



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
Dyson Foundation
Ulster County Community Foundation
May, 2009

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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

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The Merger Continuum

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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 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 & repetitively
 - Why we are doing this
 - Where we are
 - What has happened & what it means
 - What's next

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A Roadmap for the Merger Process

```

    graph TD
      subgraph Phase1 [Phase 1 - Exploration]
        A[Determine Organization Readiness] --> B[Identify Partner(s)]
        B --> C[Conduct Potential Partner Due Diligence]
        B --> D[Develop Collaboration Scenarios]
      end
      subgraph Phase2 [Phase 2 - Negotiation]
        E[Negotiate Mutual Agreement]
      end
      subgraph Phase3 [Phase 3 - Integration]
        F[Create an Integration Roadmap]
      end
      C --> E
      D --> E
      E --> F
  
```


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Phase 1: Exploration

```

    graph TD
      subgraph Phase1 [Phase 1 - Exploration]
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      end
      subgraph Phase2 [Phase 2 - Negotiation]
        E[ ]
      end
      C --> E
      D --> E
  
```


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 Phase 1

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 decision
 - Develop a communications plan to inform relevant parties throughout -- board, staff, funders, other key stakeholders


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 Phase 1

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?


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 Phase 1

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, programmatic & leadership audits?


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 **Phase 1**

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


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 **Phase 1**

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

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 **Phase 1**

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

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 **Phase 1**

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


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 **Phase 1**

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
- Employee benefits & compensation practices
- Policies & procedures
- Obligations: debt, leases, etc.
- Legal issues, if any
- Cultural fit

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 **Phase 1**

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?

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 **Phase 1**

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*


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 **Phase 1**

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

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 **Phase 1**

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)

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KrasnePlows Phase 1

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

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KrasnePlows Phase 1

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

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Phase 2: Negotiation

Phase 1 - Exploration

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Phase 2 - Negotiation

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Negotiate Mutual Agreement

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Phase 3 - Integration

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 Phase 2

Negotiation: Actions

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


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 Phase 2

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

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 Phase 2

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

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Phase 3

Phase 3: Integration

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    graph TD
      A[Phase 2 - Negotiation] --> B[Phase 3 - Integration]
      B --> C[Create an Integration Roadmap]
  
```

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Phase 3

Integration: Where the Rubber Meets the Road

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

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Phase 3

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

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 **Integration Roadmap: Issues to Address** Phase 3

- 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


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 **Integration, Cont'd** Phase 3

Celebrate!

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

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 **Integration: Example Harlem United/FROST'D** Phase 3

- 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


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 Phase 3

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

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Merger Cost Implications

Costs varies 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

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Issues to Consider

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Mergers Have Various Forms & Different Advantages

Complete Autonomy		Complete Integration
<p>Collaborations</p> <ul style="list-style-type: none"> • No permanent commitment • Decision-making remains with each organization 	<p>Alliances</p> <ul style="list-style-type: none"> • Ongoing commitment • Decision-making shared/transferred • Involves agreement 	<p>Integrations</p> <ul style="list-style-type: none"> • Involves change in control • Legal structures change
<p>Examples</p> <p>Event collaboration</p>	<p>Joint programming</p> <p>Shared back office</p>	<p>Joint venture</p> <p>Parent subsidiary</p> <p>Management services org</p> <p>Merger</p>

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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

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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

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 **Potential Pitfalls**

- Inadequate commitment, whether board, staff, mgmt.
- 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 merger for a potential partner
- Wrong people on the team
- Inadequate communications
- Limited due diligence process
- Lack of cultural fit

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 **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

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 **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

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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.

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