Final Report to Nonprofits Assistance Fund

Assessing and Pursuing Collaborative Relationships with Commercial Banks

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Executive Summary

The purpose of this report is to provide Nonprofits Assistance Fund (NAF) with research and recommendations to aid in the development of more collaborative relationships with commercial banks. As part of this qualitative research project, seven interviews were conducted with representatives from banks located in the Twin Cities metropolitan area. The following discussion and recommendations are based on a review of current literature and a qualitative analysis of themes that emerged from the interview data.

In light of the economic challenges facing the nonprofit sector, opportunities for collaboration are great. Nonprofits need access to credit to maintain the health of their programs and operations. Turbulent environments often require collaborative solutions (Bryson, Crosby, and Stone 2006).

Our research indicated that banks varied in their approach to work with nonprofit organizations. Some banks had staff explicitly dedicated to nonprofit clients and provided specialized technical assistance and support. Other banks had such specialized staff, but only for nonprofit loans of a minimum size (e.g., $1 million). Still others served nonprofits as they would any small business. In addition, some banks articulated community development as integral to their mission while others discussed work with nonprofit organizations primarily as a means to maintaining positive Community Reinvestment Act ratings.

Bankers consistently identified several barriers to their work with nonprofit organizations. Bankers often perceived that nonprofits are poorly managed, unstable, and undercapitalized. Several bankers indicated that nonprofits required more technical advice and support than the banks were prepared to provide. Some banks saw their fundamental profit interest as mismatched with the service orientation of the nonprofit sector. NAF is uniquely fluent in the cultural languages of banks and nonprofit organizations. In that way, NAF serves as a translator and convener between banks and nonprofits, improving cross-sector connectivity in the economic interests of all.

Bankers consistently described NAF staff as credible and respected. Organizationally, bankers perceived NAF as an enhancement to their work with nonprofit organizations. Bankers also recognized that NAF is uniquely able to mitigate risk for loans to nonprofits. Bankers did not consider NAF to be a competitor. Notably, the bankers we interviewed were unable to identify another organization within the community that could fill the role played by NAF.

More than half of the bankers interviewed identified at least one of the following items as a weakness or opportunity for improvement in the relationship: little or no formal, institutionalized relationship; no formal referral process for “unbankable” clients; NAF doesn’t offer the product—either type or size—needed by a particular client; lack of clarity on NAF’s existing product mix; lack of clarity whether NAF serves certain types of nonprofits—e.g., religious organizations.

NAF currently has relationships with banks to serve the needs of nonprofits directly through programming and indirectly through the creation of institutional capacity and capital. Our analysis suggests that banking partners are likely to be either programmatic partners or institutional partners according to their strategic economic interests.

NAF’s prospects for collaborative relationships depend upon the interests of and perceived interdependence among banking and nonprofit partners. NAF can guide relationships toward fuller
collaboration by taking strategic actions along these two dimensions. NAF’s challenge is to correctly identify bank interests and to proactively shape the perceptions of interdependence of banking and nonprofit partners.

**Recommendations for Programmatic Partners**

1. Expand the number of personal relationships within current programmatic partner banks. Target existing productive relationships to meet new hires or previously unknown bankers.
2. Position NAF as a go-to provider of early-career professional development for nonprofit bankers.
3. Combat the lack of a formal referral system by deepening individual relationships (as in #1 above) and by developing a standard checklist for bankers to use in identifying transactions for which NAF is suited.
4. Promote NAF’s educational workshops as tools for supporting and maintaining the financial viability of banks’ nonprofit deposit customers.
5. Respond to the desires of existing bank partners by developing additional products and services. Communicate the benefits of coordinating resources for greater effectiveness.
6. Continue to educate nonprofit leaders directly. Armed with a working knowledge of NAF, nonprofit leaders will be likely to suggest that NAF be brought in to resolve a particularly difficult financing challenge.
7. Position NAF as a partner in strategic planning with nonprofit organizations, supporting the development of financial plans in support of strategic initiatives (both in the expansion and contraction of programs and operations).

**Recommendations for Institutional Partners**

1. Position NAF as the Twin Cities’ most efficient, effective steward of CRA funds. Building on universally-held perceptions of NAF’s legitimacy, trustworthiness, credibility, and nonprofit expertise, make the case that institutional partners are interdependent with NAF in ensuring that CRA funds have maximum social impact.
2. Target funders of comparable national CDFIs for investment in NAF. Leverage NAF’s local, regional, and national reputation in making the case for investment in NAF’s loan fund and service on NAF’s board and committees.
3. Refocus energy away from the conversion of institutional partners to programmatic partners. Acknowledge that institutional partners’ fundamental interests and strategic lending focus are not oriented toward programmatic collaboration.

**Recommendations for Both Programmatic and Institutional Partners**

1. Elevate NAF’s organizational profile. Take care that public awareness of NAF is not limited to only a few key staff.
2. Exercise visionary leadership by interpreting the current economic crisis as an opportunity for increased collaboration between NAF and banks; offering a compelling vision in which banks are collaborative partners in addressing social needs via nonprofit organizations; and using formal forums (e.g. media; political platforms; conference and workshop presentations) and informal forums (e.g. encounters with nonprofit leaders at MCN events and financial group meetings and bankers via community development, accounting and auditor group meetings).
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Introduction

The purpose of this project report is to provide Nonprofits Assistance Fund (NAF) with research and recommendations to aid in the development of more collaborative relationships with commercial banks. This report presents an overview of the preconditions for stronger collaborative relationships between NAF and banks and a discussion of the field of existing relationships between NAF and selected banks, including perceived strengths and weaknesses. The paper concludes with recommendations for strengthening current bank relationships and for promoting future collaboration.

Research Methodology

As part of this qualitative research project, seven semi-structured, in-depth interviews (see Appendix for an interview agenda) were conducted with representatives from banks located in the Twin Cities metropolitan area. Interviewees included representatives from Anchor Bank, Bremer Bank, Franklin Bank, US Bank, Wells Fargo Bank, Western Bank as well as an expert familiar with both the banking and nonprofit sectors. NAF identified the bank targets included in this study as being of specific interest as collaborative prospects and thus the banks were not randomly selected. The discussion and recommendations of this report are based on a review of current literature on collaborations and on a qualitative analysis of themes that emerged from the interview data.

As noted, our research sample was relatively small, non-random, and confined to the Twin Cities metropolitan area. Given the preponderance of nonprofit organizations in the Twin Cities, it seems unlikely that our findings may be generalized across the entire banking industry country-wide. As banking is, in many ways, a very individualistic, person- and relationship-centered business, our findings may not be reflective of intra-bank attitudes about NAF and/or nonprofit organizations.
“A greater need for access to capital in [this economy] means a greater opportunity to work together.”—Community banker

Bryson, Crosby, and Stone (2006) identify turbulence, sector failure, competitive and institutional elements, agreement on the problem, and existing relationships or networks as the initial conditions in the general environment within which collaborations are often formed.

Turbulence and Sector Failure

July 2007 marked the beginning of a worldwide financial crisis characterized by a loss of consumer confidence and perceived credit risk in the United States and other world economies. In September of 2008, the crisis deepened as volatility heightened and worldwide markets crashed. Internationally, banks, mortgage lenders, and insurance companies struggled.

Bryson, Crosby, and Stone (2006) posit that “cross sector collaborations are more likely to form in turbulent environments.” While turbulent economic periods are bad for our sanity, they tend to produce innovative, collaborative solutions to community problems. The current crisis is no different. Many at the highest levels of government are advocating for cross-sectoral structural reform in the financial industry.

As governments at all levels face operational and program budget deficits, fewer public services are being provided and resources allocated to private and nonprofit sector partners are withering. At the very time when social services are needed most, eroding funding streams are putting pressure on nonprofits to do more with less.

Competitive and Institutional Elements

It is no secret that the bottom line in the banking world is profitability. Ultimately, the goal of a bank is to maximize shareholder wealth—transactions are predominantly evaluated through this lens. On the other hand, nonprofit organizations aim to serve a need in the community. Profitability is often a secondary concern. Nonprofit leaders—particularly those of nascent organizations—may not have a sophisticated knowledge of finance. In many cases such leaders view finance and fundraising as a “necessary evil” to achieve their programmatic goals.

The work of the banking sector is culturally different from that of the nonprofit sector. These competing cultures speak two very different languages. As a nonprofit organization that provides loans and other financial services, NAF is uniquely fluent in both the cultural language of banks as well as that of nonprofit organizations. NAF understands a nonprofit’s desire to serve and its relative lack of financial acumen. Through regular workshops and other educational programming, NAF bridges this gap from the nonprofit side.
NAF also understands the banking world. As one banker said, “They get it! They get banks.” NAF also understands the reservations banks express in working with nonprofits. In these situations, NAF is able to step in and educate the bank about the nonprofit, correcting misperceptions. They can also reduce the actual exposure of the bank by sharing a loan made to a nonprofit. In relationships and lending, NAF is able to bridge the gap between nonprofits and banks.

Figure 1. Intersection between service- and profit-motivated institutions.

In this way, NAF is a boundary-spanning translator organization that both activates and remains fully engaged in cross-sector relationships.

Not only are the industries culturally different, the individuals representing bank and nonprofit interests are themselves responsive to varying incentives and perceive different benefits to work across the network. Thomas (2003) notes that the benefits (both perceived and realized) by individuals may differ according to the individuals’ occupational orientation. Thus bankers and other administrative experts need more/different information than nonprofit professionals in building consensus around the validity/necessity of the network relationship and associated collaboration. NAF’s translation services must account for different occupational orientations of network members.

However, noting that some banks are more explicitly committed to community goals (rather than simply bank-specific goals) NAF may be able to meet organization- and network-level effectiveness criteria by focusing on community-level goals (Provan and Milward 2001).
Agreement on the Problem

Nonprofit organizations need access to credit to maintain the health of their programs and operations. Ideally, nonprofits of all sizes and services would establish a diverse portfolio of funding streams to ensure stability and flexibility in their capacity to provide programming. However, particularly for new and/or small organizations, this is often not the case.

In response to the current economic crisis, banks have constricted the credit available to nonprofit organizations. Macroeconomic instability exacerbates the challenges unique to all nonprofits, particularly small- and mid-sized nonprofits.

Our interviews with Twin Cities-area bankers reinforce the point:

“Man, [nonprofits] have been hit hard by the economy.”

“...it will take time for nonprofits to manage through this [economy]. That’s not a kind of lending banks can help with.”

“We have to reduce exposure with a struggling [nonprofit].”

Although times are challenging, it need not be all doom and gloom for nonprofits. Opportunities abound for organizations willing and able to speak multiple sectoral languages and to understand fundamental cross-sector interests.

NAF has been leading this trend through its work in building cross-sector relationships in service to the nonprofit and financial sectors. Now more than ever, NAF is uniquely positioned to serve the interests of both nonprofits and banks. While this window is open, NAF leadership can reinforce existing relations and forge new ones to the collective benefit of the nonprofit sector and broader community.

Existing Relationships or Networks

Common usage of the word collaboration connotes organizations working together and sharing resources. Within the field of collaborative studies, collaboration may be decomposed and defined more precisely by its component actions. Himmelman (1996) identifies four distinct levels of inter-organizational working relationships: network, coordination, cooperation or collaboration. These relationships and threshold inter-organizational actions are summarized in Figure 2 below.
Thus, in **network** relationships, organizations exchange information with each other but have not yet worked directly with each other. Some organizations move to the next level, where they **coordinate** activities to achieve a particular goal. Organizations reach the level of **cooperation** when they also share resources—money, staff, mailing lists, etc. **Collaboration** is the highest level of inter-organizational connectedness and is characterized by power sharing between organizations.

Our research indicates that all of the bankers interviewed believed that they were part of a network relationship with NAF. Further, most of the bank relationships seemed to display some characteristics of coordination and cooperation. For example, some banks worked closely with NAF on making loans to nonprofits. Other banks shared financial resources with NAF in the form of contributions to its loan fund.

However, there was no bank that could be called a collaborator by Himmelman’s relatively narrow definition. It is possible that a structural power imbalance between banks and NAF will continue to prevent relationships from ascending to the level of true collaboration. Competing sectoral cultures and fundamentally different interests may prevent banks from more fully sharing power with NAF.

**Mapping the Field of Relationships**

**Nonprofits Assistance Fund**

“Our mission is to foster community development and vitality by building financially healthy nonprofit organizations.”

-- Nonprofits Assistance Fund 2008 Annual Report

A brief overview of NAF operations and programs is useful for the purposes of framing the analysis to come later in this paper. NAF is a not-for-profit, Community Development Financial Institution (CDFI) that works with a diverse range of nonprofits providing loans and financing, as well as technical assistance and training in financial management. Nonprofits working with NAF range from small neighborhood groups, theater companies, charter schools, affordable housing organizations, and community development organizations to large human service and health care organizations. NAF operates with nine staff (including four staff dedicated to
managing and administering loans). Kate Barr, NAF’s Executive Director, is recognized as a community leader and expert on nonprofit financing. NAF’s board of directors has nine members including representatives from national banks and insurance companies as well as local foundations, community development organizations, and nonprofits. In March of 2008, NAF had total liabilities and net assets in excess of $14 million.

NAF offers loans and financing from $5,000 to $500,000 to nonprofit organizations that would find traditional or complete financing difficult to obtain from a bank. NAF’s loan fund is fed by grants from its corporate and foundation financial partners. These partners include American Bank, Bank of America, The Patrick and Aimee Butler Family Foundation, Calvert Foundation, The Cargill Foundation, Family Housing Fund, Ford Foundation, General Mills Foundation, The McKnight Foundation, the Minneapolis Foundation, Otto Bremer Foundation, Private Bank Minnesota, the Robert Wood Johnson Foundation, Travelers Foundation, TCF National Bank, US Bank Community Development Corporation, Wells Fargo Community Development Corporation, and Western Bank.

At the end of 2008, NAF had 120 loans totaling $8.6 million. The majority of NAF’s loans support nonprofits seeking working capital (63%), while the remaining seek capital funds for the purchase or renovation of buildings (33%) or the purchase of equipment (4%). Loans may take a variety of forms including complete financing, lines of credit, gap financing that completes the financing needs of a nonprofit in conjunction with a traditional loan from a bank.

NAF also offers technical assistance and skill-building workshops on topics such as strategic financial planning, cash flow, budgeting and board relationships. Resources on these topics and more are also available on NAF’s website. Trainings that focus on healthy nonprofit financial practices are open to both nonprofit and bank personnel (Barr 2009a, Barr 2009b, Barr 2009c).

Banks: Large/National & Small/Community

In general, the banks we interviewed fell into two camps: large/national banks and small/local community banks. The large/national banks, US Bank and Wells Fargo, focused their work with nonprofits on making large loans ($1 million or more) to large nonprofit organizations. These banks have developed specialized teams for securing and managing large nonprofit loans. These banks did not express particular interest in developing specialized expertise or services for small to mid-sized nonprofit organizations. Services to small to mid-sized organizations were provided at local banks with underwriting for small to mid-sized loans taking place in dedicated hubs throughout the country. Both US Bank and Wells Fargo are substantial contributors to NAF’s loan fund and have representatives serving on NAF’s board and/or loan fund committee.

Small/local community banks such as Franklin, Western, and Bremer focused their work with nonprofits on small to mid-sized organizations. These banks considered work with local community organizations like nonprofits as central to their missions, had staff dedicated and/or trained to work with nonprofit depositors as well as loan recipients, offered a higher degree of technical assistance and support, and reported more intimate engagement with the nonprofit clients in their portfolios.

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1 Anchor Bank shared characteristics of both large/national and small/local banks.
Banks’ Relationships with Nonprofit Organizations

Bank interviewees were asked to provide information detailing their bank’s approach to working with nonprofits.

Banks were consistent in the products and services that they offered to nonprofit organizations. These included deposits (checking/savings accounts), loans, lines of credit, and volunteer service. Banks varied in the degree to which they had developed a specialized approach to working with nonprofit organizations including having staff and/or teams dedicated to nonprofit clients and providing technical assistance and support. Banks also varied in the relative emphasis they placed on nonprofits as depositors vs. lending clients. Some bankers articulated community development as part of their bank’s mission and purpose while others discussed work with nonprofit organizations relative to maintaining positive Community Reinvestment Act ratings. Some banks had developed specialized expertise working with bonds that involved nonprofit clients. Other banks did not distinguish nonprofit organizations from small businesses.

Bankers identified several barriers to their work with nonprofit organizations including perceptions of poor leadership and management at nonprofit organizations. Bankers perceived that nonprofit organizations often had a lack of financial sophistication, stability, and capital. Expecting a profit or financial return, banks also saw themselves at cross purposes with nonprofit organizations that were oriented primarily toward service. Several bankers perceived that, in general, nonprofits required more technical advice and support than the banks were prepared to provide.

NAF’s Existing Relationship with Banks

Bank interviewees provided specific feedback on the strengths and weakness of their existing relationships with NAF. Bankers’ perceptions of these relationships are presented below.

Identified Strengths of NAF’s Current Relationships with Banks

“They’re the experts, you know.” -- Community Banker

Bankers consistently identified several strengths in existing relationships with NAF in spite of differences in institutional philosophy, expertise, and size. These strengths can be understood relative to the characteristics of the staff at NAF and of NAF as an organization.

NAF Staff

Bankers’ perceptions of the strengths of NAF’s staff emerged in two primary themes: knowledge and trust. Bankers consistently viewed NAF staff as “absolutely the best in town” in working with nonprofit financing. Some bankers reported that the “expertise” of NAF’s staff was “heavily relied on” by their bank. This was particularly true for “organizational” and “sector” knowledge in working with particular types of nonprofits like charter schools. In addition, bankers remarked that NAF had knowledge about the priorities and operations of banks. As one banker stated, “. . . they understand our struggles.”

Bankers consistently described NAF’s staff as “credible” and “respected.” As one banker put it, “All of them are top notch. They’re sharp!” Interestingly, expressions of these perceptions were
not necessarily made in relation to the organization as a whole. Most often bankers referred to
attributes of specific staff (usually the executive director) rather than strengths of the
organization or relationship as a whole. This is consistent with the notion that banking is all
about personal relationships and should be considered as NAF looks to establish collaborative
efforts with banks to better serve small/midsize nonprofits.

**NAF as an Organization**

Organizationally, bankers perceived NAF as an enhancement to their work with nonprofit
organizations. In interviews, bankers recognized good collaborative efforts relative to providing
gap financing for nonprofit loans and that in many cases loans or deals would not have gone
through if NAF had not served as a “credit enhancer” for the nonprofit.

Bankers also recognized that NAF served in a unique role in mitigating risk in lending to
nonprofit organizations. As one banker stated, “Nonprofits do not have a lot of capital so it's
great that [NAF] can take on unsecured risk.” Bankers observed that this was particularly
relevant when a nonprofit had gotten into financial trouble and NAF could assist the nonprofit in
“becoming bankable again.” As another banker stated, “They have everything that a new
nonprofit would want. You just wish that more would contact them.”

Bankers perceived NAF’s role as “noncompetitive” and extended beyond that which a traditional
lender would provide. As one banker stated, “NAF can spend a lot more time in a consultative
role with a nonprofit.” Notably, bankers were unable to identify another organization within the
community that could function in a similar role.

Bankers consistently recognized NAF was “mission-oriented” in its work both with banks and
nonprofits, however bankers articulated different views in the alignment of NAF’s mission with
their own. As one banker reported, “NAF’s goal is to help nonprofits thrive. The mission of
[our] bank is not to make nonprofits thrive.” Whereas another banker stated, “We have the same
mission – that is the success of the nonprofits.”

**Identified Weaknesses in NAF’s Current Relationships with Banks**

Given the universally positive view of the NAF staff and the perceived strengths of the
organizational relationship, it is not surprising that the weaknesses identified were mostly
structural. More than half of the bankers interviewed identified at least one of the following
items as a weakness or opportunity for improvement in the relationship:

- Little or no formal, institutionalized relationship
- NAF did not offer the product—either type or size—needed by a particular client
- Lack of clarity on NAF’s existing product mix
- Lack of clarity whether NAF serves certain types of nonprofits—e.g. religious
  organizations
- No formal referral process for “unbankable” clients

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2 Bankers did not explicitly identify this as a weakness until after we asked about it in the interview.
Perhaps most surprisingly, even bankers at the institutions with long-standing relationships with NAF admitted that they didn’t know whether their coworkers regularly worked with NAF. This highlights the person-to-person nature of the banking industry and presents a difficult challenge for NAF in building sustainable programmatic relationships with banks.

Secondly, in addition to some general confusion about the products and services offered by NAF, bankers knew of no formal, institution-wide way to refer “unbankable” clients to NAF. What referrals do happen, then, are typically the result of individual, random actions.

Field Map of Relationships in Building Healthy Nonprofits

Provan et al. (2005) discuss the value of analyzing networks to strengthen community partnerships. NAF currently participates in relationships with banks that work to serve the needs of nonprofits directly through programming and indirectly through the creation of institutional capacity and capital.

Programmatic Partnerships with Banks

NAF partners with banks to satisfy nonprofits’ needs for financial and technical support through programs in the form of its loan fund and workshops. Small/community banks regularly partner with NAF to mitigate risks associated with the singular financing of nonprofits. Capital and technical support from NAF help to close a loan for a nonprofit. Within these direct service relationships, the role of the bank can be singular in the provision of capital for the enterprise. NAF’s role is often dual in the provision of capital as well as the provision of technical expertise and support for the nonprofit.

Programmatic partners have a high degree of overlap in mission-focus with NAF with a similar commitment to local community development and the health of the nonprofit sector. Programmatic partners tend to be local, small- to mid-sized, and possess a larger degree of institutional expertise in working with nonprofits both as loan and deposit customers. Their loans to nonprofit organizations range from small to mid-sized with larger loans being more of an exception. In addition, programmatic partners have greater capacity for localized decision making. In the interviews conducted as part of this research project, Bremer, Western, Franklin, and to a lesser degree Anchor Bank served as examples of programmatic partners.

Institutional Partnerships with Banks

NAF also partners with banks to develop and maintain the NAF’s institutional capacity and capital. Large/national banks are substantive contributors to NAF’s loan fund and serve as board and committee members. In this role, large/national banks contribute to the organizational capacity of NAF satisfying their primary interests for high CRA ratings while providing indirect service to small to mid-sized nonprofit organizations.

Institutional partners have a low degree of overlap in mission-focus with NAF and are more national in their focus on investment and development. Institutional partners tend to be large and possess a lesser degree of institutional expertise in working with nonprofits both as loan and deposit customers. They have a primary interest in making larger loans to larger nonprofit organizations. In addition, institutional partners have decision-making hubs distributed through-
out the U.S. so, a loan may be sent to another region or state for underwriting. In the interviews conducted as part of this research project, US Bank and Wells Fargo fit this institutional partner profile.

The field of relationships between NAF and banks may be divided according to relative size and commitment to local community development. In this model, large/national banks are seen to participate as institutional partners in dyadic network with NAF, collaborating in leadership (board and committee service) and the supplying of financial capacity for NAF’s loan fund. On the other hand, small/community banks are seen to participate more readily as programmatic partners in a triadic network that involves direct work with nonprofit organizations.

**Figure 3. Field map of NAF-Bank relationships.**

![Field Map of NAF-Bank Relationships](image)

**Promoting Collaborative Relationships**

NAF’s prospects for collaborative relationships depend upon the interests of and perceived interdependence among banking and nonprofit partners. NAF can guide relationships toward fuller collaboration by taking strategic actions along these two dimensions. When bank partners perceive that they are clearly interdependent with NAF in achieving bank-specific goals, they will more receptive to collaborative action. Likewise, when NAFs fundamental economic and
community interests are aligned with those of a bank partner, the relationship is likely to be more collaborative in nature.

**Serving as a Convener**

NAF can leverage its relational strengths of credibility and trust to facilitate greater interdependence in its relationships with banks and to promote collaborative work in serving nonprofits (Gray 1996). NAF is a key player in building sustainable communities through improving their connectivity—internally and externally—using network ties to create economic opportunities (Krebs and Holley 2006). Improved connectivity is created through an iterative process of *knowing* the network and *knitting* the network. Knitting the network requires a convener to bring otherwise isolated actors together. As convener, NAF is the catalyst for cross-sector relationships—some strong, some weak (but not unimportant!)—that strengthen the entire community (Granovetter 1983).

**Identifying Areas of Shared Interests and Interdependence**

In her work on cross-sector collaborations, Gray (1989) affirms the primacy of interests and interdependence in the initial stages of collaboration. Further, writing about interorganizational (not necessarily cross-sector) relationships, Oliver (1990) identifies five fundamental motivations for voluntary organizational partnership: efficiency, stability, legitimacy, reciprocity, and asymmetry. The first three of these motivations are relative to the fundamental interests of the organization; the latter two to the perceived interdependence in pursuit of organizational goals.

Echoing Gray and Oliver, Logsdon (1991) identifies a two-dimensional framework to assess the probability and shape the development of cross-sector collaboration. She asserts that the two most important criteria that influence an organization’s willingness to collaborate are “its stakes in solving the problem relative to its fundamental interests, and its degree of perceived interdependence with other groups in devising a solution” (23) [emphasis not in original].

The criteria for collaboration and the likely outcomes of incomplete collaboration are summarized in *Figure 4* below. Thus, collaboration formation tends to follow one of two patterns: an interdependence to interests path (1→2→4 in the *Figure 3* boxes below), or interests to interdependence path (1→3→4). In order to strengthen collaborative relationships with banks, NAF should consider this multi-stage model of collaborative development.

NAF’s challenge is to proactively shape the perceptions of interdependence of banking and nonprofit partners and to correctly identify bank interests. Strategic actions designed to move the relationship along either of these dimensions may be undertaken simultaneously or in sequence.

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3 Collaboration is often described in the literature as a “collective action” problem. That is, that organizations may not *perceive* their true interdependence in crafting a solution to the problem (assuming that the problem can be correctly identified), or that organizations will be tempted to free-ride on the efforts/investments of others.

4 It is not necessary to assume that organizations will begin their collaborative development in box 1. In fact, some existing relationships may be categorized in either box 2 or 3.
However, just as organizations can join up to achieve collaborated goals, they can withdraw from the collaboration. Logsdon notes one timely example applicable to the challenges facing NAF and other financial institutions in mid-2009:

“...Or a firm that experiences severe financial pressures may withdraw from a collaborative effort...not because it is dissatisfied with the collaborative process but simply because its interest priorities have shifted to short-term economic survival” (Logsdon 1991).

Withdrawal of partners from the collaboration should not be viewed as a failure of the collaborative process or an indictment of the collaborative goals—more so, a waxing and waning of the underlying interest and interdependence criteria for participation facing individual organizations.

**Building on Common Interests: Profiling Collaborative Prospects**

The question remains: how can NAF determine which bank partners—both existing and prospective—are most likely to be “institutional partners” or “programmatic partners” as defined above? We considered several identity characteristics that may play some role in predicting the success of a bank’s collaboration with NAF:

- Bank’s geographic identity: national or local
- Bank’s relative size: large or small
- Bank’s espoused or founding philosophy: community/nonprofit focused
- Presence of internal nonprofit expertise in bank
- Localized decision-making authority

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5 Collaboratives thrive on local/devolved discretion. Strong hierarchical are controls likely to hinder their success (Page 2004).
It is tempting to assume that large, national banks are invariably best suited to institutional partnership and that smaller, community banks are always good candidates for programmatic partnership. Alternately, that banks with an espoused commitment to small businesses or nonprofit clients will be amenable programmatic partners. Though we acknowledge that these factors likely play a nontrivial role in setting favorable preconditions for collaboration, we propose another model for categorization.

Our analysis suggests that overlapping strategic lending focus is among the strongest predictors of whether a bank is best suited to an “institutional” or “programmatic” partnership role. We assume that this strategic focus is an expression of fundamental economic interests of individual banks and deeply-rooted mission-oriented interests of NAF.

*Figure 5* below maps the typical range of nonprofit loans made by NAF and three hypothetical banks. The thin line shows the range of commercial loans typically made by the bank. The solid bar represents the loan range over which a bank utilizes specific nonprofit lending staff to meet the particular needs of nonprofit clients. For example, Bank A makes loans over the range $5,000-2,000,000 (represented by the thin vertical line). However, they have dedicated nonprofit-specific lending staff only for the range $5,000-75,000 (represented by the wide solid bar). NAF has an opportunity to collaborate with the bank and offer its expertise servicing larger loans.

Likewise, Bank C makes loans over the range $5,000-10,000,000. However, they have dedicated nonprofit-specific staff resources only for nonprofit loans in excess of $500,000. Having no overlapping strategic interest, Bank C is unlikely to be a collaborative programmatic partner with NAF. In this case, NAF may wish to pursue Bank C as an institutional partner.
We believe that for programmatic partnerships common interests—and thus collaborative potential—are maximized when a particular bank’s demonstrated strategic nonprofit lending focus overlaps NAF’s lending focus. Understanding the extent of overlap (or lack thereof) can inform NAF’s strategic positioning in relation to the banking and nonprofit sectors.

Thus, when the self-interests of NAF and prospective partner banks are aligned, but perceptions of interdependence are weak, NAF can move the relationship toward fuller collaboration by making a stronger case for resource coordination. Conversely, when interdependence is fully realized, but self-interests are misaligned, NAF may wish to reevaluate the bank partner for its programmatic potential and choose instead to pursue an institutional partnership.

**Exercising Visionary Leadership**

NAF’s Executive Director, Kate Barr, is recognized as a leader in the field of nonprofit finance and as someone who understands banks. From this position, she is well positioned not only to define the scope of opportunity for NAF’s collaborative work with both banks and nonprofits but to serve as an intermediary in the relationship between banks and nonprofits.

Crosby, Bryson, and Stone (2008) identify the primary tasks for visionary leadership as:

- Interpreting the public problem or opportunity and giving direction
- Offering compelling visions of the future
- Adeptly designing and using formal and informal forums

While making an understanding of the current economic crisis more visible may not be necessary, the framing of the crisis as an opportunity for increased collaboration and providing a compelling vision of what collaboration could look like is the task before NAF’s leadership in promoting collaboration.

NAF’s leadership can use formal and informal encounters with banks and nonprofits to promote increased collaboration for the benefit of all involved. In informal forums, NAF’s leadership may actively leverage existing relationships and pursue expanded networking with both nonprofits and banks. In the formal forums of political problem-solving, NAF’s leadership can actively define its role and present its services as solutions for consideration in the realm of political decision-making that is attempting to provide increased services with fewer resources.
Recommendations

NAF is well-positioned to both highlight the strengths and mitigate weaknesses in existing relationships and maximize the collaborative potential with current and future banking partners. Recognizing that banks are likely to be more suited to either an institutional or programmatic partnership, our recommendations are differentiated along those lines.

**For Programmatic Partners**

1. Expand the number of personal relationships within current programmatic partner banks. Target existing productive relationships to meet new hires or previously unknown bankers. These individuals are the lowest hanging fruit. An expanding network of bankers will increase interdependence and will build more durable bank-NAF relationships.
2. Position NAF as a reputable provider of early-career professional development for nonprofit bankers. Nearly across the board, bankers indicated that NAF training had been useful.
3. Combat the lack of a formal referral system by deepening individual relationships (as in #1 above) and by developing a standard checklist for bankers to use in identifying transactions for which NAF is suited.
4. Expand banks’ perceptions of NAF’s utility beyond partnerships involving loans by promoting NAF’s educational workshops as tools for supporting and maintaining the financial viability of banks’ nonprofit deposit customers.
5. Respond to the desires of existing bank partners by developing additional products (i.e. additional lines of credit, assistance with bonds, etc.). Communicate the benefits of coordinating or combining resources for greater effectiveness.
6. Continue to educate nonprofit leaders directly. Armed with a working knowledge of NAF, nonprofit leaders will be likely to suggest that NAF be brought in to resolve financing challenges. Nonprofits may be less inclined to simply take “no” for an answer from a banker unfamiliar with NAF.
7. Position NAF as a partner in planning with nonprofit organizations, supporting the development of financial plans in tandem with strategic initiatives (both in the expansion and contraction of programs and operations).

**For Institutional Partners**

1. Position NAF as the Twin Cities’ most efficient, effective steward of CRA funds. Building on universally-held perceptions of NAF’s legitimacy, trustworthiness, credibility, and nonprofit expertise, make the case that institutional partners are interdependent with NAF in ensuring that CRA funds have maximum social impact.
2. Research national funders (banks and foundations) of comparable CDFIs and target them for investment in NAF. Leverage NAF’s local, regional, and national reputation in making the case for investment in NAF’s loan fund and service on NAF’s board and committees.
3. Refocus energy away from the conversion of institutional partners to programmatic partners. Acknowledge that institutional partners’ fundamental interests and strategic lending focus are not oriented toward programmatic collaboration.

For Both Programmatic and Institutional Partners

1. Elevate NAF’s *organizational* profile. Take care that public awareness of NAF is not limited to only a few key staff.
2. Exercise visionary leadership stating that the current economic crisis requires increased collaboration between NAF and banks; offering a compelling vision in which banks are collaborative partners in addressing social needs via nonprofit organizations; and using formal forums (e.g. media; political platforms; conference and workshop presentations) and informal forums (e.g. encounters with nonprofit leaders at MCN events and financial group meetings and bankers via community development, accounting and auditor group meetings).
Appendix

NAF Collaboration Team
Bank Interview Schedule

I. Opening
   a. Introductions
   b. Brief Project Explanation
   c. Review consent form and statement of confidentiality.
   d. Request permission to record the interview. Comment that we’ll also be taking notes.

II. Banker & Bank’s Approach to Serving the Community
   a. To start, can you tell us a little about your history as a banker and your work here at [bank name]?
   b. Please describe your bank’s philosophy and approach to serving the community’s banking needs?
   c. How is your bank’s approach unique/different from other banks?

III. Bank’s Relationship with Nonprofits
   a. Without naming specific organizations, can you provide some examples of how your bank works to meet the financing needs of nonprofits?
      i. Broader: Where does the banking sector fall short of serving nonprofit?
      ii. Resources, expertise and services to provide for nonprofits banking/financing needs?
      iii. Loans: Approach to nonprofit loans (criteria for selection, % of loans, $ amount)
   b. What have been some benefits that have resulted from your bank’s work with nonprofit organizations?
   c. What have been some barriers to your bank’s ability to work with nonprofit organizations?
      i. Risk: How do you define risk? What is the source of risk?
      ii. Risk: How do you assess risk relative to nonprofits?
   d. What happens when your bank denies a loan to a nonprofit?
      i. Broader: Common reasons for denials?
      ii. Partner with other organizations in the community?
      iii. Funding gaps?
      iv. Referral process?

IV. Bank’s Relationship with NAF
   a. Again, without naming specific organizations or clients, can you provide a brief description of your experience working with the Nonprofits Assistance Fund (NAF)?
      i. If no experience: Provide some background on NAF’s mission & services (SKIP TO QUESTION IV.d.)
   b. How would you describe the strengths in your bank’s relationship with NAF?
c. What are some areas in which your bank’s relationship with NAF could improve?
d. What benefits has (might) your bank experienced as a result of working with NAF?
e. What have been (might be) some barriers to your bank’s ability to work with NAF?
f. What are some ways that you can think of that NAF might add value to your bank’s ability to serve nonprofits?

Prompt:
More information on NAF and the specific tools for serving/financing nonprofits?

V. Closing
a. Is there anything else that you’d like to tell us about your work with nonprofits or NAF?
b. Leave consent form and point out contact info.
c. Comment regarding what will happen to the information provided.
d. Thank you for your time.
References

(http://nonprofitsassistancefund.org/).


------. 2009c. "Personal interview".


Krebs, V. and J. Holley. 2006. "Building Smart Communities through Network Weaving."


