Social Alliances for Fundraising: How Spanish Nonprofits Are Hedging the Risks

Carmen Valor Martínez

ABSTRACT. Social pressure on companies is leading to a growing concern about the corporate relationship with the community. On the other hand, the progressive reduction on governments’ grants leads nonprofits to diversify their sources of revenue and to turn to companies for funds. However, there has been a change in this relationship. Their margin for cooperation is now broader, and the level of involvement is deeper. This results in the formation of alliances between them. Based on the literature and the results of a series of interviews with marketing managers at nonprofits and companies, this paper analyses the opportunities and risks associated to this type of partnerships, with a special emphasis in the nonprofits’ needs and mission. Secondly, we describe how Spanish nonprofits are hedging the risks. Finally, guidelines and information sources are provided in order to reduce the uncertainty contingent to this type of alliances.

KEY WORDS: fundraising, not-for-profit organization, risk management, social alliances

1. Introduction

Social pressure on companies is leading to a growing concern about the corporate relationship with the community. Nearly 80% of Spaniards believe that large companies should support beneficial projects for the community (F. Empresa y Sociedad, 1997), and similar results are obtained in other European countries (see www.csreurope.org). Besides being a dimension of the corporate social responsibility (Carroll, 1998), philanthropy or community investments have been used worldwide by companies as a means of meeting their economic responsibility, by improving corporate reputation and, in general, by using it as a marketing tool. In Spain, companies are investing in the communities through their foundations (e.g. BSCH, BBVA, Telefonica, to name some of the Spanish “blue chips”), their employees (e.g. charities created by the employees of Iberia or Unión Fenosa), or their social budgets (e.g. Iberdrola, MRW, Inditex . . .). The most significant case of community investments are the Spanish savings banks. They were created in 1933 by law, specifying their not-for-profits mission and the obligation of reinvesting in society the benefits, after putting aside the statutory reserves (Minguella et al., 2000, p. 23). The saving banks reinvested in society 983.1 millions € in 2002, 26.81% of net profits. To implement their strategy of community investments, companies need a nonprofit partner: their expertise in solving social problems and their brand image.

On the other hand, the progressive reduction on governments’ grants leads nonprofits to diversify their sources of revenue. Besides, the redefinition in the Welfare State (Gimeno et al., 2002; Casado, 1999, p. 73) results in an increase of the demand of social services to nonprofits. Seeing the reluctance of citizens to make donations, nonprofits turn to companies to obtain the necessary funds to face this growing demand.

Figure 1 shows how environmental facts make both agents get closer.

However, we are observing a change in this relationship. As Austin puts it, companies have changed from giving a check to interact with other agents to create value for all parties (Austin, 2000, p. 9). Their margin for cooperation is now broader, and the level of involvement is deeper. This results in the formation of alliances between them.
An alliance is a formal agreement to cooperate; to be considered an alliance it has to meet three requirements: they have to be related with their productive or core business activity, they tend to modify the firm’s position in the market, the authority, power and decision making are shared between (among) the allies (Trigo and Drudis, 1999, p. 12).

These conditions are met in the type of social alliance that we analyse in this paper: companies seek to improve their brand image and reputation, and nonprofits seek to increase their funds, which eventually will be addressed to solve a social problem, and to increase their awareness in society. As to its type, social alliances are lateral (Bucklin and Sengupta, 1993), and pursue objectives traditionally assigned to strategic alliances (Lewis, 1993, p. 75): add value to the product/brand, improve brand/corporate image, make marketing more efficient, increase resources or improve advertising effects. They differ from other alliances in that allies come from two radically different areas, having essentially different missions and cultures.

In Spain, when some nonprofits started forming alliances with large companies, a vivid debate started about the risks involved. Nonprofits divided in two groups: those in favour of forming these alliances, as long as certain requirements were met, and those against any type of approaching companies – nonprofits because they believe there is too much at stake and nothing to gain from approaching companies to obtain funds. However, these risks were not adequately explored and they did not engage in a serious reflection about the available tools to hedge them. The debate focused on the risks for nonprofits. Although these alliances may also imply risks for companies, in the debate, the corporate position was ignored.

This paper tries to clarify these risks and analyse these tools used to protect nonprofits and companies against them. We firmly believe that the approaching business – nonprofits may be good for communities, for nonprofits and companies. Consequently, we try to set a framework where nonprofits and companies get closer, without jeopardizing their respective missions or reputations. Achieving this objective implies identifying risks and proposing tools to hedge them.

In this paper, we will first review the literature, to define briefly the opportunities and in a more detailed way the risks derived from this type of alliances. Secondly, we will describe the real risks perceived by Spanish nonprofits and firms, and how they are hedging them. Finally, some recommendations to help companies and nonprofits minimize these risks are provided.

2. Literature review: opportunities and risks

Empirical evidence shows that companies derive clear benefits from their commitment with good causes: higher likelihood of brand purchase (Paul...