



STRATEGIC ALLIANCES IN THE NON-PROFIT SECTOR

The Nonprofit Association of the Midlands

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STRATEGIC ALLIANCES - ENVIRONMENT

- To achieve efficiencies, strategic alliances can:
 - Eliminate duplication of programming or services
 - Extend an organization's service area
 - Bring new expertise into the organization
 - Help a peer organization in financial straits
- Shifts in the funding environment
 - Budget and other cuts (e.g., sequestration) since Crisis of 2008
 - More competitive funding environment
 - Increased emphasis on accountability and impact
- Sector-specific shifts in approach to programming
 - Increased emphasis on “wrap-around” or “continuum-based” delivery of services
 - Funder or externally driven collaborations

STRATEGIC ALLIANCES: BROAD SPECTRUM

Autonomy ←		→ Integration	
Collaboration (Low)	Strategic Alliances (Medium)	Corporate Integration (High)	
No permanent organizational commitment	Administrative Consolidation	Corporate Merger/ Acquisition	
	Joint Programming	Parent/Subsidiary	
	Fiscal Sponsorship	Joint Venture	
Decision-making power remains with individual organizations	Decision-making shared or transferred	Decision-making is transferred or combined	
	Does not change corporate structure	Changes to corporate control/structure	
	Involves a commitment for the future	Creation or dissolution of one or more organizations	

EXAMPLE 1:

THINKING OF STARTING A NEW NONPROFIT

- An individual or group has identified a community need, perhaps in their own neighborhood, and would like to address the issue by becoming a nonprofit. They have volunteered with nonprofits in the past but have little experience in management or governance. Family and friends are serving on the board and everyone is passionate about the issue but may lack knowledge of broader approaches.

Are you a program or an organization?

Are you as passionate about financial management & governance as you are about the issue?

Is anyone else doing the same thing or something very similar?

EXAMPLE 2: COLLECTIVE IMPACT

- Group of organizations with common agenda
- Shared systems for measuring impact of services
- Mutually reinforcing activities
- Continuous communication
- Backbone support organizations

EXAMPLE 2: COLLECTIVE IMPACT METRO AREA CONTINUUM OF CARE FOR THE HOMELESS (MACCH)



EXAMPLE 3: MERGING EXISTING ORGANIZATIONS

In 2011, Omaha by Design commissioned the National Trust for Historic Preservation to evaluate the state of historic preservation activities in the Omaha-Council Bluffs metropolitan area.

The study noted that (1) historic preservation was not a community priority, (2) the movement for preservation lacked vibrancy, and (3) policy barriers were limiting preservation activity.

Three Omaha-based organizations merged in 2013 to form Restoration Exchange Omaha

PURPOSE/GOAL OF THE TRANSACTION

- What is the primary impetus for the transaction? (political, philanthropic, financial, reputational, etc.)
- What are the specific benefits of the transaction?
 - Improvement in the quality of existing services
 - Improvement in the efficiency (i.e., cost) of existing services
 - Improvement in the ability to raise funds to support the mission(s)
 - Addition of new services to the portfolio of the surviving organization.
- Is the transaction consistent with the missions (and any existing strategic planning documents) of the organizations?

THE PROCESS OF THE TRANSACTION

- Have there been any evaluations or other studies that identify needs that merger is intended to address?
- How did the partners to the transaction identify each other? Are they equally strong organizations?
- Prepare a letter of intent that identifies at least the following:
 - Time period for preliminary discussions by officers/special committee
 - Time period for due diligence
 - Schedule for presenting transaction to the board(s)
 - Date for consummating the transaction
 - Statutory requirements

MEMORANDUM OF UNDERSTANDING (MOU)

○ Future Administration

- Human Resources/Payment Systems
- Transitional Leadership
- Donor Databases
- Information Technology

○ Individuals handling transaction should consider

- Seeking input from across the organization
- Devoting extensive board attention to considering the transaction
- Ensuring that needs have been properly identified
- Disseminating specific information about how the transaction will help one or more organizations achieve their strategic goals

LEGAL COMPLIANCE

- Nebraska Nonprofit Corporation Act,
 - Section 21-19, 118 to 123.
- Issues from a federal tax perspective
 - See IRS Publication 4779, “Facts About Merging or Terminating Your Exempt Organization”
 - Will there be private inurement or private benefit?
 - Will there be UBIT?
 - Will the surviving entity need to seek its own 501(c)(3) status?

THE REALITIES OF MERGER ACTIVITY

- Fewer mergers in the non-profit sector than in for-profit
- Non-profit mergers tend to involve one or more distressed organizations
- The level of merger activity differs from sector to sector (human services, culture, environmental, youth-focused, etc.)
- Mergers often suggested by funders, including government

THE DUE DILIGENCE PHASE

- Review of documents (see checklist)
- Review of investment and banking relations
- Provisions to focus on:
 - Change of control provisions
 - Notice provisions to funders, etc.

COMMUNICATIONS AND FUNDRAISING

- Effect of transaction on relationships with major funders
- Effect of transaction on role of surviving entity in the community
- How will the transaction be reflected in the branding of the new organization?
- How will the new organization's communications materials reflect the transaction?

POST-MERGER INTEGRATION

- Outreach to staff of organizations in transaction
- Plan for leadership transition
- Address operational and cultural issues (implementation)
- Develop plan for achieving the goals of the merger

Questions?

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