

Mergers, Collaborations, & Strategic Alliances to Sustain Programs

Spring 2009 Seminar in Nonprofit Excellence –
Managing Nonprofits Through Difficult Times

Berkshire Taconic Community Foundation
Community Foundation of Dutchess County
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Today's Goals

- ▲ Clarify the range of merger options
- ▲ Increase understanding of the merger process
- ▲ Identify potential pitfalls & critical success factors
- ▲ Provide a framework to assess your organization's readiness & options for strategic alliances

The Merger Continuum

Mergers: A Working Definition

- ▲ Any joint working relationship where some degree of autonomy is given up

- ▲ Mergers can be:
 - Collaboration
 - Partnership
 - Strategic alliance
 - Formal, legally defined merger

- ▲ Mergers can involve from two to several different organizations

We will use "merger" to mean any of these strategic alliances

The Merger Continuum: Examples

- ▲ Chattanooga Museums Collaboration, TN
 - 3 organizations: aquarium, art museum, children's museum
 - One provides human resource, finance & accounting, IT, marketing & retail sales support for all three partners
 - Collaboration facilitated joint exhibitions, fund-raising

- ▲ New York LawHelp Consortium, NY
 - 11 organizations across New York State
 - Created single online user-friendly legal referral database available to all New Yorkers

- ▲ PATH Partners, CA
 - New parent formed to provide administration & management for 4 organizations that provide affordable housing & services to the homeless
 - Each partner maintained autonomy, identity & funding

The Merger Continuum: Examples, cont'd

- ▲ YMCA/Jewish Community Center, OH
 - 2 organizations combined into YMCA/JCC
 - Operate from single campus, eliminating need to construct a second facility & shifting resources to enhance programs
 - Single membership structure & jointly administered programs

Why Consider Mergers?

- ▲ Sustain existing programs
- ▲ Expand services for your clients
- ▲ Introduce services to new communities / populations
- ▲ Leverage resources
- ▲ Attract funding in increasingly competitive funding environment
- ▲ Eliminate duplication

The Merger Process

Mergers Are About *Change*

- ▲ Will confront resistance from many places
 - Facing reality of changed circumstances
 - Operating out of one's comfort zone
 - Adjusting to different ways of thinking & behaving

- ▲ Mourn loss of the old & excited by the new
 - Celebrate past accomplishments, maintain key traditions
 - Welcome the new joint effort & staff

- ▲ Maintain clear, consistent focus on shared goals

- ▲ Communicate frequently & repeatedly
 - Why we are doing this
 - Where we are
 - What has happened & what it means
 - What's next

A Roadmap for the Merger Process

Phase 1 - Exploration

Determine Organization Readiness

Identify Partner(s)

Conduct Potential
Partner Due
Diligence

Develop
Collaboration
Scenarios

Phase 2 - Negotiation

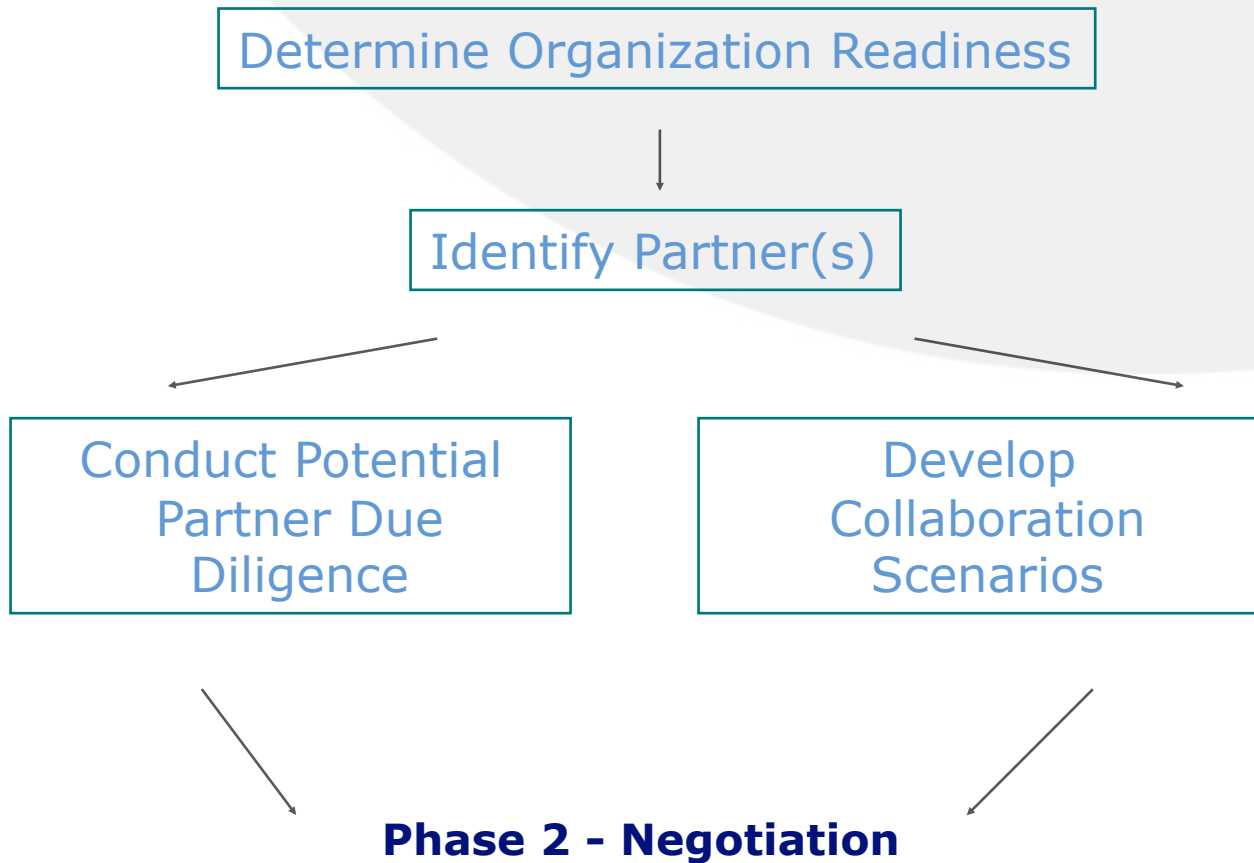
Negotiate Mutual Agreement

Phase 3 - Integration

Create an Integration Roadmap

Phase 1: Exploration

Phase 1 - Exploration



Determine Organizational Readiness

- ▲ Conduct a self-assessment
- ▲ Determine your non-negotiables
- ▲ Establish a merger committee to lead the process
 - Identify the right participant mix - board & management
 - Determine key decision points, critical input needed, who needs to be involved, & who makes decisions
 - Develop a communications plan to inform relevant parties throughout -- board, staff, funders, other key stakeholders

Key Questions to Assess Readiness

- ▲ *Knowing your goals:* How clearly can you articulate the goals for a merger?
- ▲ *Understanding your assets:* How clearly can you articulate the assets you bring to the table?
- ▲ *Consensus:* To what degree does leadership unite around a possible merger?
- ▲ *Leadership:* How strong is your current board-management relationship?

Key Questions to Assess Readiness, cont'd

- ▲ *Appetite for risk:* Has your organization attempted a “risky project” to advance your strategic goals?
 - How many times over the last 5 years?
 - How often were you successful/unsuccessful?

- ▲ *Organizational health/resources:* How stable is your organization right now?
 - Can leadership divert attention & resources to pursue a merger now, without jeopardizing critical projects?
 - How prepared is your organization to withstand thorough operational, financial, hr, program-matic & leadership audits?

Self Assessment: An Example FROST'D

- ▲ HIV/AIDS organization with good program, but limited long-term sustainability
- ▲ Goal: sustain programs
- ▲ Key assets:
 - Needle exchange program & license
 - Visibility & long-standing reputation in Manhattan/Brooklyn
 - Solid government contracts, including transitional housing
- ▲ Resources available:
 - ED's time, commitment & vision
 - Financial condition provided time to find right partner
- ▲ Risks willing to take: lose ED, board members & control
- ▲ Non-negotiables: preserve programs, clients served, name, take care of senior management

Example, cont'd: Harlem United, FROST'D's Ultimate Partner

- ▲ HIV/AIDS CBO with solid programs, poised for growth
- ▲ Goal: expand continuum of client services
- ▲ Key assets:
 - Strategic ED, strong management team, supportive board
 - Strong programs
 - Excellent QC system
 - Excellent reputation in the community
- ▲ Resources available: solid financial position, ED's time
- ▲ Risks willing to take: absorb integration costs
- ▲ Non-negotiables: obtain control, strengthen reputation & organization

Identify & Evaluate Potential Partners

- ▲ Which organizations seem to match your collaboration objectives?
- ▲ Why would the other party be interested in you?
- ▲ How aligned are your missions, visions & values?
- ▲ How much do you admire & respect their leadership & program quality?
- ▲ How complementary are your skills and assets?
- ▲ How similar are your approaches to your staff and clients?
- ▲ Do you trust each other?

If yes, then find a way to begin a dialogue

Conduct Due Diligence: What You Want to Uncover

Potential Risks & Issues:

- ▲ Programs perform poorly or delivered inefficiently
- ▲ Different organizational styles, cultures
- ▲ Financial weakness, inadequate controls, debt
- ▲ Funder overlap
- ▲ Different systems
- ▲ Different benefit & compensation plans
- ▲ Different policies & procedures
- ▲ Legal issues, unmet obligations, etc.

Potential Opportunities:

- ▲ Expansion of services, clients
- ▲ Expanded funder & donor base willing to support strategic partnership
- ▲ Build on each others' strengths for greater efficiency & impact
- ▲ Incorporate each others' best practices

Conduct Due Diligence: Areas to Assess Thoroughly

- ▲ Financial strength
- ▲ Programs: performance, activities, resources & areas of overlap
- ▲ Funders, including any overlap
- ▲ Systems: fiscal, IT, development, other databases
- ▲ Policies & procedures
- ▲ Obligations: debt, leases, etc.
- ▲ Legal issues, if any
- ▲ Cultural fit

Develop Collaboration Scenarios

- ▲ Create 2-3 possible collaboration scenarios:
 - Leadership & management structure
 - Programs
 - Development
 - Back-office functions: fiscal, IT, other
 - Governance & legal structures

- ▲ Identify options to address key issues:
 - Compensation & benefits structure, where different
 - Systems & other infrastructure, where different
 - Positions that will change or be eliminated
 - Legal & financial obligations, including facilities
 - Desired organizational culture

What would we really look like together?

Develop Collaboration Scenarios, cont'd

- ▲ Build pro forma budgets that reflect the scenarios you develop
- ▲ Discuss the pros & cons of each option -- how well do they meet your merger goals?
- ▲ Select the optimal scenario
- ▲ Create a transition budget

This scenario-exploration process may occur separately and with the partners together

Collaboration Scenarios: Example - Harlem United / FROST'D

- ▲ HU senior management team w/ FROST'D ED met over time to:
 - Identify current management team's areas of concern, capacity issues, skill gaps, workloads, etc.
 - Discuss incremental demands from partnership
 - Consider possible management structures to address the new reality - add COO, CFO, change existing reporting structures, consolidate program areas
 - Conduct cost-benefit analysis & confirm affordability

- ▲ HU board committee reviewed recommendation against 2 criteria: bench strength & affordability

Communications: Focus on the Goal

- ▲ What:
 - A rallying point for change - talking points
 - Clear, consistent case for potential merger
 - Rationale why change is necessary
 - Potential benefits for program, clients
 - An opportunity for board, staff, key stakeholders to be heard

- ▲ Who: select spokesperson(s) for each organization

- ▲ Audience: confidentiality critical, inform only those who “need to know”, when they need to know
 - Board (decide whether everyone or only a few)
 - Senior staff, then others as necessary throughout process
 - Key stakeholders (funders, community, clients)

Communications, cont'd

- ▲ How:
 - In person, in writing, formally, informally, etc.
 - Early in due diligence, consider staff & board survey to surface hopes, concerns, which will be baseline

- ▲ When: often
 - Decision to explore merger possibility
 - Potential partner(s) identified
 - During due diligence, development of collaboration scenarios, & ultimately throughout the entire process

- ▲ Assume leaks will occur & be prepared to respond when they happen

Communications, cont'd

- ▲ Due diligence process & communications:
 - May be opportunity for staff at different levels to become involved
 - Staff can gather input, provide feedback, highlight issues
 - Opportunity for both staffs to work together, learn about each other's cultures & values
 - Due diligence team becomes ambassadors of support for change

Phase 2: Negotiation

Phase 1 - Exploration



Phase 2 - Negotiation



Negotiate Mutual Agreement



Phase 3 - Integration

Negotiation: Actions

- ▲ Identify the key decision-makers & decision-making process for each party
- ▲ Address make or break issues, typically
 - Name
 - Program preservation
 - Board representation
 - New leadership
 - Former CEO's package
- ▲ Agree on scenario that best meets each partner's needs
- ▲ Gain approval of each board
- ▲ Determine who, when, & how to communicate

Memorializing Your Agreement

- ▲ Document the terms, regardless of place on merger continuum
- ▲ Agreement between reasonable people who trust each other to perform as agreed
- ▲ Not like a corporate merger:
 - No \$ exchanged
 - Documents an agreement both parties want & trust each other to undertake
 - Little ability to compensate for “damages” or in other ways mitigate potential risks if they occur

Communications: Going Public

- ▲ Reinforce merger's goals, how it benefits clients, community & strengthens programs
- ▲ Jointly agree on:
 - Message to both staffs
 - Timing - when message will be conveyed, by whom & how
 - Press release language, to whom, when & how
 - Who talks to which funders, other key stakeholders, timing
- ▲ Provide opportunity for staff to ask questions & convey that you are listening to them
- ▲ Describe what has happened & what will happen next

Phase 3: Integration

Phase 2 - Negotiation



Phase 3 - Integration



Create an Integration Roadmap

Integration: Where the Rubber Meets the Road

- ▲ Up until now each partner has:
 - Focused on planning, identifying and managing risk, and finally deciding whether to collaborate
 - The work was largely broad stroke, big picture
- ▲ Now partners have to work out the specifics, based on the collaboration scenario chosen in phase 1
- ▲ Degree of integration varies

Create an Integration Roadmap: A Collaboration Implementation Plan

- ▲ Create a transition checklist
 - What needs to be done
 - Prioritize what will happen first, second, third, etc.

- ▲ Determine who does what
 - Who is accountable
 - Who's on the team

- ▲ Create a project timeline with milestones

- ▲ Establish monitoring & feedback mechanisms

- ▲ Develop your communications strategy

- ▲ Create a transition budget

Integration Roadmap: Issues to Address

- ▲ Cultural issues
- ▲ Governance
- ▲ Management/executive leadership
- ▲ Staff & volunteers
- ▲ Finance & accounting systems
- ▲ Communications & marketing
- ▲ Fund & resource development

Depending on the degree of integration, you may have to consider more of these issues

Integration, cont'd

- ▲ Celebrate!
 - Each organization's own accomplishments
 - The departing ED & board members, where relevant
 - The new partnership

Integration: Example Harlem United / FROST'D

- ▲ Established a joint-partner, cross-functional, staff-driven implementation team
- ▲ Linked company email systems immediately
- ▲ Developed talking points
- ▲ Created weekly e-newsletter to keep everyone abreast of changes & orientation schedules
- ▲ Rolled out tiered orientation program to introduce HU policies, procedures to FROST'D staff, starting with employee benefits, new QC standards
- ▲ Posted FAQ's about merger on website
- ▲ Focused on the benefit to HU/FROST'D clients

Under-Managed Elements that Jeopardize a Successful Integration

- ▲ Cultural integration
- ▲ Systems & processes rationalization
- ▲ Key stakeholders & external consultants coordination
- ▲ Complex, constantly-evolving work plan
- ▲ Internal & external communications strategies

Merger Cost Implications

Costs vary widely, depending upon complexity

- ▲ Exploration & negotiation expenses
 - Legal counsel - use nonprofit law specialist
 - Merger experts - more than just legal issues to address (HR, financial, IT, project management, facilitation)

- ▲ Implementation costs
 - Severance, benefits package rationalization
 - Moving, systems & facilities integration
 - Marketing, branding, PR & celebratory events

Issues to Consider

Mergers Have Various Forms & Different Advantages

Complete Autonomy

Complete Integration

Collaborations

- No permanent commitment
- Decision-making remains with each organization

Examples

Event collaboration

Alliances

- Ongoing Commitment
- Decision-making shared/transferred
- Involves agreement

Examples

Joint programming

Shared back office

Integrations

- Involves change in control
- Legal structures change

Examples

Joint venture

Parent subsidiary

Management services org

Merger

Myths & Truisms

▲ Myths

- Quick fix
- Saves money
- Is right for every situation
- Signals fiscal distress

▲ Truisms

- Never simple
- Takes longer than you think
- Expect the unexpected
- Not for the faint of heart

Key Success Factors

- ▲ Strong leader with a clear vision
- ▲ Know your goals
- ▲ Make sure you have an appetite for uncertainty & change
- ▲ Remember this is ultimately about your clients - providing quality services/programs over time
- ▲ Communicate early & often
- ▲ Take time to plan upfront

Potential Pitfalls

- ▲ Inadequate commitment, whether board, staff, management
- ▲ Insufficient resources - time, money, mgmt.
- ▲ Organization is not attractive to others:
 - Weak or duplicative programs
 - No clear benefit - in services, clientele, location, facility, etc. -- to a merger for a potential partner
- ▲ Wrong people on the team
- ▲ Inadequate communications
- ▲ Limited due diligence process
- ▲ Lack of cultural fit

The Role of Consultant(s)

- ▲ Provide needed specialist expertise (legal, auditing, first-hand merger experience)
- ▲ Additional resources so CEO/ED can continue to manage day-to-day operations
- ▲ Provide that 3rd-party, outside perspective
- ▲ Project management

Next Steps

- ▲ Consider your own situation – realistically – in today's economy
 - Mission & goals
 - Strengths & limitations
 - How can you *best* serve your community?

- ▲ Identify your options for making sure your community is well served

- ▲ Determine what you need to find out to decide if a “merger” is a viable option for you

About KrasnePlows

- ▲ Founded in 2003, KrasnePlows is a boutique management consulting firm that specializes in mergers and partnerships, planning and restructuring, and leadership transitions for charities and foundations.
- ▲ We work as partners, combining our clients' deep program and organizational knowledge with our executive expertise and ability to apply business principles where most useful.
- ▲ We are based in New York City and can be found on the web at www.KrasnePlows.com.