# MODULE 7
# PARTNERING FOR BUSINESS GROWTH

PART OF A MODULAR TRAINING RESOURCE

# PARTNERING FOR BUSINESS GROWTH

## INTRODUCTION

Business partnering with other organisations rather than directly contracting to government funders is another way a Non-Government Organisation (NGOs, which may include For-Profit and Not-For-Profit Organisations) can grow its business.

This Module considers some alternative ways your organisation might seek to generate revenue or business by working with other aligned organisations.

## KEY DEFINITIONS

| **Term** | **Definition** |
|---|---|
| Fee-for-service | Charging of fees for specific services rendered. |
| Joint venture | Relationship between two or more parties entering into an agreement to work towards an objective whilst remaining separate entities. |
| Limited partnership | Limited partnership is one where the liability is limited to the extent of the partner's share of ownership and/or investment. Limited partners generally do not have management responsibility in the partnership in which they invest and are generally not responsible for its debt obligations. For this reason, limited partners are not considered material participants. |
| NGO | Non-Government Organisation (which may include For-Profit and Not-For-Profit Organisations) |
| Partnership | Legal arrangement where two or more organisations carry on a business together with the aim of making a profit. |
| Sub-contract | An arrangement where an organisation will take and complete a portion of a contract from the principal contractor or from another sub-contractor. |
| Success fee basis | An arrangement whereby fees charged for services can only be claimed upon a successful outcome. |

## BUSINESS ISSUES AROUND PARTNERING ARRANGEMENTS

This section discusses some of the business issues associated with this potential source of business growth for your organisation. For the purposes of this section the generic term ‘partnering’ will be used. Specific forms of partnering are explored in the latter part of this Module.

Partnering is establishing a long-term ‘win-win’ relationship based on mutual trust, teamwork and sharing of both risks and rewards.

The objective is to focus on what each party does best, by sharing financial and other resources, and establishing specific roles for each participant.

Another useful resource relevant to not-for-profit organisations may be Justice Connect’s *Not for Profit Law Information Hub*, which provides information relevant to not-for-profit law applicable in NSW, Victoria, and the Commonwealth. The service also provides generic information regarding running not-for-profit organisations, including information about partnering with other organisations. You can access the hub via the Website at:

Not For Profit Law Information Hub.

### IDENTIFYING YOUR OBJECTIVES

A successful partnership arrangement can offer, amongst other things:

- the sharing of risks and costs
- the sharing of responsibilities, ideas and additional capacity
- synergies (network, financial, efficiencies) that would not eventuate if the two groups operated as individual organisations
- sector knowledge, particularly if you are diversifying into a new industry that you do not have experience in
- access to a broader service provision network
- additional capacity to deliver products or services
- access to resources (such as staff and systems).

Your organisation should be clear on the reasons for seeking to establish a partnership with another organisation. It is often useful to think of the strategic and corporate objectives for creating these arrangements. Some common reasons are summarised in the following diagram.


## HOW DO YOU FIND A PARTNER?

The next step is to find a business partner. To identify more clearly what you have to offer, start by asking yourself questions such as:

- Are we particularly good at working with a particular job seeker group?
- Do we have an innovative and effective assessment strategy?
- Have we developed a program that can be marketed?
- Do we have a site that may be attractive to other organisations?
- Do we have a unique way of doing things that others could benefit from?

Remember to consider larger generic organisations who may be struggling with business growth, or smaller successful organisations who may not have the capacity to expand. Are there organisations in other sectors that could benefit from your experiences?

Consider your own experiences and what other organisations might need and want. What would you expect if another organisation approached you?

A good starting point in identifying partnership opportunities is to talk with your existing networks and similar organisations you already know. Your existing networks may not be potential partner organisations but they may be able to introduce you to other suitable organisations or give you tips and assistance with the process. Start talking with people and visiting other organisations in other aligned sectors.

Relationships take time to build and it may be that you start with a fee-for-service arrangement as a starting point to build your credibility with another organisation.

## HOW TO APPROACH PARTNERING

The following discusses the key areas for consideration when you are thinking about partnering with another organisation.

MARKETING YOUR OFFERING – How do you approach the market with your ideas, services and programs? Do you network with other service organisation decision-makers? Consider what it is you have to offer other organisations, and how you can communicate this idea or potential need.

COSTING YOUR SERVICE AND IDEA – Is it sustainable for your organisation to engage in these types of arrangements? Have you costed your overheads as well as the direct services? If approaching a particular service organisation, understand their fee structures so as to tailor your approach.

DUE DILIGENCE – It is also your responsibility to conduct due diligence over any other organisation with which you might seek to enter into a more formal business arrangement. You are well within your rights to ask for financial statements and any other information you deem appropriate before you enter into any formal arrangement. Also be prepared for other organisations to ask you for the same information.

CLEAR WRITTEN ARRANGEMENTS – The biggest risk for these types of arrangements with third parties are poorly written or communicated arrangements. Consider documented contractual arrangements executed by both parties, clearly outlining responsibilities, ‘get-out’ clauses and fee arrangements.

## GOLDEN RULES FOR PARTNERING

There are some basic rules to consider when entering a formal arrangement with another organisation.

| Rules | Description |
|---|---|
| Agree objectives | There is no point in entering into a business relationship unless all of the parties have objectives that are compatible. |

| Rules | Description |
|---|---|
| Be patient | The time required to form an alliance is often underestimated. A formal arrangement may take time to negotiate successfully. |
| Communicate clearly | Lines of communication between the partners within the partnership arrangement must be clear in order to avoid confusion over areas of responsibility and effective information sharing. |
| Define overall structures | Both management and organisational structures must be defined before putting the arrangement together to avoid problems later on. |
| Define responsibilities carefully | Responsibility and accountability within the management team must be clearly defined and all roles set out before commencing the arrangement. These need to be monitored as the project progresses. |
| Establish exit mechanism | All partners must establish at what point in the future they intend to exit the arrangement. |
| Keep your ear to the ground | If the views of those who are going to be involved in running the arrangement are ignored this may have a detrimental impact on the alliance. |
| Make a good checklist | An eye for detail is important to ensure that all angles have been covered and appropriate resources identified and actions taken. |
| Management resources | Appropriate resources must be allocated to the arrangement. You must allow for the necessary skills and time involved. |
| Provide commitment/continuity | It is extremely important to appoint the right managers and to ensure that they understand the importance of the arrangement and also that they are rewarded and promoted accordingly. |

The following sections seek to explore some of the issues associated with various structures.

**If you are thinking about entering into one of these arrangements, it is important that you seek appropriate legal, financial and tax advice.**

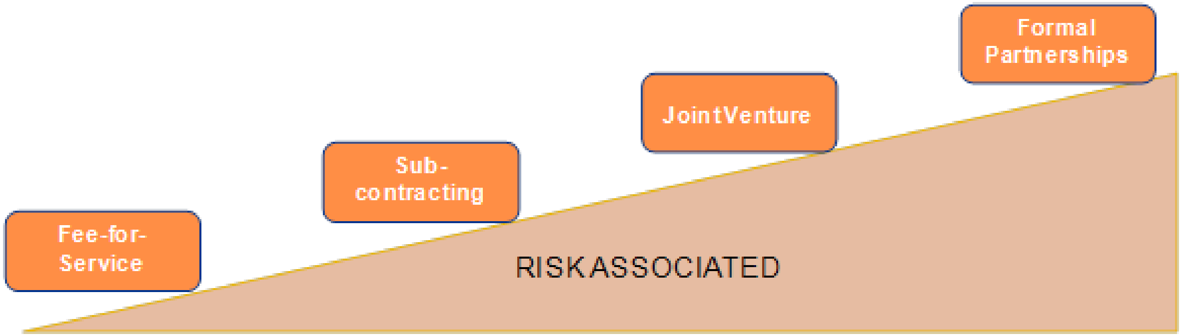
## PARTNERING TYPES

You might see an opportunity to deliver, via sub-contract, a service for a third party or jointly deliver a service with one or more third parties. Partnering might include fee-for-service, sub-contracting, limited partnerships or joint ventures. There are also opportunities for smaller organisations to set up 'shared service' arrangements for corporate functions such as payroll and IT services. Further details on the different models of partnering are presented in the following sections.

Before entering into a partnership arrangement you should ensure that this type of organisational arrangement is what you want. Issues to consider include:

- Do the prospective partners have the same values and motivation to be successful?
- Do the prospective partners have a similar vision about how to run the organisation?
- Do the skills and abilities of the prospective partners complement each other?
- Do the prospective partners feel that they can work well together?

The following describes these differing arrangements by degrees of risk: from fee-for-service arrangements, which are lower in complexity and associated risk, through to formal partnerships, which are more complex and have a higher level of associated risk.




The subtle distinction between a partnering arrangement and a joint venture is worth highlighting. Joint ventures are usually formed for a specified period of time, or for a strictly limited purpose. A limited partnership, by contrast, exists until it is legally dissolved. Sub-contracting requires you to deliver a defined service for a finite period as defined by a contract. Fee-for-service is, as described, a fee for a particular service. These are discussed in more detail for your consideration.

## FEE-FOR-SERVICE

Your organisation might see opportunities in on-selling a particular service or program to other aligned organisations.

You know your sector, you know the challenges and you know what pressures other organisations have to achieve their contractual outcomes.

Consider whether your business is particularly strong in a particular service area or job seeker group. For example, do you have strong employer arrangements in place? Are you particularly strong in reducing a particular employment barrier with certain job seeker groups? Have you developed an innovative program?

### ADVANTAGES

- Clarity about what services are required
- Clarity about how services should be delivered
- Can be very cost effective

### DISADVANTAGES

- Contract can be terminated at short notice
- As a subcontractor, you may have to retender for services more frequently
- Subcontractors do not have a large degree of management discretion

## SUB-CONTRACTING OTHER ORGANISATIONS TO DELIVER SERVICES ON YOUR BEHALF

You may seek to offer your services using a sub-contractor.

**If you are thinking about entering into one of these arrangements, it is important that you seek appropriate legal, financial and tax advice.**

### ADVANTAGES

- Retain full control
- Easy to add or change contractors (with funding provider approval)

- Lower overhead cost requirements

### DISADVANTAGES

- Responsible for actions/accreditation of subcontractors you contract
- Your subcontractors may be classified as employees, and hence incur tax and entitlement obligations
- Availability/cost to service remote locations

## JOINT VENTURES

A joint venture is a contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. Organisations of any size can create a joint venture. Common joint venture structures include:

CONTRACTUAL JOINT VENTURE – an unincorporated venture based on a cooperation or revenue and risk sharing agreement, commonly used for one-off projects where costs and output are shared.

STRATEGIC ALLIANCE – a looser form of collaboration, although the actual form of relationship (e.g. cross shareholdings) will depend on the individual contract in place.

JOINT VENTURE COMPANY – a separate legal entity established specifically to carry out a new venture.

An ideal joint venture arrangement is one that will complement your existing organisation. Different cultures and strategic objectives will not necessarily come together well in a joint venture arrangement.

It is likely that the best opportunity for your organisation to create a joint venture will be to join up with one of your competitors to create scale.

**If you are thinking about entering into a joint venture, you should seek legal, financial and tax advice.**

### ADVANTAGES

- The relationship between the parties is limited to the business enterprise allowing each party to carry on other businesses
- Can be managed through a separate incorporated company
- Participants maintain their own identity and are not bound by each other’s actions (unlike a partnership)

- Can obtain funding in its own right
- Tax handled by the joint venture company

### DISADVANTAGES

- Control sits in the joint venture entity
- Can have limited flexibility with respect to future participants
- Requires upfront contribution of capital/resources
- Requires the application of additional accounting standards and reporting requirements

A basic approach to forming a joint venture is also reflected in the diagram below.

| Stage | Description |
|---|---|
| **Preparation and planning stage** | • Formulate overall vision and strategy<br>• Define objectives and commercial case and prepare business plan<br>• Establish joint venture form and structure<br>• Identify possible partners and selection criteria |
| **Partner evaluation and selection stage** | • Conduct 'expression of interest' to align and evaluate offers<br>• Discuss commercial case in principle<br>• Confidential exchange of information/site visits<br>• Preparation of information memorandum<br>• Analyse capabilities of possible partners<br>• Assess compatibility and select |
| **Structure and due diligence** | • Finalise detailed joint venture including relative share<br>• Liaise with regulator, if necessary<br>• Perform due diligence of any assets to be contributed and partner credentials<br>• Agree 'Heads of Terms'<br>• Agree joint venture management and operational control |
| **Negotiation and legal documentation** | • Financial and legal due diligence<br>• Negotiate final terms |

| Stage | Description |
| --- | --- |
| | • Agree evaluation of assets contributed<br>• Obtain final approvals and consent<br>• Final legal documentation |
| **Integration planning and implementation** | • Re-organise new business<br>• Business re-engineering<br>• Change management<br>• Develop joint venture launch plan<br>• Formulate public relations campaign |
| **Final steps** | • Arrange transfer of assets, staff, licences, etc.<br>• Issue public announcements<br>• Inform stock exchange/brief equity analysts as necessary<br>• Notify customers and key third parties |

## FORMAL PARTNERSHIPS

A formal partnership is a legally recognised business structure comprised of at least two business members. In a limited partnership, a member of the business may be a general partner or a limited partner. General partners in most states enjoy more control over the partnership's management, but they also are exposed to more liability. Limited partners, by contrast, do not have control over the daily decisions of the business, but are also not liable for the business's debts or legal obligations. The members of a limited partnership are bound by a partnership agreement, which determines the rights and responsibilities of each party.

This is a much higher risk arrangement than other types of partnering as you are jointly responsible for the delivery of a particular type of business or service. Some considerations and risks relevant to this arrangement are discussed below.

In this instance you may seek to jointly tender for a particular service with another organisation and form a partnership. This requires expert advice and can be costly to set up.

**If you are thinking about entering into a partnership, you should seek legal, financial and tax advice.**

## PARTNERING RISKS

While partnering with other organisations can provide many opportunities, it can also create risks. Entering into a formal relationship with another organisation can be a complex environment and it can take a significant amount of time and effort to get it right. The key risks of an unsuccessful partnering arrangement are:

- you suffer a significant financial loss
- you waste a lot of time and energy
- you lose some of your intellectual property to a competitor
- you lose the credibility you had within the market.

Problems can arise where:

- the objectives are not well communicated or are different for key stakeholders
- there is an imbalance in levels of expertise, investment or assets contributed by each of the parties
- the integration does not go well for reasons such as poor cultural fit and or key management being unable to cooperate
- there is insufficient management focus on ensuring successful implementation of the new arrangements.

Success in a partnering arrangement depends on thorough research and analysis of each party's aims and objectives. A strategic and business plan should be developed to support the operations of a partnership.

The Australian Government Department of Social Services (DSS) website features a report, which outlines some of the barriers to, and advantages of, corporate and community partnerships in the NGO sector. The publication is entitled *Relationship matters: not for profit community organisations and corporate community investment* and can be accessed via the DSS website.

### ADVANTAGES

- Partners retain a degree of control
- Easy to establish

- Flexibility for future capital contributions/new participants/exits
- Profits can be easily transferred to partners/paid periodically via drawings
- Less regulation

## DISADVANTAGES

- All decisions require consultation and agreement between partners
- To enter into an agreement, one partner (being a legal entity) must have sufficient authority to bind the other partners
- Susceptible to changes in circumstances of individual partners
- Partners may have to fund losses
- Requires tax returns for partnership and individual partners
- Joint and several liability, or otherwise under the partnership agreement
- Difficult to value participants' contribution (e.g. time, assets etc.)