



United Way  
of Buffalo & Erie County

# **NONPROFITS RISING TO THE CHALLENGE: PROVIDING CRITICAL SERVICES IN A CHANGING ENVIRONMENT THROUGH COLLABORATION AND INNOVATION**

# **Nonprofits Rising to the Challenge: Providing Critical Services in a Changing Environment through Collaboration and Innovation**

## **Executive summary**

A variety of external factors are increasing the demands on already overworked nonprofits. Research shows that over 40% of households in Erie County experience financial hardship. While the total number of nonprofits continues to rise, recent changes to federal and state tax policy may lead to a reduction in charitable giving, thereby reducing the amount of funds available for nonprofits to do their work. The combination of these factors leads to one significant question: how can nonprofits continue to provide effective service delivery in the face of such challenges? In this report, we suggest that collaboration between nonprofits is one avenue which may help to mitigate these concerns. While mergers are the most commonly known type of collaboration, this report highlights a range of options also available to nonprofits, including shared service models and joint programming. Strategic, well-considered collaborations can bring a variety of benefits to an organization, such as more efficient and effective service delivery or increased financial capacity. However, it is important that every organization involved in collaboration participate in extensive due diligence. Entering into a partnership without careful deliberation reduces the chances of deriving the rewards collaboration can bring. Trends indicate an urgency for nonprofits to consider collaboration now, largely due to sector instability resulting from reductions in funding. While many nonprofits are already participating in successful collaborations, this report is intended to reiterate the importance of the nonprofit community continuing to consider and pursue forward-thinking ways to work together.

## **Introduction**

Securing the necessary elements to run a successful nonprofit is an increasingly complex equation due to a variety of key external factors. The problems nonprofits are attempting to remedy are entrenched within the fabric of our society. These are ongoing, economically intractable issues which are labor intensive and thereby inherently inefficient. This means that nonprofits are especially vulnerable to economic challenges. Although Buffalo has experienced a series of exciting developments over the past decade, leading some to describe this moment as a renaissance, those in the nonprofit sector know that these developments have not been extended to all people equally. There is still a large amount of need in our community.

2017 Census data shows that while almost 15% of Erie County residents live below the federal poverty line, that number jumps to 31% when we look specifically at households within the city of Buffalo. Another way to assess the level of need in our community is to consider the ALICE (asset limited, income constrained, employed) population, which is comprised of those who live above the poverty line but are still unable to afford basic necessities such as housing, food, transportation, healthcare, and/or child care. Looking at the ALICE population plus those living below the federal poverty line offers a more complete understanding of who is living in financial hardship. In addition to the 15% of Erie County households living in poverty, another 27% are part of the ALICE population. Together, this data suggests that over 40% of households in Erie County experience financial hardship. Within the county, there are many towns where the percent of households is even greater than the county average, including Buffalo (63%), Lackawanna (62%), Cheektowaga (46%), and Tonawanda (40%).

In order to address the needs of our community, nonprofits depend on being able to secure funding. As the number of nonprofits continues to grow, more organizations are vying for the same, increasingly limited, financial resources. A 2015 report from the Urban Institute found that over 1.4 million nonprofits were registered with the IRS, an increase of 2.8 percent from ten years earlier. In addition, we are seeing changes surrounding giving, which may also impact the total amount of funding available. Corporate philanthropy is becoming increasingly strategic, as corporations want to donate to organizations that align with their mission and can demonstrate measurable impact.

Changes to individual giving policies have recently occurred at both the federal and state level. The 2017 Tax Cuts and Job Act increased the amount of the standard deduction, thereby reducing the need for many taxpayers to itemize their returns. Without itemizing, those taxpayers cannot claim the charitable deduction and may not have the same motivation to donate which they had in prior years. A 2017 report from The Chronicle of Philanthropy, found that itemizing is strongly associated with giving to charity. This finding suggests that with fewer taxpayers itemizing, the number of taxpayers who make charitable donations may also decrease. Researchers expect that the 2018 tax year filings (and beyond) will help to clarify the impact of this change to the tax law on charitable giving.

In addition, the 2018-19 New York State budget created two state-operated Charitable Contribution Funds which focus on education and health care. Taxpayers can donate to these funds and claim a credit for the donation on their next year's tax return. The Governor's 2019-20 budget proposal reports that in their first year of existence, those funds have collected nearly \$100 million. While little is currently known about how taxpayers' donations to these funds impacts their other charitable giving, the data suggests that taxpayers are motivated to donate to these restricted funds.

The combination of these factors means that the ability to provide effective service delivery is a never-ending challenge for nonprofits. One proven option to mitigate these challenges is collaboration. Strategic partnerships across the sector are forward-thinking approaches which can help nonprofits ensure they can continue to pursue their mission even in the face of increased competition, decreased giving, and ever persistent need. The origins of this report stem from observations and comments by the late Robert Wilmers of M&T Bank, as well as other local leaders who see opportunity for innovation in the nonprofit sector. This report describes the different types of collaboration available to nonprofits and highlights both the benefits as well as what to know before pursuing such strategies. Finally, it offers a call to action and additional resources for future reading. While the intended audience for this report is boards of directors, nonprofit CEOs and staff in the health and human services sector, it may also prove valuable for funders, community members, and other interested parties engaged in nonprofit sector services.

### **Setting the Stage: Who are the Nonprofits in Erie County?**

For many, collaboration is synonymous with merger. While mergers involve a labor intensive process that leads to permanent changes for multiple organizations and should only be considered with the utmost seriousness, we recognize mergers may be necessary in a saturated sector where there are too many organizations doing ultimately redundant work. To that end, we sought to understand more about the size of the nonprofit health and human services sector in Erie County in order to guide our recommendations.

Compiling an accurate count of the number of nonprofits in Erie County is more challenging than one may expect. We used Guidestar, a searchable database of nonprofit organizations nationwide, to help us in this endeavor. An initial search revealed that as of April 2018 there were 7,430 nonprofit organizations in Erie County. However, included in this number is a varied set of organizations with diverse missions who may not all be currently active. Because of these factors, we chose to refine that initial number.

First, we removed any organizations that had been revoked by the IRS for failing to file an IRS Form 990 for three consecutive years. Next, we removed any defunct or merged nonprofits that have not been included in the IRS Business Master File for six (6) consecutive months. After removing those organizations, there were 5,189 active nonprofits whose tax status is recognized by the IRS. As that group includes organizations with a varied set of interests, we limited our scope only to nonprofits who work in the health and human services sector. The National Taxonomy of Exempt Entities (NTEE) classification system guided how we determined which nonprofits are

performing health and human services work. Using the NTEE codes, we included any organization that was included in the following categories: mental health and crisis intervention; crime and legal related; employment; food, agriculture, and nutrition; housing and shelter; youth development; human services; and, civil rights, social action, and advocacy. Finally, we removed any organizations who were not categorized as a 501(c)(3) public charity by the IRS. Ultimately we determined that there were 720 health and human service 501(c)(3) nonprofit organizations in Erie County at the present time.

While the ability to identify the total number is important, ultimately it does not mean much without context. In order to better understand the relative size of our sector, we used the same process as described above to calculate the number of health and human service nonprofits in ten (10) counties of similar population size from across the country (Appendix A). Looking at this data, the mean number of nonprofits within this group is 757. These numbers indicate that Erie County has a slightly smaller health and human service nonprofit sector than similarly sized counties. While we could calculate the number of nonprofits relative to the number of residents in that county, we chose not to use that metric in our analysis as it would assume that all residents of a county are equally utilizing the services of all nonprofits. Because that is likely not the case, we felt it was better to only present the absolute number of nonprofits instead of the number per capita. What these numbers tell us is that the nonprofit health and human service sector in Erie County is not so saturated as to demand mergers as an exclusive collaboration option. While they may be a viable collaboration method in certain circumstances, there are many different types of collaboration that may better help organizations reach their programmatic and financial goals.

### **What Types of Collaboration are Possible?**

With over 700 health and human service nonprofits in Erie County, the potential for collaboration between organizations is substantial. However, the types of collaboration available are equally compelling. The most successful collaborations involve strategic decisions about potential partners as well as the type of collaboration to pursue. While we used a series of academic and professional reports to guide our collaboration typology, this list should not be seen as exhaustive. Instead, we chose to highlight a limited set of collaboration models that are most commonly used among nonprofits and consistent with a literature review.

Collaborations fall into two categories: formal and informal. Formal collaborations, also known as integrations, involve changes to the structure of the organization. This can include the creation of new organizations and/or the dissolution of existing ones. A **management service organization** involves creating a new organization which focuses on administrative tasks and increases administrative

efficiency. **Joint ventures** are where a new organization is created to oversee distinct administrative or programmatic goals for two or more organizations. **Parent-child subsidiaries** are where one organization (the child) is controlled in whole or in part by another organization (the parent). **Mergers** are the most formal type of collaboration, and they commonly take one of two forms. In the first type of merger, one or more organizations dissolve and become part of an existing organization's structure. The second type of merger is where two organizations dissolve and together establish a new structure.

Informal collaborations, also known as alliances, do not involve any changes to the corporate structure. In such cases, partnering organizations remain intact while participating in an informal collaboration. One type of informal collaboration is an **association** or **coalition**, whereby a group of organizations voluntarily decide to combine forces to accomplish a shared goal. **Joint programming** involves two or more organizations delivering and managing a program together. In **shared service models**, administrative tasks such as accounting or information technology are shared across multiple organizations in order to increase administrative efficiency.

## **Benefits of Collaboration**

One of the greatest benefits that an organization can derive from collaboration is the opportunity to develop more efficient and effective service delivery. For example, the creation of a joint program could lead to more robust services. Many UWBEF-funded education programs partner with their local school districts as a way to increase their reach. Or, a merger may result in a new organization with a wider geographic or service delivery footprint. One recent example is the UWBEF-supported 2017 merger between Lake Shore Behavioral Health and Child and Adolescent Treatment Services, leading to the creation of BestSelf Behavioral Health. Research has shown that organizations that participate in any type of collaboration report increased programmatic integration/cooperation with partners and increased services as the most important benefits received. That same study found that formal collaborations in particular, such as mergers, lead to a perceived increase in organizational competitiveness. An increase in competitiveness is especially beneficial, as that can be leveraged in requests for funding.

Along those same lines, collaboration also has the potential to benefit an organization financially. Certain types of collaboration, such as shared services, can lead to a reduction in overhead expenses because costs are shared across multiple organizations. UWBEF offers financial services to other organizations, including the WNY Women's Foundation and the Family Justice Center of Erie County, in service of helping to reduce nonprofits' overall expenses. While these are examples of one direct

financial effect of collaboration, there may also be indirect effects. For example, if collaboration leads to an increase in effectiveness then future proposals for funding can highlight that trend. In turn, this may lead to more strategic positioning with funders and potentially an increase in the overall amount of funding received.

### **What to Consider Before Pursuing Collaboration**

Extensive due diligence is required on the part of every organization involved before any collaboration moves past the idea stage. Especially when there is the potential for a decision which leads to organizational restructuring, it is crucial that careful consideration is put into both the choice of collaboration as well as the partners involved. To that end, nonprofits should not think of collaboration as a silver bullet which magically fixes all issues. Strategic collaborations can boost an organization's ability to achieve their mission, but it is important to enter into the prospect with a realistic understanding.

As much of collaboration will be driven by the organization's leadership, it is important to ensure that leadership is supportive of the idea and willing to use a cooperative approach. Research has found that two key factors in successful partnerships are having a staff or board leader who championed the partnership and support from the board of directors. Especially for more formal collaborations, such as mergers, a lack of board support will negatively impact the likelihood the collaboration succeeds. However, while receiving the support of the board is important, it alone is not enough. Collaborations require dynamic leaders who are willing to work in service of the common good of all partners involved. This can be difficult, as many nonprofit leaders are used to having final say over all decisions and are not accustomed to sharing control. Retrospective research on collaboration indicates that the most successful leadership involves:

1. Demonstrating a strong belief in the partnership and often acting selflessly to maintain it;
2. Using multiple forms of communication to keep all stakeholders up to date about the project;
3. Building trust with partner organizations through meetings and trainings;
4. Acknowledging that unforeseen circumstances will arise and the need for flexibility to accommodate those challenges;
5. Offering reassurance to all parties involved, such as staff members, that the project is on the right track.

Ultimately, the best leadership is that which is forthright, flexible, and focused on the big picture. It is important to note that while collaboration may lead to a cost savings, that benefit is not guaranteed. This is largely because many forms of collaboration require

upfront capital in order for the project to begin. Having to fundraise for start-up funds can create a heavy financial burden on an organization. An additional challenge is that many organizations who have participated in collaborations report not receiving support from funders. A 2014 study by The Bridgespan Group of over 200 CEOs found more than half of the nonprofit leaders surveyed reported no support from funders for any form of collaboration. Sometimes funders reduce their support on the assumption that the collaborating organizations are reducing their expenses. Taking on this financial risk at the beginning of a collaboration can be a challenge without the backing of a funder. Also, many collaborations require not only initial funding but also dedicated, ongoing resources. For example, a July 2016 presentation given by The Nonprofit Centers Network (NCN) on shared service models found that almost three-quarters of NCN projects were funded at least in part with donated funds. Those types of funds are rarely self-sustaining, meaning fundraising will need to be perpetually top of mind in order for these collaborations to continue. Finally, collaborations may impact administrative costs. For example, a change to the organization could lead to the need for more and/or different staffing levels with specialized skills.

### **Call to Action**

Erie County is filled with dedicated nonprofit organizations that are committed to making a meaningful difference in the life of our residents. We know that many of these organizations currently understand the value in working in partnership, as there are a variety of collaborations already occurring. This report does not intend to diminish or overlook what is currently happening in our community. Instead, we hope that this report underscores the importance of continuing to explore the potential for collaboration. In light of the series of funding challenges facing the nonprofit community and other external factors, collaboration is a strategic option which can help to ensure continued high quality service delivery for those in communities most in need.

Understandably, no one wants to think about a future where things go wrong. However, a series of frightening trends indicate there is an urgency for nonprofits to consider collaboration now, as sustainable funding is not guaranteed. A 2013 study from the Urban Institute found that while one-third of revenue for 501(c)(3) public charities nationwide came from the government, at the same time government agencies were reducing the amount of available funding for nonprofits. Similarly, corporate philanthropy is becoming increasingly strategic, looking to focus their giving exclusively to work directly aligned with their business focus. If funding reductions continue, these trends signify future increases in sector instability, especially for those who rely largely on a single funding source. The time to act is now, from a position of strength, as



preparation in anticipation of sudden and dramatic funding changes increases the chances of an organization's long term viability.

Both executive directors and board leaders should regularly take stock in the state of the organization and look toward the future. Board members especially must recognize their role in entertaining forward thinking strategies, as the duty of a board is to be true to the organization's mission while also working to ensure viable and sustainable service delivery. A first step is to examine how the organization is currently utilizing collaboration if at all. If collaborations are occurring, are they helping to meet the organization's goals? If not, why not? Success is more likely if the organization is able to take a realistic look at themselves and acknowledge what is working and what is not. Another step is to assess the future of the organization. Is the major leadership planning to retire in the near future? Are funding changes increasing the likelihood of staff turnover? If the potential for competition with other organizations to find strong leadership and staff is increasing, this may be the right time to consider collaborating in order to be able to continue to work with top talent.

We know that the potential for change can be scary. Collaboration, especially ones that lead to a change to the existing structure, can feel like an organization's identity is in danger of being erased. However, taking the long view and utilizing proactive measures can help to ensure the continued success of the organization. The needs of our community are great and no single organization can meet them all. By finding creative ways to work together, we will better serve those who need our help the most.

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## Appendix A - Sector size of counties with population similar to Erie County, NY

County and state	Population*	Number of nonprofits
Fairfield County, CT	949,921	733
Bergen County, NJ	948,406	510
Duval County, FL	937,934	762
Shelby County, IL	936,961	1,028
DuPage County, IL	930,128	757
<b>Erie County, NY</b>	<b>925,528</b>	<b>720</b>
Gwinnett County, GA	920,260	683
Prince George's County, MD	912,756	1,036
Hartford County, CT	895,388	666
Kern County, CA	893,119	362
San Francisco County, CA	884,363	1,073

\* Source: US Census Bureau, 2017 estimates