Strategic Alliances
Managing the Collaboration Portfolio

By James Austin

Stanford Social Innovation Review
Summer 2003

Copyright © 2004 by Leland Stanford Jr. University
All Rights Reserved

DO NOT COPY
IT WAS NO RUN-OF-THE-MILL WOMEN’S SHOE PROMOTION. Last June, under the direction of City Year, a national youth service organization, more than 50 employees of Timberland, the New Hampshire-based footwear and apparel company, painted bathrooms, installed smoke detectors and garbage receptacles, and stained fences and outdoor furniture at Inwood House. Inwood House, a nonprofit in New York City, provides education and counseling to prevent teen pregnancy. This initiative was part of a larger effort to make Timberland’s footwear line resonate with female consumers. “It’s important to address not only a woman’s footwear needs, but also the issues that are relevant to her as a woman,” said Timberland’s global director of women’s casual footwear.¹

Companies have historically tended to keep their philanthropic giving somewhat separate from their business operations. But Timberland and a growing number of like-minded businesses have begun integrating these activities into their strategies and operations. Consider just a few examples. Bell Atlantic deployed its technological expertise in a partnership with a Union City, N.J., school to transform the educational process. Ralston Purina joined the American Humane Association to promote the adoption of abandoned animals. Citibank worked with ACCION International to promote microcredit lending in Latin America. Strategic collaborations are proliferating.

Forces Promoting Collaboration

The emergence of these more strategic alliances reflects, in part, a rethinking on the part of companies about the role of their charitable activities and
their interactions with nonprofit organizations. Two motivations appear to be propelling companies' shift toward integrating philanthropic activities into their strategies and operations. First, companies are recognizing that how they interact with communities and with social issues can directly affect positively or negatively their business success. Generating social value can be an important source of business value in many ways. The burgeoning cause-related marketing collaborations is a clear reflection of this, with such arrangements often being funded out of marketing department budgets rather than from corporate giving offices. For example, American Express partnered for three years with Share Our Strength, an anti-hunger and poverty organization, to mount the Charge Against Hunger campaign, whereby the company donated to the nonprofit 3 cents of every dollar cardholders charged during the November-December holiday season. This generated $21 million for the cause and noticeably increased card usage.

Companies have also become more concerned about the social returns of their philanthropic relationships. The focus is shifting from being charitable donors to strategic social investors. Former IBM CEO and Chairman Lou Gerstner, for instance, has focused the company’s social investments predominantly on improving public education in order to increase the impact of its social sector engagement, rather than spreading its resources more thinly among a broad array of social needs.

For nonprofit managers, collaboration with other organizations is becoming increasingly central to achieving their missions. Economic, social, and political forces propel this trend. Shrinking donor pools and rising competition for scarce philanthropic funds pushes nonprofits to work with others in order to cut costs and achieve efficiencies. The growing complexity and magnitude of the socioeconomic problems nonprofits seek to solve often exceed the capacity of single organizations. Multiple competencies and new combinations of resources are needed to tackle problems effectively. Furthermore, the traditional large role of government as the solver of social ills has been shrinking. These responsibilities have shifted more toward the nonprofit and business sectors.

Nonprofits are finding new ways to join forces with other nonprofits to consolidate assets, combine activities, or share resources to operate more efficiently and effectively by eliminating wasteful duplication or providing superior services. But beyond this intrasector cooperation, there is growing collaboration between nonprofits and businesses. Part of this process has been the discovery that nonprofits have brands, assets and competencies that can be of significant value to business. “Nonprofits are worth a lot more than they think they are,” according to Share Our Strength founder Bill Shore. This realization has helped shed the supplicant mind-set and create a partnering mentality. Furthermore, there has been a breaking down of some of the nonprofits’ suspicions of business and a growing understanding of the potential mutual benefit of collaboration. Many nonprofit organizations that had historically been vocal critics of business have found common ground on which to cooperate. For example, Amnesty International created an alliance with Reebok when it discovered the sneaker company had similar values about human rights. Environmental group the Nature Conservancy overcame longstanding differences with the timber products company Georgia-Pacific to enter into joint management of forestlands to develop more environmentally friendly ways of timber extraction that enabled forest habitat conservation.

Such mutual rethinking has opened the door to a much richer set of relationship options, which poses the challenge of how to pursue most effectively these collaboration opportunities. These cross-sector collaborations are undergoing significant transformation and hold considerable potential.

From Charity to Strategic Alliances

In my research on dozens of alliances between nonprofits and corporations where I conducted in-depth analyses of partnering experiences, I found that these relationships can evolve over time through three different stages. Each stage exhibits differences in engagement level, importance to mission, resource deployment, scope of activity, interaction intensity, managerial complexity, and strategic value. This framework is useful for understanding the
nature and evolution of cross-sector collaborations. (Chart, above.)

1. Philanthropic Stage. This is the most common and traditional type of relationship. In simplified terms, it can be characterized as a supplicant-benefactor relationship. The nonprofit seeks a donation from the company, then the company provides a charitable gift. Extensive resources are generally not involved, nor is the relationship deep or critical to either organization. The Timberland-City Year relationship started this way more than 14 years ago, when the nonprofit requested a donation from Timberland of 50 pairs of boots for its inaugural youth corps. Responding to this petition was a simple altruistic act of minor significance to the company. At this early stage, traditional mind-sets constrained the relationship. City Year operated with a fundraising mentality and suffered from what its President Michael Brown referred to as the "gratefulness syndrome": Its task was to extract resources, and if successful, graciously issue thanks, but not "bother" the donor thereafter. On the corporate side, Timberland was constrained by the "charity syndrome": Give to a good cause that solicits assistance but deal with these donations as a peripheral part of your activities and minimize your time investments. On both sides, minimizing interaction and communication was the mode of operation.

2. Transactional Stage. In this relationship there is more of a two-way value exchange, with each side providing clear benefits to the other. The collaboration is focused around a particular, well-defined activity and the resources deployed often go beyond money alone. Examples include cause-related marketing, where a nonprofit lends its name to the company that through its publicity or a special event promotes the organization’s cause. Sometimes the promotion is directly tied into the sale of a good or service, with a portion of the proceeds going to the nonprofit. The activity might involve the mobilization of company employees to participate with the nonprofit in the delivery of its social service, such as building a playground. The Timberland-City Year relationship evolved from the simple boot donation into City Year mounting community service events for the company’s employees. Timberland provided the City Year corps members with their uniform, publicizing Timberland’s line of casual and outdoor apparel and commitment to City Year. City Year used its core skills to provide team-building exercises and diversity training to Timberland employees. “Many companies pay thousands of dollars for these types of team-building skills. This is not philanthropy,” said Timberland CEO Jeffrey Swartz.

3. Integrative Stage. The collaboration evolves into a strategic alliance at this stage. It becomes central to each organization’s mission and integral to their strategies. Both deploy and combine their core competencies, joint activities proliferate, personnel and institutional relationships multiply, and trust deepens. This is an organizational integration that takes on the characteristics of a joint venture. It is much more complex to manage than other forms of collaboration, but of much greater strategic value. The relationship between Tim-

City Year’s task was to extract resources, and if successful, graciously issue thanks, but not “bother” the donor thereafter.

James Austin is the Eliot I. Snider and Family Professor of Business Administration and the chair of the Initiative on Social Enterprise at the Harvard Business School. He has authored 16 books, dozens of articles, and over 100 case studies on business and nonprofit organizations. His most recent book is “The Collaboration Challenge: How Nonprofits and Businesses Succeed Through Strategic Alliances” (February 2000). He can be reached at jaustin@hbs.edu.
berland and City Year deepened and moved into this third stage. Swartz became the chair of the nonprofit’s board of directors, and a team of City Year corps members began operating out of his company’s New Hampshire headquarters. The two recruited additional corporate sponsors and expanded the nonprofit’s operations to other cities throughout the country and abroad. They collaborated on a new product line of clothes and boots promoting the City Year name and the two organizations’ shared commitment to community service. City Year has received about $12 million to date. Timberland has doubled the paid time employees could give to service to 40 hours a year. According to the company’s corporate social responsibility report, its employees now give more than 100,000 total hours of service annually, benefiting more than 200 community organizations in 13 countries.2

Understanding the Continuum
Most strong alliances have evolved through the stages of the collaboration continuum, but occasionally there are some that start out as a transactional relationship, leapfrogging the philanthropic stage. Progression along the continuum is not automatic; it is the result of conscious acts and efforts. Moreover, a relationship can regress to a previous point due to unintentional slippage or conscious decisions. The key characteristics of partnerships in each stage provide a useful guide to envisioning strategic options. Each stage evinces a different stance toward three strategic aspects of the partnership: the collaborative mind-set of the partners, strategic alignment of the two organizations, and the collaboration’s value. (Table, p. 54.)

Strategic Management of Collaborations
Most nonprofits and corporations have multiple cross-sector relationships. To manage these strategically, it is useful to conceive of them as a portfolio. Balance in the portfolio is in the eye of the beholder. But in general, the goal is to create a mix of alliances

---

**When is close too close?**

As the recent controversy over the close relationships between the Nature Conservancy and businesses show, while there are many benefits to partners and society from collaborations between nonprofits and businesses, there are also risks. Independent of the collaboration activities, either partner can make mistakes that trigger criticism and bad publicity. If the alliance is very close and well-known, both partners run the risk of “guilt by association.” When, for example, Timberland was accused of environmentally damaging waste disposal practices at an overseas factory, City Year’s leaders were criticized for their affiliation. Similarly, when the Boston Globe published an article highly critical of City Year, many questioned Timberland’s partnership. Assuming that both partners have done appropriate due diligence and are confident in the integrity and competence of the other, then these unforeseeable troubles are simply part of the normal risks of partnering. In some instances, partners with very tight alliances based on deep trust and values compatibility have in fact come to the aid of their faltering partner to assist in its moment of crisis. Others have abandoned the partnership.

While some such risks are inherent in close partnering, others may be managed or even avoided by careful assessments. Three tests may help to manage the risks:

**Mission Incompatibility Test.** Before entering into a collaboration, each partner should carefully weigh the compatibility of the other and the partnering activities with its mission. Some poor fits will be clear – the nonprofit Jumpstart that helps at-risk preschoolers to be successful when they enter school simply will not accept donations from companies in the liquor or cigarette business – but others are not so straightforward. Dana Farber, a leading cancer research institute, was offered a major cause-related marketing deal from a well-regarded food corporation owned by a tobacco company. The donation had no restrictive terms that would divert the institute’s research activities, nor would the parent company receive any mention in the publicity. Nonetheless, the offer raised moral and organizational issues for some trustees. Even apparently innocuous collaborations can have risks. The American Medical Association (AMA) entered into a cause-related marketing agreement with the Sunbeam Company, a manufacturer of small household appliances. The AMA gave its “seal of approval” to Sunbeam products in return for “royalties.” While this seemed like a low-risk way to generate income to the AMA marketing staff, doctors expressed great discontent upon seeing the AMA’s logo and reputation associated with a company that had nothing to do with medicine. The trustees revoked the contract, but it cost AMA $9 million to extricate itself from the arrangement. The short deci-
The goal is to create a mix of alliances that makes optimum use of the partnering organizations’ resources.

Mapping Collaborations

The first task is to take an inventory of your existing collaborations. The collaboration table can guide this mapping exercise. Locate each collaboration on the continuum in relationship to the three stages. A relationship can fall at any point on the spectrum, not simply at the single stage markers. It is even more useful to map each collaboration’s location on each descriptive dimension because it might fall at a different point on the continuum. For example, the collaboration map might reveal that a burgeoning alliance has quite a high importance to the organizations’ mission, but the only resource being deployed is money. This might suggest that the partners should investigate how to deploy their core competencies to create value together. A collaboration might also be in a transactional stage but have a single type of activity. This might suggest that the partners could

mission rule is that if it doesn’t fit your mission, don’t do it.

Impropriety Test. Most nonprofit organizations’ viability rests on the intangible foundation of trust. Donors and supporters expect nonprofits to ensure that their donations further the cause. Trust is hard to earn and easy to lose. There have been periodic examples of financial scandals at well-known nonprofits that resulted in supporters immediately ceasing to donate. Beyond blatant cases of malfeasance are the subtle risks of perceived impropriety. These may include having trustees and major donors with business interests that outsiders perceive as being in conflict with the nonprofit’s mission. Critics may see that as letting the “fox into the henhouse.”

Other criticisms may be focused on specific collaboration arrangements with the companies, such as the recent controversy over the Nature Conservancy having entered into conservation arrangements with Mobil Oil for a stretch of the Texas coastline. While working with the company itself might be considered suspect, the problems arose more because of how the agreement was carried out. The conservancy was put further into the spotlight by buying land for preservation and selling a small portion of it with conservation restrictions to trustees who donated the funds for the acquisition. While such arrangements were a creative way to conserve endangered areas, they opened the organization to suspicions of self-dealing. The first step in handling the impropriety test is to assess the extent to which collaborating with a particular partner might jeopardize the trust that stakeholders have placed in the organization. A second step is to design carefully the collaboration arrangements, minimizing the perception of impropriety by being transparent and avoiding appearances of self-dealing.

Press Test. It is important to underscore the term perceived. Even if a collaboration involves no incompatibilities or improprieties, partners need to assess whether the media might perceive otherwise. Regulatory oversight of social sector alliances between nonprofits and businesses is limited. Therefore, it is up to the media to assume the appropriate role of a watchdog. In practice, however, this role is not always carried out professionally or responsibly. Sometimes reporting on nonprofit and business activities aims more for sensationalism than objective critique. Nonetheless, that is a reality that collaborators need to deal with.

It is useful to ask of any collaboration how a reporter might portray the partnership negatively. If potential problems cannot be avoided, the desirability of the collaboration should be carefully reexamined. At minimum, organizations should prepare a strategy for proactively communicating the benefits of the collaboration, explicitly taking into account the possible criticisms.

Collaboration closeness can create great value, but partners must be true to mission, guard assiduously against perceived impropriety, and proactively manage the media.
explore other opportunities to work together to broaden the range of joint value creation. A more refined mapping deepens one’s understanding of the nature of the collaboration and its position relative to others.

**Segmenting Collaborations to Achieve Portfolio Balance**

The mapping exercise gives the manager a clearer view of the organization’s collaboration portfolio. One should not necessarily think of different types or stages of alliances as superior. The task is to analyze each collaboration in terms of its role within the portfolio. Different relationships can serve distinct functions. One is seeking functional balance. For example, the mapping may reveal a majority of the collaborations clustering around the philanthropic stage. An organization need not feel that this is a sign of collaboration weakness and that these should be replaced with alliances at the transactional or integrative stages. These philanthropic relationships may be an important source of cash flow to the nonprofit that requires relatively little cost to obtain.

Similarly, spreading out donations to many different organizations may help the corporation reach many different constituencies in a cost-effective manner. KaBOOM!, a nonprofit whose mission is to create safe playgrounds in needy neighborhoods, has its collaborations concentrated in the transactional stage. It organizes and supervises playground construction for a fee from corporations whose employees then participate as volunteers in building the playgrounds alongside people from the community. For some of its partners, such as Home Depot and insurance company CNA,
however, KaBOOM! has developed a deeper integrative relationship.

Achieving portfolio balance involves a search for diversity in number and size to avoid overdependency, even if all collaborations are of the same type. But having a mix of alliances across the continuum can increase robustness of a collaboration portfolio. The manager needs to think about the function that the new type of relationship will play. For example, a transactional alliance such as a cause-related cobranding promotion might increase the financial benefits accruing to a nonprofit, but perhaps even more importantly raise its visibility and exposure. A manager of the Nature Conservancy observed that its cause-related marketing arrangement with Canon U.S.A. “garnered us extensive exposure in media that we could never hope to purchase for ourselves.” This serves a very important function in building a nonprofit’s brand, name recognition, and credibility.

A similar benefit might accrue, in reverse, to a newer company associating with a well-known nonprofit organization. Such benefits would not be accomplished through a traditional philanthropic stage relation; it would only come through a different type of alliance. Analogously, migrating into an integrative relationship would open up the possibilities for a much wider range of collaborative activities producing a higher level of mutual benefits. Yet, the managerial and institutional resources required to create and maintain such a deep strategic alliance are considerable. Consequently, the absorptive and implementation capacities of the partners need to be weighed carefully in determining if and how many such collaborations can be optimally included in the portfolio. Timberland has decided to concentrate the vast majority of its energy and resources into a deep strategic alliance with City Year rather than spreading them out across a large number of organizations in a broad portfolio. This is comparable to a company targeting and tightly integrating into their operations a few preferred suppliers.

New Solutions to Complex Problems

Alliances are bound to become an increasingly important organizational strategy for nonprofits. The potential for interinstitutional cooperation to create joint gains and greater social value is enormous. The imperative to collaborate will not be limited to alliances between businesses and nonprofits. Alliances between nonprofits and government and as well alliances between nonprofits will become increasingly common. Public-private partnerships can produce effective new solutions to complex social problems. Managing these richer and more complex collaboration portfolios represents a major challenge and essential competency for leaders of nonprofits.

The Nature Conservancy has protected nearly 15 million acres of land in the United States, including Wyoming’s Red Canyon Ranch (pictured above). But a recent strategic alliance with Mobil Oil to preserve a stretch of coastline opened the environmental group to criticism.