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# Choices Have Consequences

## Collaboration

### Strategic Issues, Process and Benefits

### Some Preliminary Thoughts

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# **Choices Have Consequences**

## **Collaboration**

### **Strategic Issues, Process and Benefits**

#### **Some Preliminary Thoughts**

## **1. Introduction**

Government, investors and other funders are putting pressure on the voluntary and community sectors to save money, invest effectively and avoid duplication and waste. They increasingly expect their money to provide a return for their investment – be this social or financial. Furthermore, increased legislative requirements have raised the cost of administration and services but revenue has not always increased commensurately.

Collaborative working is a long established working model to achieve cost efficiency and enhancement of outputs.

The remainder of this paper<sup>1</sup> will describe the continuum of collaboration with special emphasis on:

- Establishing a management services organisation to sharing back office supports within the voluntary and community sector.
- Partnerships and joint ventures.
- Joint working creating sustainable organisations.

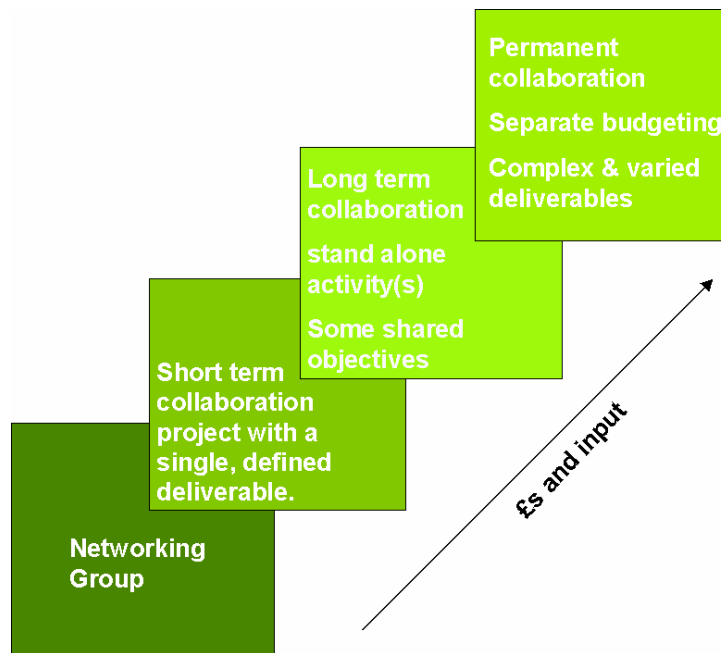
## **2. Continuum of Collaboration**

A review of the voluntary and community sector highlights that there are actually a large number of collaborative projects already underway. Although these projects vary extensively in deliverables and structure, generally they can be placed into four top-level groups. These groups are separated by the amount of commitment that the organisations have to make to the project, the level of formality within their partnership structure and the cost of operating it.

The figure below demonstrates that the level of human and financial capital investment will rise commensurately to the formality and scope of the collaborative project.

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<sup>1</sup> On behalf of bassac JPA prepared a research report entitled Sharing without Merging - Sharing Back Office Supports, A Review of Collaborative Working in the Voluntary and Community Sector This paper contains some of the findings. The report is available upon request by email from john@jpa-group.com. Parts of this paper have been drawn from other papers prepared by JPA, papers related to culture of business, governance, venture philanthropy and social enterprise/earned income/trading.



Listed below are the various models<sup>2</sup> of collaborative working projects currently underway in the voluntary and community sector. They are listed in order, with the first being the most informal example of working collaboratively and the last to be the most structured. These models are:

- |  |   |         |
|--|---|---------|
| 1. Networking groups   | } | Group 1 |
| 2. Umbrella groups and membership organisations  |   |         |
| 3. Affinity schemes for discounted purchasing  |   |         |
| 4. Joint research and development projects   | } | Group 2 |
| 5. Joint training groups   |   |         |
| 6. Buying groups   | } | Group 3 |
| 7. Lobbying groups   |   |         |
| 8. Fundraising groups  |   |         |
| 9. Sharing building facilities and space   |   |         |
| 10. Organisational incubators  |   |         |
| 11. Outsourcing services to a corporate.   | } | Group 4 |
| 12. Outsourcing services to a community and voluntary sector organisation.   |   |         |
| 13. Creating a separate organisation to provide services to shareholding partners and, possibly, also to third parties.<br>(Otherwise known as a Management Services Organisation, MSO, or Shared Services Organisation) |   |         |

<sup>2</sup> The Sharing Without Merging research paper has details on each of these models and examples.

### **3. Benefits of Collaboration**

Organisations that are participating in a collaborative working model cited numerous advantages:

- Cost savings.
- A larger voice and more power.
- Increased income, new revenue and the potential to support the delivery of higher quality services.
- A collective environment, creating an impetus for achieving more.
- Increased resources by pooling skills.
- A larger fund to buy better quality goods, services or resources).
- Access to additional and specialist skills.
- Clearly defined deliverables and levels of service that are protected by legal agreement.
- Cost control – fixed costs, rather than variables and the ability to negotiate as a customer to determine those costs.
- Streamlining processes and creating efficiencies.

### **4. Barriers to Collaborative Working**

Barriers to collaboration within the voluntary and community sector were repeated throughout the research material or mentioned by several interviewees during their interviews when preparing Sharing Without Merging.

- Interviewees described the decision-making process within voluntary and community sector organisation as slow. It raises issues of appropriate governance and the respective roles of trustees and management.
- Interviewees mentioned that collaborating with other organisations goes against the very culture of the voluntary and community sector, which, they say, has a reputation for being highly competitive and unwilling to share information, sometimes even within organisations.
- Arthur Andersen conducted research on the voluntary and community sector when outsource service provider, Charity Business, was launched. Their findings included evidence of a lack of entrepreneurialism in the sector, which would indicate that many voluntary and community organisations are risk averse and potentially wary of change. Outsourcing and collaborating includes risks and it also requires a commitment to take staff and the organisation through a change process.
- Sometimes, collaborative efforts are developed on an ad hoc basis, lacking a clear organisational strategic and business planning context.
- A comprehensive and orderly process is not always followed.

The business case for collaborating might be compelling, but often voluntary and community sector managers and trustees are afraid to give up day to day control, especially when it appears to relate to areas that may impact on the organisation.

## **5. Creating a Third Party Organisation to Offer Services to Shareholders and External Clients**

One model for working collaboratively is to create a 'Management Services Organisation' (MSO). A group of voluntary and/or community sector organisations work together to establish a separate organisation that provides outsourced services to themselves and external clients.

The outsource service organisations may take a number of forms including being set up as a CIC or a limited company with shareholders amongst the partner charities. The partner organisations will derive the same benefits as an organisation that embarks on an outsourcing model but, in addition, this model can potentially generate a profit for the partner organisations by also selling the same services to unaffiliated organisations.

There are very few UK examples of this activity currently, although the practice is established in North America. However, several UK organisations are in various stages of development and initial implementation<sup>3</sup>.

### **5.1 Structuring the MSO**

In order to address some of the risks, a variety of approaches may be taken, including establishing a separate incorporated holding company or trading company to manage the MSO.

A separate company can provide a mechanism to overcome the cultural barriers that might make it difficult for the MSO's commercial products to be operated in a business-focussed manner. In addition, a separate organisation allows for an independent capital structure that reflects the risk of business activity and shields the voluntary and community sector partner organisations from liability.

The most compelling reason to execute a spin-off is to provide a mechanism to change the culture to be entirely business focussed, from board composition to potential staff ownership and incentives.

If a business case is established to create the MSO, a business plan that includes a full transition plan should be developed to enable an orderly transition, which reduces unnecessary risk to any of the partners or the MSO.

### **5.2 Conclusion**

The voluntary and community sector is already engaged in a significant amount of collaborative working. Few organisations are at the permanent collaboration (implementing an MSO) end of the continuum. However, the public and private sector have proved that close collaboration and outsourcing are a permanent aspect of business processes and, therefore, it is inevitable that the voluntary and community sector must follow this trend.

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<sup>3</sup> See Sharing Without Merging research paper for examples.

The individuals spoken to and the material reviewed during the Sharing Without Merging research project, demonstrated a number of key lessons as the sector moves forward towards a collaborative model of working:

1. Each group of collaborative organisations had to achieve a level of collaboration that worked for all of them. This level varied according to the individual culture and needs of the organisation and its clients.
2. There has to be a high level of trust within any partnership model. There must be open communication, honesty and inclusivity.
3. Participation has to be voluntary and it can be helpful if partners are able to select the components that they wish to collaborate on within the partnership.
4. It should be a true partnership with all partners co-owning the structure, processes and outcomes.
5. Interviewees reported that they all learned more and achieved more because of collaboration, which allowed them to access more skills than originally existed within their organisation.
6. It is important that each organisation achieves its own ends within the partnership whilst maintaining organisational integrity and brand.
7. To be successful, the collaboration requires a defined level of commitment and involvement and partners must meet this requirement.
8. There has to be a well-defined structure and process but not at the expense of creativity, innovative solutions and implementation.
9. If the structure, culture and process is reflective of the needs of the whole collaborative group then each reported greater outcomes than when they worked in isolation.

## 6. Joint Ventures

The following tips and process may be helpful when an organisation is contemplating getting involved in partnership or joint venture. These are based on actual UK experience and learnings, generalised for purposes of this paper.

Joining with others should be considered only when it enhances an organisation, allowing the organisation to lead or maintain its position as the environment shifts, as opportunities arise and threats increase. It should help the organisation do what it does more effectively. If not, then it could result in money, resources and management focus being used ineffectively, taking away energy from the core business of the organisation.

The steps include:

### 1. Strategic Decision

- Based on organisational strategic priorities and organisational business and marketing plans, decide what issues would be enhanced by collaborating with others.

<ul style="list-style-type: none"> <li>▪ Keep the following in mind: <ul style="list-style-type: none"> <li>○ Compare the cost of doing the activity on your own or in collaboration.</li> <li>○ Review the impact on the organisation culture and operations.</li> <li>○ Assess the cost vs. its impact on the ability of the organisation to cope with ongoing every day activities and pressures.</li> <li>○ Assess any impact on cash flow.</li> <li>○ Ensure a good screening, assessment and planning process is in place and utilised.</li> </ul> </li> <li>▪ As appropriate and in relation to the complexity of the collaboration, consider using an external consultant to provide objectivity, expertise and proactive facilitation.</li> </ul>
<b>2. Identify Opportunity/Potential Where Collaboration Would Help</b>
<b>3. Identify Your Organisational Strengths, Weaknesses and Gaps</b>
<b>4. Identify Potential Partners</b> <ul style="list-style-type: none"> <li>▪ Build on your own strengths and expertise and if partnering go with organisations that have similar mission, values, focus, strategic fit. Put special emphasis on potential partners that are culturally compatible.</li> <li>▪ Partner when it makes a meaningful difference.</li> <li>▪ Identify potential partners that may build on your strengths and help to manage your weaknesses.</li> <li>▪ Use a simple screening to narrow list; the screening based on financial, cultural fit factors, common purpose, compatibility, and risk.</li> <li>▪ Research in detail the short list.</li> </ul>
<b>5. Negotiation Process</b> <ul style="list-style-type: none"> <li>▪ Meet informally with potential partners to assess interest and culture; and to discuss your general plans and objectives. It may be desirable to have a confidentiality agreement in place, depending on the market sensitivity of your plans.</li> <li>▪ If the opportunity still looks good, informally or formally screen any remaining candidates to identify primary targets.</li> <li>▪ Formally meet to agree to broad principles, ends and the vision and values of the potential partnership. This may result in a simple term sheet.</li> <li>▪ Perform due diligence as appropriate.</li> <li>▪ Develop a MOU including an exit strategy.</li> <li>▪ Prepare a plan to execute the agreement</li> </ul>
<b>6. Post Partnership Activities</b> <ul style="list-style-type: none"> <li>▪ Organising the post agreement stage is key to the success of the collaborative partnership. It is important to develop business, marketing, project management, change management and launch plans. As part of this, key activities include: <ul style="list-style-type: none"> <li>○ Clearly articulated values, vision, ends and operating culture.</li> <li>○ Developing plans.</li> <li>○ Defining and designing the structure and systems.</li> <li>○ Ensuring the appropriate staffing and volunteer mix.</li> <li>○ Preparing appropriate monitoring and evaluation to measure process steps, key assumptions, outcomes, results and success.</li> <li>○ Prepare a communications plan directed at key stakeholders, participants and the media.</li> </ul> </li> <li>▪ Implement and evaluate.</li> </ul>

## 7. ACCOUNTABILITY

One of the keys to success is having an appropriate approach to accountability, creating a culture of business to underpin an organisation's collaborative efforts.

## **7.1 Responsibility**

Accountability is a much heard term applied to organisations and individuals. Not used as much in its original meaning is the term 'responsibility', a meaning tied to moral and legal issues; leadership (emphasising values, providing guidance and a process supportive of developing solutions); passion; trustworthiness; and being responsible for oneself and taking responsibility - being able to choose for oneself between right or wrong.

It appears that responsibility is more and more taken to mean accounting - assessing what has taken place and how to report it. Numbers are the key, whether they be quotas, measurable process outcomes, or financial measures. Complexity is out. Simplicity predominant.

Responsibility, in the sense of honour and obligation, goes beyond accountability. It is more than the narrow concept of accounting for the measurable outcome. It is still important to track results and understand the accounting, but managing to the numbers (or worse – managing the numbers themselves) misses the mark and is short sighted.

Responsibility has to do with integrity, a personal obligation reflecting personal values and standards (based on those underpinning the society or group within which we live and function). It goes beyond motivation based on the fear of getting caught or sanctioned.

In place of trust, accounting or accountant approaches to accountability arise. In place of responsibility comes simplicity where none exists.

## **7.2 Complexity**

Complex problems require individuals, groups and organisations to be responsible, to share responsibility.

Complex problems in a diverse society, group or organisation often arise out of the competing values of stakeholders. Complex problems create competing demands and multiple accountabilities. As a trustee or staff leader, one has potential conflicts to resolve related to being accountable to funders, clients, employees, volunteers and other stakeholders. Choices have consequences. Understanding core responsibilities and living one's own responsibilities are key to resolving dilemmas and taking responsibility for actions and outcomes – being accountable in a broader sense. This is being 'responsible'.

Accounting in the accountant's sense is of little help to solving complex problems. It is not just an issue of cost and numbers. It is more than efficiency (although implementation should be tied to efficiency and

effectiveness balanced with quality). Choices are related to values and moral fibre – being responsible, being a leader.

Consider this simple example. A charity operates an after-school programme for children in a low-income neighbourhood. How should it set the price for the service? If it sets a relatively high price, the quality of the programme may be improved and more children can potentially be helped, however, those most in need of the service may no longer be able to afford to attend. If the price is set relatively low, attendance may increase, but quality or long-term sustainability may suffer, and the organisation doesn't do anyone good if the standards fall or it goes out of business. Accounting doesn't offer any solution to this tricky problem – wisdom and judgement do.

Another common conundrum for charities is the following: two candidates are being considered for a key management role. One is less experienced but will work for less money. Accountability favours the inexpensive candidate, since administrators are 'overhead' that must be reduced, but is that really the best choice for the organisation?

### **7.3 Trust**

In order to move to more emphasis on the traditional concept of responsibility, trust must exist. Decision makers achieve trust by making known their values; having passion for a cause; discussing and exchanging ideas and solutions, recognising complexities and choices; outlining choices and their underlying rationale; demonstrating consistency; and being responsible, taking responsibility - leading.

Stakeholders must also engage in and trust the process – they must influence and debate values and choices and participate in being part of the larger accountability process, a process related to being accountable for consequences and outcomes.

### **7.4 Measuring Outcomes**

Measuring outcomes against an organisation's or collaborative group's vision, mission, values, strategic priorities and business plan are also key to success. These measures reflect the multi-layered approach to evaluation, accountability and the exercise of responsibilities. De-emphasising 'management by numbers' is recommended – but not abandoning measurement, business planning or quantifiable objectives.

### **7.5. Culture of Business**

One approach to achieving responsibility is to create a 'culture of business' within a charity and in any collaborative relationship. This sets a tone, a context within which to exercise responsibility and accountability.

### **7.5.1 What is Culture?**

Culture is the collection of values, norms, beliefs and assumptions that define the framework of how people work in an organisation. Culture includes the driving motivation of the people who work in an organisation or in the collaborative relationship, and the incentives that the organisation or collaboration has used to encourage specific behaviour.

### **7.5.2 Culture of Business**

A 'culture of business' is not the same as a 'culture of accounting'. Success in business comes from a focus on customers first. The recipe for success in business is to create value for your customers. A charity or collaborative group offers the most efficient use of donor money when it does the same thing.

A "culture of business" is an adaptation and application of business norms and language into a non-profit setting. It includes the following characteristics.

1. A business culture is client or customer value centric. Judgment always comes down to answering the following: "How does this action meet the long-term needs of our customer?" It is important to recognise that the focus here is long-term.
2. A business-oriented organisation knows what it is good at, and markets this to clients or customers who can realise value from a relationship with the organisation. These organisations make choices about whom they will or won't serve, so that they can serve their niche exceptionally well.
3. A business-oriented organisation creates value for its clients and customers. Value created is shared between the customer and the organisation. These organisations do not undervalue what they provide.
4. A culture of business does not mean valuing profit over mission. In the case of a charity it is creating a balance between quality and cost effectiveness, efficiency and resource availability – being business-like.
5. A culture of business does not mean pushing the products you want to sell or trying to sell customers or funders things they do not need. It means listening to your clients and customers and helping match them with valuable services that help them meet their needs whilst realising an organisation's mission. It means being sales oriented and taking a cross-marketing approach where every interaction with a client or customer is an opportunity to deepen the relationship
6. Pricing should be based on value creation and market comparisons – not solely on cost. A charity is seeking a social return on investment.
7. A culture of business emphasises taking advantage of market opportunities and is innovative and entrepreneurial, that is, it focuses on:

- a. Creating something new.
- b. Seeing change as the norm and as healthy.
- c. Always searching for, responding to, and exploiting change.
- d. Taking risks.
- e. Constantly shifting resources from lower to higher areas of productivity and yield.

8. A culture of business has clear entrepreneurial values, such as:

<p><b>We are client focused</b></p> <ul style="list-style-type: none"> <li>• Customer driven</li> <li>• Quality</li> <li>• Responsive to client need,</li> <li>• Passion for customer service.</li> </ul> <p><b>We strive for transparency and accountability</b></p> <ul style="list-style-type: none"> <li>• Openness and honesty in all actions and communications</li> <li>• Dependency on logic and evaluation and respect for intuition</li> <li>• Responsible to financial investors/funders</li> <li>• Integrity and honesty</li> <li>• Effective communication.</li> </ul> <p><b>We Value Effectiveness</b></p> <ul style="list-style-type: none"> <li>• Commitment to the efficient and effective use of resources</li> <li>• Application of an entrepreneurial approach to the business portfolio activities</li> <li>• Value teamwork.</li> </ul>	<p><b>We accept change and support excellence</b></p> <ul style="list-style-type: none"> <li>• Continuous improvement</li> <li>• Acceptance that change is part of everyday activities</li> <li>• Innovative</li> <li>• Desire/wanting to succeed and improve</li> <li>• Evaluation and feedback</li> <li>• Success driven/results driven</li> <li>• Want to be the best.</li> </ul> <p><b>We are responsive to the external environment</b></p> <ul style="list-style-type: none"> <li>• We exhibit responsible behaviour to             <ul style="list-style-type: none"> <li>○ The community within which we function</li> <li>○ Customers</li> <li>○ Employees</li> <li>○ Funders/investors</li> <li>○ Suppliers</li> <li>○ General public</li> </ul> </li> <li>• Excellent follow-up service</li> </ul>
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## 8. Summary

Research as well as personal experience indicates that there is the potential to enhance the sector by closer collaboration, with improved opportunities for influencing policy, increased public trust and confidence, opportunities to achieve unrestricted income, and better cost control and more effective use of resources.

There are a variety of types of collaboration. When creating a collaborative approach to issues of importance to your organisation it is important to work within a strategic context selecting partners carefully so that it enhances the possibility of achieving organisational ends realising the desired social return. This paper outlined key issues to be considered during the process, such as being aware of the barriers and inhibitors, being open to change and innovation, and negotiating for a collaborative approach and a solution that is well beyond the lowest common denominator.