Exploring, Preparing and Beginning a Successful Strategic Partnership/Merger during COVID-19 Crisis

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Nearly 20 years ago, when I first drafted this white paper, I was concerned about the sustainability of nonprofits with the vast increase in the number of nonprofits and clients in need from a decrease in government services without a corresponding increase in funding and resources. Who knew that those challenges would pale in comparison to what nonprofit executives are facing today? I do not have a crystal ball to see our future; however, I am certain that major government deficits will result in cutbacks of service, leaving more people in need. Despite the federal stimulus and herculean efforts of funders, some nonprofits will not survive. As a wise mentor told me 20 years ago (and someone reminded me recently), the assets of a nonprofit are community assets and not the property of staff and board leadership. As community assets, the leadership must act in the best way to protect those assets. In this time of crisis and the certainty of only more challenges in the near future, nonprofits need to focus on their core strengths and their competitive advantage – what they do uniquely compared to other similar organizations – and then explore more creative partnerships, potentially mergers.

If you think your nonprofit might benefit from a strategic partnership, including a merger, first focus and 'own' your competitive advantage and look at more innovative ways to deliver your service, especially via online, and then cutting out inefficient processes to deliver more impact per dollar. However, taking this step may not be enough to survive and thrive. Developing effective partnerships needs to be the next strategy. Not only is this a best strategic practice during a sustained crisis, this is the recommendation of foundation leaders who review nonprofits' draft strategic plans In my initial paper I stated- "We can't go on like this! This is unsustainable!", and now the status quo will not survive. Nonprofits have explored less formalized strategic partnership options like collaboration over the last 20 years, but now is the time to consider more formalized options like consolidations and mergers (see strategic partnership options below). Building strategic partnerships, including collaborations, is a challenging and complex process that can take many months, if not more, to arrange, but if properly planned can be extraordinarily effective. The challenge is we may not have that time now, so to best protect your community assets, consider and prepare for a more formalized partnership such as a merger.

So why would you explore a strategic partnership or merger that demands time, energy and resources? Because the potential benefits far outweigh the costs; mergers can:

- Create a broader continuum of programs and services
- Serve greater numbers of people in need
- Create operational and administrative economies of scale and efficiency
- Generate a broader array of funding sources
- Garner greater public visibility and awareness
- Create a stronger political voice and greater influence
- Build larger market share and better market positioning
- Create more career opportunities for staff

Unfortunately, poorly planned partnerships, especially mergers, can result in wasted time, energy and resources.

So when is a partnership or merger not a good strategy? Generally, I do not recommend a merger while a partner is in a financial crisis, because it often makes it more challenging to negotiate. However, with this current crisis, you might have to pursue a merger, especially if you cannot financially survive. Also, even though a merger is not usually a good strategy when your primary purpose is immediate cost savings because immediate savings seldom occur, we recommend exploring a merger. Although the costs are initially slightly higher due to one-time costs of planning and execution, such as attorney and consultant fees, printing, moving, and others, some foundations will fund these costs if your merger plan not only sustains your unique impact in the community, but it also creates synergistic outcomes that cannot be delivered separately . Also, with this initial cost increase in mind, experience shows that most mergers result in increased funding from existing and new funders attracted to the value of the merger to the community.

A partnership or merger should never be executed solely because of any of the following reasons:

- an agency wants to meet the demands of a single funder or funding stream;
- an executive director wants to arrange it (along with his/her future role in the merged organization) without board involvement; or
- two board chairs, as good friends, discussed it and thought it should happen without discussing the idea with other board members or staff.

So when is a partnership merger appropriate? A merger is appropriate when the level of integration and synergy mentioned above and sought by the potential partners cannot be achieved otherwise; clients and the community already think of the potential partners and yours as the same organization; a larger consolidated organization is needed to compete with other large nonprofits or businesses; or when the organization, for whatever reason, cannot sustain and renew itself. Ultimately, a partnership or merger is appropriate when an agency cannot properly address its organizational issues or client needs by itself or cannot be sustained during a crisis.

What are most people's initial concerns when considering a partnership or merger? Surprisingly, leaders have concerns both if the partnership exploration is successful and if it does not result in a successful strategic partnership. Many believe that if they explore a partnership with another organization and decide not to partner, then key stakeholders, especially funders, will perceive the organization as undesirable and in peril. In fact, most funders view strategic partnership exploration as a wise strategy, and they understand that sometimes the timing is not right. Other concerns among leaders is that after partnership negotiation their programs will not continue at the same level of quality, that they will lose their job or power, and/or feel a loss of identity. In reality, if an organization continues as is, there is still no guarantee of continued quality programs or jobs in this economic climate. Leaders also fear that funders of both partners will provide less total funds to the consolidated organization (e.g. A local foundation provides Nonprofit A and Nonprofit B with $25,000 each for a total of $50,000, but then gives less than $50,000 to the consolidated nonprofit). Even though there is a chance this might occur, in nearly all situations, funders continue at least at current and, often, increased levels. The key to remember is that any major change produces fear and anxiety; however, if the partnership exploration and negotiation is handled properly, these rightful concerns can be properly addressed.

So you have decided to explore a strategic partnership. How do you undertake a process that best utilizes the leader's time and resources, and properly addresses concerns and issues? As the Oracle of the Delphi stated, "Know thy self." Start the process by examining your organization. Understand your organizational strengths and weaknesses, the external opportunities and challenges, why you want to partner, and what, specifically, you want to accomplish from the partnership. Pare down your organization during this crisis to your focused

mission – your competitive advantage, then internally develop consensus on desired outcomes from a partnership and identify the best partners to achieve these outcomes (hopefully, synergistic outcomes that you cannot accomplish by yourself). (Attached is a worksheet to use to develop consensus during your internal assessment.).

Some internal success factors include (but are not necessarily required) :

- A staff or board member champions the process – preferably board;
- Positive past collaboration experiences;
- Board support/encouragement for pursuing a partnership;
- A track record of organizational risk taking;
- Growth orientation – a desire to be more than the status quo;
- Considering a transition in top staff leadership.

If you have a challenge in clarifying the client or organization issues to address through the partnership, use the following thought provoking questions to aid in the discussion:

- Are there some desired programs outcomes we have been unable to achieve on our own?
- Are there client needs or challenges that we would like to address but do not have the capacity or resources?
- Is system-wide advocacy important for accomplishing our mission and/or properly addressing clients' needs?
- Are there some administrative or human resource expertise that we need but cannot access?
- Are their funding and/or marketing opportunities that we cannot leverage because we do not have the capacity?
- Do we need more space or infrastructure to best serve our clients but cannot obtain on our own?

Once you have determined your organization's reason and desired outcomes from partnering, then it is time to assess possible partners and agree on the best partner to approach. Probably after you identify the desired outcomes and criteria for excluding an organization as a potential partner, then your instincts will likely be effective in leading you to partners with high potential. If challenged, then think about possible partners and consider how their strengths can help you achieve your desired outcomes. Then consider these criteria:

- Do you have complementary strengths and weaknesses?
- Do you have positive past experiences collaborating with the organization?
- Do you trust this organization?

After this thorough assessment, then seek the organization(s) that are the best fit culturally and have similar values with yours.

How do you approach this chosen partner? How about this approach: "Hey, Nonprofit Organization, we cannot meet the need and are running a deficit, so we thought partnering with you would be a great idea. What do you think about sharing your resources with us?"

Alternatively, how about this approach: "Hello, Nonprofit Organization CEO…[small talk, small talk]…We understand the challenges we are all facing, so our board supports leveraging our (organizational strength) to increase/enhance/improve (outcomes from the partnership), by exploring a strategic partnership with your organization. Do you have interest is pursuing these outcomes by partnering with us?" Which approach would work best for you?

Once you have agreed to partner with another organization, the next steps of the initial Feasibility Study and Assessment Phase are critically important to ensure the negotiation of the partnership goes well. If not done well, then the organization will waste time, energy and resources and may then be reluctant to explore other strategic partnerships.

Getting Started – Phase 1: Feasibility Assessment Before you dive into partnering, both organizations need to commit to exploring the partnership in good faith and developing a Partnership Letter of Intent. First, develop a joint partnership task force consisting of the same number of members from each organization, including the Executive Director and 3-5 board members with differing expertise and/or knowledge of the organization in programs, finance, fundraising, marketing and human resources. Collectively agree on the partnership's purpose and desired outcomes. After developing consensus on the purpose, consider possible partnership structures to consider how you would achieve this purpose. It is also helpful to identify the critical issues that must be addressed through the negotiation process. To build trust, all participants must agree to keep conversations and information shared during the process confidential, except for jointly agreed-upon communications. Begin limited due diligence, focusing on financials and development opportunities. Take the time to complete all steps in developing this Partnership Letter of Intent. If not properly addressed at the beginning of the process, it is almost guaranteed that the negotiation process will take much longer than needed and may even end the "friendship." After jointly developing the Partnership Letter of Intent, begin the negotiation and planning process, then, ultimately, begin implementation and integration. The process can be challenging, so it is recommended that a neutral, third-party professional assist in facilitating these steps. The steps we recommend after the feasibility assessment (Phase 1) include:

- Phase 2 – Negotiate a Merger
  - Step 4 – Complete due diligence and enter into Letter of Intent (with legal counsel)
  - Step 5 – Negotiate key issues.
  - Step 6 – Socialize the recommendations with entire board and key stakeholders.
  - Step 7 – Develop a Plan and Agreement voted on by boards. (with legal counsel)
- Phase 3 - Plan for Restructuring and Legal Steps
  - Step 8 – Develop the merger implementation plan
  - Step 9 – Develop structures and processes for implementation
  - Step 10 – Complete merger
- Phase 4 – Implementation and integration, including cultural integration
  - Step 11 –Implementation and cultural integration
    - Board and organizational integration
    - Working Task Forces meeting regularly
    - Transition Team to oversee/coordinate implementation
    - Cultural integration - jointly create new values/norms
  - Step 12 – Monitor and evaluate
    - Measure/evaluate outcomes
    - Celebrate successes