Strategic Alliances: Are you ready?

Initial Materials

- 5 Questions to Consider before Collaborating
- Types of Strategic Alliances
- Steps to Strategic Restructuring
- Questions to Raise in the Concept Stage
- Success Factors in Nonprofit Strategic Affiliations
- Due Diligence Checklist
- Cost of a Strategic Alliance
Are We Ready to Collaborate?

5 Questions Board Members & Executives Must Consider Before Collaborating With Another Organization

1. What Do We Hope to Achieve?

Collaborations or partnerships involve a significant investment of time and resources. In order to justify this investment, the executive and board leadership of each partner should have a clear understanding of what the group seeks to achieve, and should clearly perceive how this goal would benefit his or her own organization. In addition, the answer to this question often clarifies whether and how the partnership will disband in the future, and helps to determine how the partnership should be structured.

2. Are the Right People Involved?

On two levels, this question is a critical one early in the process of forming a collaboration or partnership. First, who are the partner organizations that are willing and able to contribute vital resources, knowledge, or connections to the effort? The temptation is usually to think narrowly about the right partners, but the partnership or collaboration will often benefit from involving groups or organizations outside of the usual players. Second, who are the individuals from each organization who will be involved in the partnership or collaboration? Most importantly, is there executive- and board-level sponsorship and buy-in for the effort, and are there individuals who are ready and able to contribute to the work.

3. Do We All Trust and Respect One Another?

Particularly in the early stages of a collaboration or partnership, frustrating and difficult challenges can arise. If the partner organizations are wary or suspicious of one another, these challenging periods can threaten the ability of the group as a whole to work together.
4. **What Will Each Organization Contribute, What Will Each Receive?**

By spelling out the expectations of each partner up-front, uncomfortable situations can be reduced or avoided later in the effort. Before developing a Memorandum of Understanding (MOU) for the group, it is important to involve all organizations in a discussion of the roles and responsibilities of each partner, and of the group as a whole. Once all are agreed, the roles and responsibilities of each partner and of the group as a whole should be spelled out in detail in the MOU. Additionally, the group should define how any resources contributed from outside the partnership will be shared by the partners.

5. **Are External Factors Aligned in Support of the Effort?**

Even if the involved agencies are dedicated to a common goal, have the right people involved from their organizations, trust and respect one another, and have defined a governance and resource allocation structure for their effort, the group must take careful stock of their surrounding environment. Where will they receive the funding support needed to achieve their goals? Are there similar efforts underway that could threaten the viability of the partnership? Is there a momentum outside the partnership that can help sustain the effort even in the face of transitions and challenges internally?

Adapted with permission from original authors: Tim Weidemann of Rondout Consulting, and Peter Fairweather of Fairweather Consulting
Types of Strategic Alliances

**COALITION**
An alliance of independent organizations which usually share a political or social change goal. This form of alliance is frequently established for a limited or specific purpose(s). Member organizations retain autonomy and make varying contributions to the alliance based on their resources and expertise. The alliance may have a central coordinating staff (volunteer or paid).

**CONSORTIUM**
An alliance of organizations and individuals representing customers, service providers, and other agencies who identify themselves with a specific community, neighborhood or domain. Members collectively apply their resources to implement a common strategy and achieve a common goal. The alliance frequently is sponsored by convening organizations that take responsibility for overall coordination.

**NETWORK**
An alliance of organizations which share resources for mutual benefit such as service provision. Formal, legal documents govern the sharing of resources, but organizations maintain their own identities, governance and core functions particularly for activities beyond the scope of the network.

**JOINT VENTURE**
A legally formed alliance in which member organizations maintain joint ownership (generally through a joint governance board) to carry out specific tasks or provide specific services. Member organizations retain individual identities and governance for activities outside the scope of the joint venture. If an organization withdraws from it, the joint venture dissolves or reconfigures. This type alliance frequently functions as an unincorporated business, with financial results flowing directly to the partners.

**PARENT-SUBSIDIARY**
An alliance in which an organization acquires, creates or affiliates with another organization to better pursue its mission. The parent oversees the subsidiary, the range and power of oversight determined by the design of the parent corporation’s by-laws. In many instances there is interconnectedness between the parent’s board and the subsidiary’s board. This type alliance frequently is established by a parent corporation to avoid losing its tax-exempt status or to limit liability.

**MERGER**
A statutorily defined alliance in which one organization is totally absorbed by another. The absorbed organization is completely dissolved and the surviving entity owns the assets and liabilities of both. A merger may be traditional, discretionary, or involuntary.

**CONSOLIDATION**
An alliance in which two or more organizations come together to form a new organization. The member organizations are dissolved to create the alliance. The assets and liabilities of the former organizations are combined and a new governing board is created.
WHAT ARE STEPS TO STRATEGIC RESTRUCTURING?

**WHY?**
- Conduct Environment and Organizational Assessment
- Determine Criteria of Success
- Determine Key Characteristics of Compatible Partner

**WHO?**
- Find the Partner
- Analyze Compatibility Of Culture
- Build Trust
- Create a Shared Vision and Success Metrics
- Affirm Buy-in to Explore

**WHAT?**
- Organize Exploration Process
- Learn, Confirm, Affirm
- Determine Desired Structure and Key Characteristics
- Conduct Legal and Financial Due Diligence
- Finalize Details, Draft Implementation Plan and Budget

**HOW?**
- Sign and File Documents
- Build Staff Buy-In
- Implement Workplan
- Approval
- Celebrate, Communicate, Implement

**Factors Contributing to Success**
- Trust
- Honest Self-Appraisal
- Research and Planning
- Openness and Communication
- Clarity of Vision
- Strong Staff Teams
- Informed Board
- Outside Counsel

**Common Mistakes**
- Underestimating:
  - Importance of Communication
  - Importance of Organizational Culture
  - Timeline
  - Costs
  - Complexity of the Restructuring Process
  - Not Validating Assumptions
Questions to Raise in the Concept Stage of Considering an Affiliation or Merger

- What is motivating your desire to form an affiliation?
- What do you hope to gain from an affiliation?
- Is there a mission match between or among the organizations that are considering the affiliation?
- What level of discussion and decision making have the affected boards completed?
- Is either organization currently experiencing a crisis?
- Does either organization have a significant deficit or unsecured financial liabilities and has this information been shared among the potential affiliates?
- Is there an impending or current opening in either of the executive positions; or, if not, has there been a substantive discussion or decision regarding the executive leadership of any affiliation that may result?
- How will an affiliation improve services to the intended beneficiary populations?
- Have the parties estimated the full cost of various forms of affiliation and, if so, identified sources for funding those costs?
- Have the potential affiliates assessed the culture of the potential affiliates and identified any potential cultural conflicts that could occur in an affiliation?
- Have the potential affiliates held conversations with their funders about a potential affiliation and its impacts on funding; and, if so, what has been the response?
- How do the pay structures and other personnel benefits of the potential affiliates compare?
- Does any of the affiliates face pending, probable, or possible litigation?
- Do the organizations have a history of risk taking or is there aversion to risk?
- Do both organizations have a culture in which there is a strong board and management alliance?
- What is the expectation of each organizations regarding an affiliation strategy?
- Are the right people involved in the early stage of discussions?
Success Factors in Nonprofit Mergers

- Strong working relationships between executives prior to the merger
- Preservation of services following the merger
- Integral involvement in the merger process by both boards
- Providing boards with evidence based information regarding the merger during the process
- Both organizations identify potential mutual gains before the merger
- Using consultants as facilitators and third party observers who can take a more objective view of the issues faced by the organizations
- Less likelihood of looking back with regret when the organizations experienced financial stress prior to the merger
- Funder involvement and funder opportunity to give input are associated with improved financial stability and better alignment of the staff with the needs of the organization and its clients
- Collaborations or partnerships between the organizations prior to merger
- The inclusion and support of non-administrative staff in planning and implementation
- Opportunities for organizations considering merger to examine the financial and legal information about their potential partner prior to merger

Adapted from: Success factors in nonprofit mergers (2012). MAP for Nonprofits and Wilder Research.
Due Diligence Checklist

Corporate Documents
- Incorporation papers
- By laws and all amendments
- Conflict of interest policies
- Organization chart
- Annual reports
- Federal and state tax exemption letters
- Rosters of board members
- Membership roster, if a membership organization
- Most recent forms 990 and state filing forms
- Permits, accreditations and licenses

Financial
- Most recent audited statements
- Most recent budgets
- List of significant assets; for example, owned or mortgaged property, major equipment and major intangible assets such as copyrights
- Information about any endowments or board designated funds used as endowments
- Investment policy

Risk Management
- Actual, pending or threatened litigation
- Settlement agreements
- Unsatisfied judgements
- Insurance policies
- Schedule of claims
- Risk management policies, practices, known violations

Fundraising
- Lists of foundation and corporate funders with amounts, restrictions and expiration dates
- Lists of government grants and contracts with amounts, restrictions and expiration dates
- Description of individual donor gifts and any restrictions placed by those donors, but with names omitted

Personnel
- Lists of employees, titles, and pay rates; schedule of benefits, costs and utilization rates
- Consulting agreements
- Personnel policies
- Union contracts, if relevant

From: nonprofitlawblog.com/mergers-due-diligence-items/, (2/16/2016)
Cost of A Strategic Alliance

PHASE I: Formal Exploration
Facilitator
Joint board meeting/social exchange: food/facilities
Communications Consultant
Administrative support

Phase II: Design/Due Diligence
Facilitator
Financial Due Diligence
Legal Due Diligence
HR Due Diligence
Facilities Inspection
Filing Fees
Legal services
Leases
Communications Consultant
Joint board meeting/social exchange: food/facilities
Administrative support

Phase III: Implementation
Facilitator
Technology Systems
Employee Compensation- benefits/Adjustments
Outplacement Services
Marketing/Materials
Space Configuration
Phone systems
Facilities
Communications Consultant
Joint board meeting/social exchange: food/facilities
Administrative support
Relocation Cost

Note: Not all categories apply to all situations