



Nonprofit Strategic Partnerships Webinar

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Question & Answers

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Q- Should all partners approach mergers from a standpoint where both are considered equal partners? Should you approach a partnership if you are not considered an equal partner?

A- You should always approach a merger as valued partners. If you are a \$300K organization and looking to merge with a \$13MM organization, it's not realistic to see yourself as an equal partner, but you are valued partners. Yes, you should 100% approach a partnership if you are not equal partners, but during the inventory you need to identify what makes you a strong partner and you need to be able to say what strengths you bring to the relationship.

Q- Do you have to have a lawyer as a part of the process?

A- Yes. You will also need an accountant, and you might choose to use a consultant to help you through the process.

Q- Is it inevitable that funders and availability of funding frequently drive nonprofit mergers?

A- Funders can encourage and support nonprofit mergers. At the same time, funders should not insist on a merger, because then it becomes their merger.

Q- Is it true that a lot of smaller organizations lack the technical capacities to attract and manage larger foundation funding?

A- That can certainly be true, and that is why at times mergers can actually help you attract larger funders.

Q- If negotiations become difficult or contentious, should you treat this as a warning that the relationship would not be successful?

A- If conversations become too difficult or too contentious, it may be a red flag. At the same time, you need to realize that mergers are a time when emotions are heightened. When negotiations become very tough, you want to try to walk through the pain. If it gets too bad, then you may need to end the process

Q- I feel that it is critical to know when to enter into a partnership as it is to know when to leave a partnership. Leaving a partnership has even more political implications at times. Any thoughts on this?

A- Leaving a partnership does have implications. If you feel the need to leave or say no to a partnership do it with grace. I always say end with a meeting, where you can thank each other, talk about what you have learned, and acknowledge that hopefully you can work together in other ways in the future. Leave well, is what I would say.

Q- If two organizations are starting discussions about a potential merger, and one organization is stronger financially at that point, and the other is not coming through as clear on the financial situation, and there is a little bit of concern, how do you negotiate who is in control and in control over the leadership of the merger, and there's some concern about losing control of finances, how do you make that determination?

A- That has to be really a part of the conversation, when one organization is financially stronger, and you have to say from the very beginning in the conversations that you have, and these are not easy conversations to have at times, and you have to be clear about the expectations of the smaller organizations are, and to be honest about that, and see if they agree to that, and if they don't, see if then you can negotiate to a middle ground. Oftentimes, most of the time, mergers are between organizations that are not equals and perhaps not the same financial stability and so the smaller organization needs to be really clear as to what benefit they are bringing to the larger organization and also has to listen to and digest the expectations of the larger organization.

Q- How do you approach a potential merger partner without causing them to recoil or be insulted at the idea of merging, especially when they are struggling?

A- You approach it sometimes without using them “m” word. Talk about opportunities to partner and what that might mean. I think you approach the merger word carefully, but don’t shy away from it either.

Q- Have you seen a common pitfall with a partnership or merger that could have been mitigated in retrospect?

A- A common pitfall is that organizations don’t want to follow a process. They think that “we are such good friends; this is a no-brainer.” As they move forward, they refuse to have the tough conversations. When I am called in as a consultant and want to have the tough conversations, they avoid it. That is really hard. They end up having the tough conversations, but it is much further along in the process.

I believe strongly that you should follow the process. There are books out there on this. It’s not based on intuition. Mergers and partnerships can’t just be based on intuition.

Q- Why do funders not make recommendations of strategic partnerships as they have inside information that can be helpful?

A- They do, but they can’t (and shouldn’t) force them. Most funders understand to that. Many funders will support or encourage partnerships. If funders force it, then they own it. You, and we think it’s a great idea, and we know some people, but you can’t force it.

Q- Can you discuss how merging partners merge finances?

A- That is a large part of the due diligence. You look very carefully at each other’s financial position – its revenue base, its fixed and variable costs, and its net assets. If one organization is stronger than the other, then they are going to see your books and they are going to see your audits and they are going to see your financial statements. They have access to all of this, so it’s not a surprise.

This also speaks to who should be on a merger team. You want people with different skills, including financial management skills. An accountant is a great person to have on the team.

Q- Can foundations help mergers by giving direct compensation to the exiting leader?

A- Foundations can support merger costs, but they are not going to give direct compensation to the exiting leader. The organization may create a severance package for an exiting leader and then must decide how to fund the package. I was in a merger discussion with an organization where the leader said the other organization would have to pay her \$300,000 for the merger to move forward. We left.

Q- If two organizations are about the same size, how do you determine who leads?

A- From early on you need to discuss future leadership. This can be delicate if you have two leaders who both want the top position. If one organization has a leader who is clearly stronger, it often defaults to them. The reality is that some leaders are nervous about giving up their positions, so that may be addressed with either a “second in command” conversation or incentivizing with a retirement package.

Q- Any best practices for concluding partnerships, presuming that they have been successful? But that time has changed, and the partnership is no longer accomplishing the original goals?

A- I think having an honest conversation, celebrating those successes but looking forward and acknowledging that needs have changed. I think that what is really important is having a conversation. You don't just do a fade, where you just sort of stop taking calls and stop doing things together. Be honest, be deliberate and be kind.

Q- Don't you think that this crisis will have many small organizations wondering if they can continue?

A- Absolutely. This is an opportune time for those discussions to take place, with one reservation. We also thought in 2008 was an opportune time for those discussions to take place, and very few did. That said, I do think that organizations are going to need to find ways to work together in much different ways than they have in the past.

Q- If you are pursuing a partnership rather than a merger, how much should you focus on ensuring the people and existing resources remain in place for the duration of the partnership?

A- From the beginning be clear about your expectations. You may say our expectation is that this person will continue to lead this process. If there are any material changes to those expectations, you should be informed and may choose to or not to continue that process.

Q- How are merger costs typically financed?

A- There are funders who will finance mergers, but it is really important that each have their oar in the water. One partner may say they can pay the majority of the cost, but both partners need to pay something. Sometimes partnerships and mergers are funded by your savings, the money you have in the bank.

Q- Is it common for donors to be approached to fund a merger?

A- Yes.

Q- How do you best approach funders for the uses of these funds?

A- First approach funders who know and love you. Explain to them what you are trying to accomplish and ask if they will support the efforts. Before you go to any funder, get a sense of what the merger will actually cost. It's harder to go to funders you don't know unless they support capacity-building grants.

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