



COLLABORATION and EVERYTHING ELSE

Collaboration Among Nonprofits
Critical to Future Success

Introductions

- Welcome
 - Self Introductions
 - Your Name
 - Your Organization
 - Your Mission

Overview of Today

- Nonprofits competing
- What is collaboration
- What forms does it take
- How can you take advantage
- Feasibility Study



Disclaimers

- I am not an attorney—information provided in this workshop should not substitute for legal advice from an attorney or from government agencies.
- This course is meant as an seminar. Detailed information can be found in publications and websites listed in your handout.
- Much of what you hear today will be the opinion and “best wisdom” of the instructor.



Coach's Background

- Robert McKim M.P.A., CISA, CIPP
- Nonprofit Experience:
- CEO – McKim Nonprofit Consulting
- Board of Directors – Chairman of the Board Meals on Wheels West six years
- Board of Directors – Secretary, launch of Camp Coke-a-Cola (C5) two years
- Board of Governors – Institute of Internal Auditors, Academic Relations and board member two years
- President's Advisory Board – Chicago School of Professional Psychology two year
- SCORE – Division Small Business Administration, counselor nonprofit specialist two years
- Masters in nonprofit management – Walden University



Nonprofits Contribution to Our Economy

- Approximately 1.1 Million nonprofit organizations in the U.S. 58% are public benefit/charitable organization; 30% are religious institutions; 12% are mutual benefit. (like trade associations)
- 8% of the Gross Domestic Product.
- \$700 billion in annual revenue.
- Employ 10.2 million people - 10% of the country's entire workforce.
- About 90 million people volunteered 20 billion hours valued (in-kind) at roughly \$200 billion.
- About 30,000 new nonprofits are created every year.

Los Angeles Nonprofits

- Over 17,949 Nonprofits in Los Angeles area about 46% of the state's nonprofits. Appr. 7,000 in Orange County⁽¹⁾
- About 136,000 employees work in the local nonprofit.
- There is an estimated duplication rate of between 25% - 35%.
- Many competing for the same donor dollars or government funding and private grants.

Charitable Contributions by Type

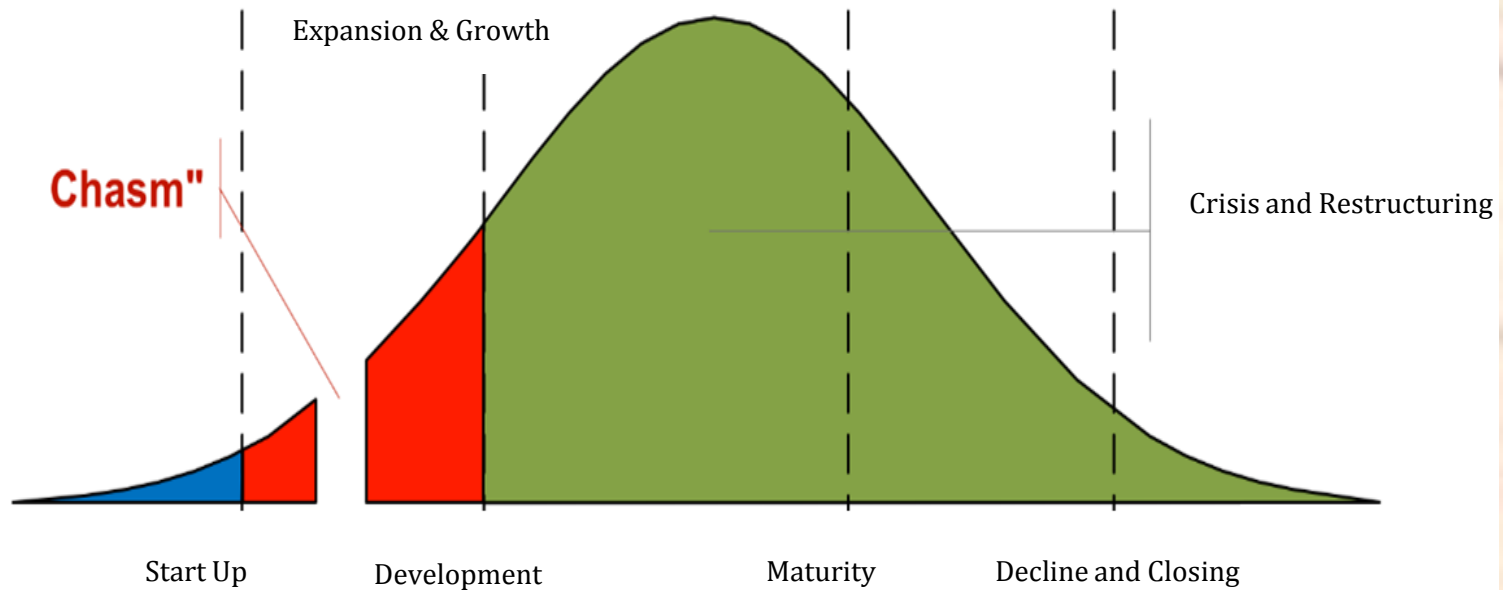
Recipient Organizations, 2008

Type of charity	% of charitable contributions
Religion-related	34.7
Education	13.3
Gifts to foundation	10.6
Human services	8.4
Public and societal benefit	7.8
Health	7.0
International and foreign affairs	4.3
Arts, culture, and humanities	4.2
Environment and animals	2.1
Unallocated/other	7.5

Source: Giving USA Foundation, Giving USA (2009).

Knowing Where You Are

Lifecycle of Nonprofit Organizations



Carlson and Donohoe, *The Executive Director's Survival Guide*

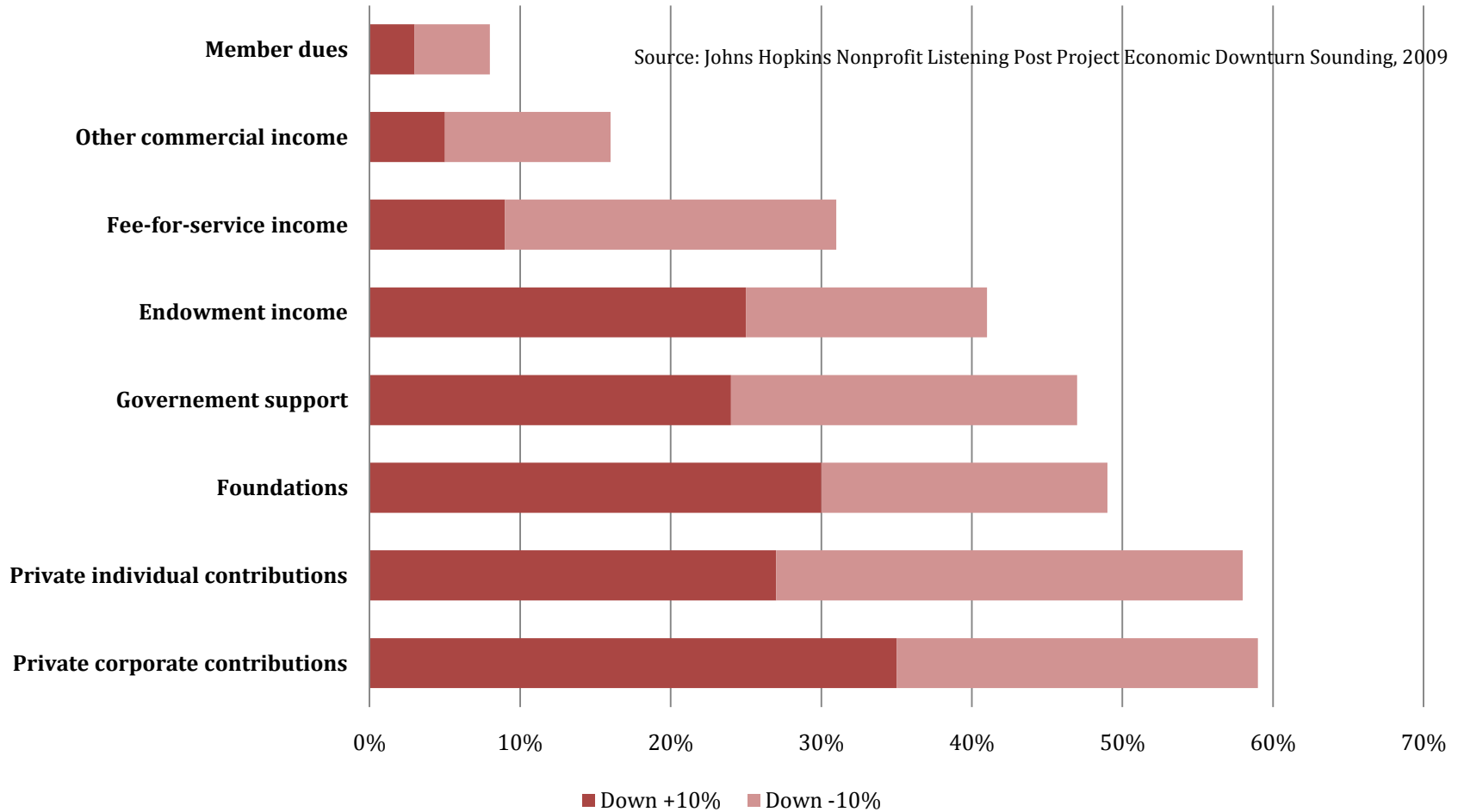
What Is Happening Today

- Economic and political pressures, competition, taxpayer revolts, and a few high-visibility scandals have all hurt the nonprofit sector. As a result, nonprofits face critical decisions about their future—and perhaps their very survival.
- Funding is off in most every sector.
 - Private donors off 7%
 - Corporate off 10%
 - Government off 7%
 - Foundations off 10%



Agencies Anticipating Decrease in Revenues

Source: Johns Hopkins Nonprofit Listening Post Project Economic Downturn Sounding, 2009

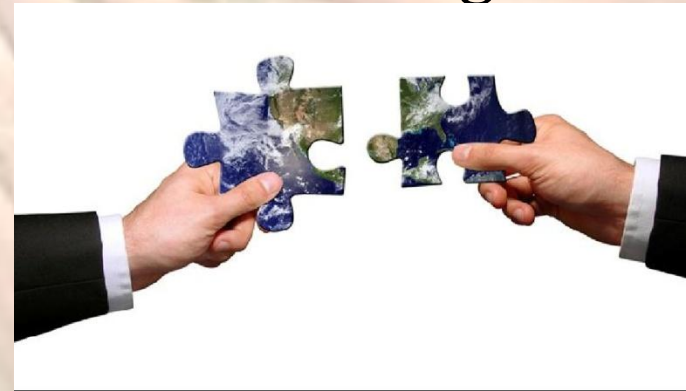


Collaboration and Restructuring

- Many nonprofits are considering a fundamental change in organizational structure because of economic pressures such as increased competition from business, government, and other nonprofits; a shrinking supply of experienced leaders willing to remain in the sector for inadequate wages; and increasingly urgent and complex community needs

Legal Forms

- Merger & Acquisition:
 - Since nonprofits have no identifiable owners, nonprofit corporations cannot be bought or acquired.
- Back-Office Consolidation
 - Separate corporations with separate chief executives and boards of directors are looking for agencies to support



Legal Forms

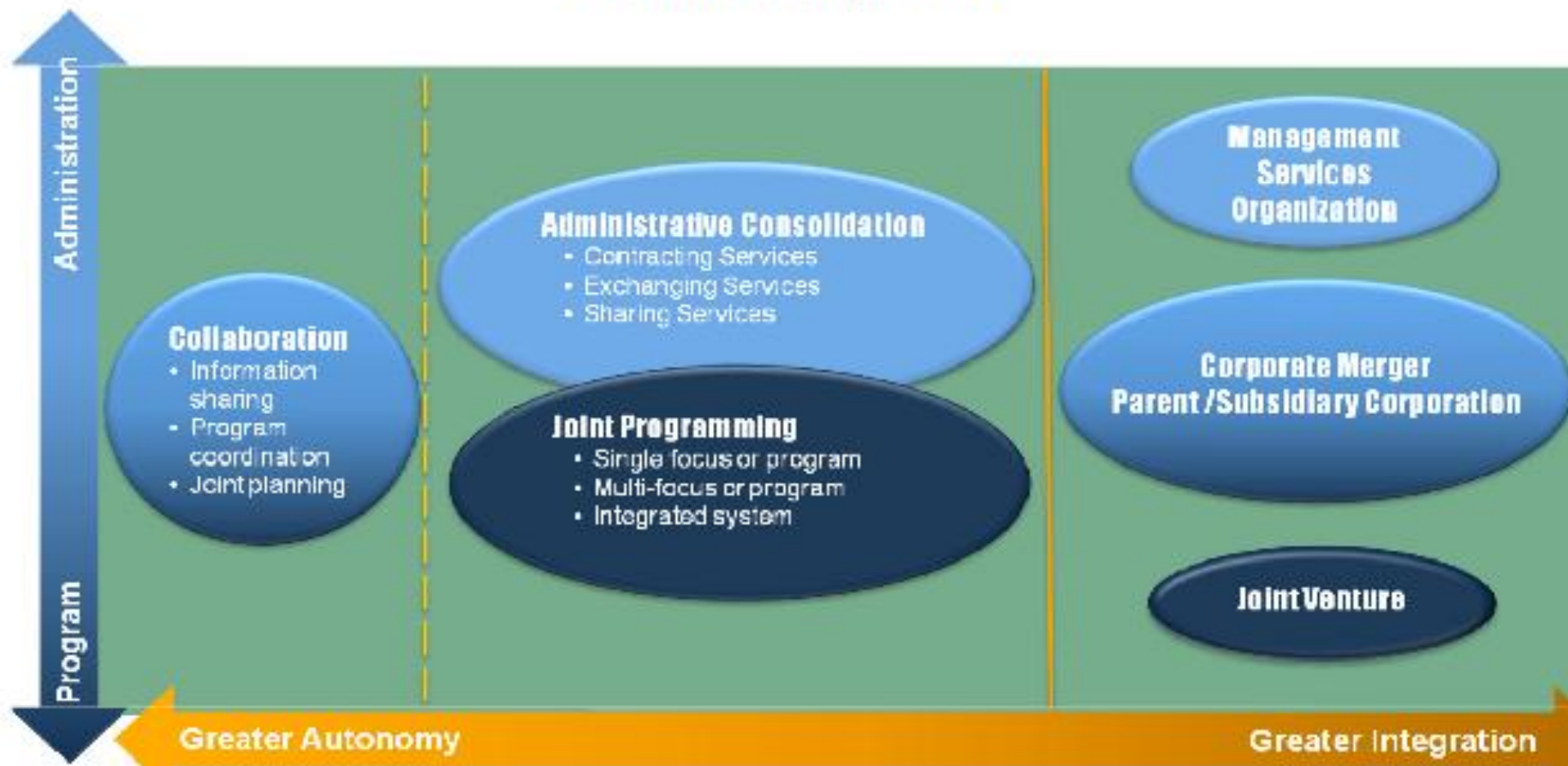
- Collaboration/Joint Venture
 - Two or more organizations come together to provide a vehicle for delivery of marketing, billing, HR etc., minimizing risk and sharing resources
- Fiscal Sponsorship
 - established nonprofit serving as “middleman” for charitable funds received by a new project lacking 501(c)(3) tax status. A 509(a)1

Collaboration

- Nonprofit organizations attempting to restructure through mergers, back-office consolidations, joint ventures, or fiscal sponsorships must overcome perceived threats to their autonomy, board and staff members' self-interests, as well as potential culture clashes.



The Partnership Matrix



--- Contract or MOU

— Change in Corporate Structure

- No permanent organizational commitment
- Decision-making power remains w/ individual organizations

Collaboration

- Involves a commitment for the future
- Decision-making power is shared or transferred
- Is agreement-driven

Strategic Alliance

- Involves changes to corporate control and/or structure, including creation and/or dissolution of one or more organizations

Corporate Integration

Strategic Restructuring

Strategic Restructuring Questions

1. Ask yourself if the community really needs this program.
2. Are there many other organizations that are doing this work?
3. Are the resources available to support your project?
4. What's your niche? How will you be different from other existing organizations?

Determining the Choices

1. How can we best define and describe the options for strategic restructuring?
2. Is the climate right for strategic restructuring? Will successful restructuring improve the functioning of nonprofits?
3. What pressures lead nonprofits to consider mergers, consolidations, and joint ventures, and what difficulties prevent bringing these efforts to fruition?
4. How do I know if my agency is ready?

Defining Agency Culture

- May be driven by:
- **Mission Statement** – summary of the beliefs of the organization and where it is now
- **Vision** – where the organization wants to go in the future

Understanding Agency Culture

- The beliefs and values shared by people who work in an organization
 - How does the board react to changes
 - How people interact with donors/clients
 - How people view their relationship with stakeholders
 - People's responses to stakeholders, community involvement, work ethic, etc.
 - How the organization behaves with its employees – training, professional development, etc.

Some Solutions Are

- Flexible—a project rather than a program focus (nothing is permanent), extensive use of outsourced contractors and partnering with foundations, management support organizations, private consultants, etc.;
- Small—structured as a virtual corporation with no “offices,” minimal overhead, and outsourcing of nearly everything;

Some Solutions Are

- **Market-Oriented**—a high-profile presence, aided by the retention of a publicist, and a very un-nonprofit-like emphasis on marketing, capitalizing on nonprofit leaders' increased interest in strategic restructuring, leading to earned income;
- **Entrepreneurial**—an emphasis on new project development and fee generation and a goal of becoming self-supporting through fees and project-specific grants;
- **State-of-the-art**—no excuses for outdated technology, facilities, programs, or ideas.

The Benefits Are

Direct

- Reduce expenses
- Improves quality of services
- Increase Geographic reach or program reach
- Greater productivity
- Increased focus on mission
- Improved program outcomes

Indirect

- More effective administration through improved systems
- Better staff retention: staff have more opportunity for advancement and a greater range of work
- Sustainability of services and agencies
- Reduced risk
- Attractive to funders
- More funding opportunities
- Fosters cooperation

Collaboration Is Best

Nonprofit A
Has specific
adaptable assets
like facilities

Nonprofit B
Has specific
programming and has
similar mission

**Forms New
entity
Corporation C**

Steps In Forming a Collaboration

- Clarify purpose
- Identify and recruit partners
- Frame the alliance Win-Win
- Formalize the structure
- Gain board approval
- Conduct a feasibility study

Conduct a Feasibility Study

- The feasibility study provides management and the board with a convincing analysis of the new venture's potential risks and rewards.
 - A feasibility study should include a thorough review completed within a short time period, say 30-45 days. The organization needs to research the market to determine the extent of the need, potential pitfalls and controversies, as well as possibilities for expansion and completion.

Feasibility Study Outline

- **Type of Venture.**
 - Describe the new venture, program or expansion idea: where it fits organizationally, who will benefit, how the organization benefits, how the venture fits into the organization's mission and rationale for implementation.
- **Industry Information.**
 - Provide information on the broader industry of which the proposed venture is a part, including trends, changes, anticipated milestones, controversies and special qualities your organization is prepared to bring to the table.
- **Resource Needs.**
 - Describe in detail the amount of financial and other resources (such as staffing, equipment, facilities) required to properly implement the venture. Include any specialized equipment or employee skills you will require.

Feasibility Study Outline

- **Target and Niche Markets.**
 - Describe the intended target and niche markets, their current needs, how your organization will address those needs by reaching the target market and why the market might prefer your organization.
- **Assessment of Benefits**
 - Describe how the new venture will provide value-added services to the organization and community at large. Analyze growth and near-term potential.
- **Assessment of Disadvantages.**
 - Describe the obstacles, potential negative impact and problems associated with implementing the new venture. Discuss potential investment risks as well as potential political and legal complications. Additionally, consider potential risk to the organization's tax-exempt status.

Feasibility Study Outline

- **Financial Review.**
 - Complete a pro-forma financial statement including a break-even point and return-on-investment evaluation.
- **Recommendation.**
 - Based on the above, develop a recommendation to implement, postpone or not implement the new venture. Consider all possibilities, including developing strategic partnerships and recommending the new venture opportunity to another organization.

Summary

- Don't give up hope, things will get better
- Understand where and who you are
- Look at opportunities to reduce costs
- Research potential partner agencies
- Get board agreement
- Conduct a feasibility study
- Implement and track results

Resources

List of legal resources, articles & books for mergers

<http://www.nonprofitexpert.com/merger.htm>

La Piana list of web resources

<http://www.lapiana.org/resources/websites/index.html>

La Piana list of resources

<http://www.lapiana.org/research/index.html>

List of articles on mergers - ability to order online

<http://www.alliance1.org/library/mergers.htm>

Bibliography for strategic alliance

http://www.uwex.edu/li/learner/bib_alliances.htm

Center for Nonprofit Excellence: strategic restructuring resources

<http://www.cfnpe.org/site.cfm/strategic-alliance-resources.cfm>

List of nonprofit resources with some on mergers

http://www.nfconline.org/main/info/library/library_15.htm



Questions?

RMcKim@mckimconsulting.com

310.930.0066