and tools available to assist both sectors map out how to commence and develop effective mutually beneficial partnerships. One particularly useful reference includes J E Austin's Seven C's of strategic collaboration — Connection, Clarity, Congruency, Creation, Communication, Continual and Commitment.<sup>12</sup>

These are guidelines only. The relationship will still need time to progress through different stages to find its appropriate level. A well thought-out business–community partnership should be an iterative and cyclical process. It should provide, through metrics and review, a continual flow of improvements that leads to an effective and efficient partnership that delivers lasting benefit.

### **The challenge**

The age of alliances and leveraging resources and relationships is here.

The forging of strategic partnerships, those that strengthen each other, are becoming increasingly important in a world where resources need to be used wisely to ensure environmental, social and economic sustainability.

The challenge is to admit the current failure of both sectors to communicate well and form effective alliances. Both parties share a desire to get maximum results from the resources they use. What they need to do is recognise and understand that opportunity exists through leverage and the power of untapped alignment.

Initiating mutually beneficial alliances requires leadership and a paradigm shift within business and community organisations.<sup>13</sup> There needs to be an investment now into developing the tactical and technical skills to support innovation in this area. Both parties demonstrate creativity and imagination in their own operations, they just need to be harnessed and unleashed into alliance strategies where together they articulate a shared future and how to create it.

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<sup>12</sup> (a) Austin (2000).

(b) 'New Value Partnerships', Chapter 11 — 'Common Interest Common Good', *Creating Value through Business and Social Sector Partnerships*, S Sagawa & E Segal, Harvard Business School Press, 2000.

(c) London and Rondinelli (2003).

<sup>13</sup> Lasker R D & Weiss E S 2003, 'Broadening Participation in Community Problem Solving: A Multidisciplinary Model to Support Collaborative Practice and Research', *Journal of Urban Health*, vol. 80, pp.14-47.

The result is likely to be a co-created path that leads to maximum gain for each partner and the communities they serve. After these conversations have commenced and progress demonstrated, both parties will wonder why it took so long to find each other.

“Opportunity is missed by most people because it comes dressed in overalls and looks like work”.  
(Thomas Edison)

### **Acknowledgments**

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