

CHAPTER I — ARE YOU THE BEST THAT YOU CAN BE?

'Put your best foot forward ~'

BROWNING

Your Response to Change

Over the past several years, non-profit organizations have faced a growing number of challenges: rapid expansion; increased demands for service; difficulty recruiting enough volunteers; funding cuts; increased costs; and competition for raising funds. The challenges have grown faster and bigger in proportion to the increasing efforts to remain stable and sustainable.

Some organizations have dealt with these challenges more effectively than others. Generally speaking, successful organizations have strong leadership, a clear vision and direction and a good understanding of their purpose. They have flexibility and are adaptable to rapid change. They have strong, focused communicators and staff who deliver high quality programs and services to their clients/consumers.

For the less successful organizations, both large and small, the challenges of the past decade have not resulted in growth or in positive changes. In response, a few courageous boards of directors have explored the relevance and possibility of an alliance.

There are many forces that can drive an organization toward a strategic alliance. And there are many issues that encourage or compel them to examine how they can continue to deliver quality services and maintain

standards required by donors and funding agencies. The truth of the matter is often simply this: how can they afford to keep their doors open?

Organizations affected by some of the above challenges may have entered a downward spiral that is difficult to reverse. Their situation may be further aggravated when some volunteers and staff talk openly about how difficult the work now seems to be; how being involved is not as rewarding or as satisfying as it was in the past. Board members may be frustrated by meetings that seem to go nowhere, and by plans and decisions that don't yield the desired results.

Some more knowledgeable and performance-based funders are taking note of these situations and are now becoming more proactive in suggesting or forcing these organizations to examine the possibilities of strategic alliances or mergers.

Given the present environment, organizations would be well-advised to consider their options and take control of the search for new alliances. This will ensure that any new partnerships or alliances formed will be respectful and representative of their organization's values, clients and services. The leadership must be willing to get involved and commit to making the necessary changes.

Waiting for a funder to force a merger, takeover or other types of alliance could mean that an organization will not have the possibility of choosing their own partner or controlling their own destiny.

WHY CONTEMPLATE ANY TYPE OF ALLIANCE?

Considering all of your options also includes some objective thinking about the benefits and drawbacks to any form of alliance. Weighing potential benefits against potential drawbacks is imperative in the preliminary stages of any analysis. It is important to keep in mind that some organizations don't need to merge to enjoy certain benefits which would be available from any type of alliance. Why would you consider it otherwise? The benefits you expect to receive should be paramount in driving the structural/legal options to be considered.

The Potential Benefits to consider include:

- Improved organizational efficiency – savings in purchasing, access to enhanced hardware and software, acquiring the latest information technology systems
- More effective customer services – offering a more complete continuum of service and/or improved prospects for offering new services
- Greater financial stability and flexibility – creating operational efficiencies and expanding the fundraising base in the face of increasing competition
- Greater organizational stability through aligning weaker with stronger organizations
- Increased market potential – in new geographic territories; brand name rights

- Enhanced community image – through careful planning and communications
- Non-financial strengthening of the organization – acquiring intangible assets, such as experienced board members
- And improved conditions for staff – more varied career options, a potential change in compensation.

Efficiencies in overhead costs can be achieved whether organizations simply share space for one or all of their programs. This is possible whether or not there is a complete merger or take over of programs. One organization reported that prior to the merger their administrative services represented 17% of their total budget. In the post-merger organization this was reduced to 12%. They also stated that a wider range of support services became available to all their programs. Information technology support increased and hardware and software were upgraded. An expanded human resources department enhanced the quality of their personnel files, benefits administration, etc., providing more effective and efficient internal services.

Efficiencies in service delivery can also be achieved, particularly when a well-established large organization takes over a program or even all the services of a smaller organization with few or no staff. More efficiencies in customer intake can be achieved with more experienced staff, thereby moving people into services more quickly. In the case where larger organizations who have correspondingly larger staff

groups with more expertise take on greater numbers of clients, this will either reduce wait lists (in certain sectors) or give the new organization the ability to conduct outreach for more clients.

Other forms of alliance can offer many advantages to the non-profit seeking the benefits of collaboration without giving up control. In fact, many organizations have already experienced some alliances without realizing it. They may have written a joint funding proposal to offer a pilot program for a specified period of time. In one case a group of agencies formed a network to submit a funding proposal for a new model of service and went on to form the governing committee. These types of alliances offer great flexibility plus the power to bring the combined weight of two or more similar organizations in the service of finding a solution to problems, which can be as simple as purchasing commodities more cheaply. They also offer a means of involving staff at all levels in productive, non-threatening collaboration.

Management service organizations are a more sophisticated form of these economic-based alliances that are still less intrusive or permanent than mergers. Benefits include sharing information and bidding jointly for grants or contracts, particularly if one organization has the expertise to write successful applications, or if one of the partners is not incorporated, or does not have a registered charitable number.

A recent example is that of two local charities in close proximity. The smaller of the two had one half time staff person. When she decided to retire the board did not replace her. They approached their neighboring charity for administrative support. They signed an administrative service agreement for six months, which was subsequently renewed for another six months before they began discussing a more serious permanent relationship, which culminated in an amalgamation early in 2007.

A simple and cost-effective way of integrating nonprofits without a merger is to share staff, particularly at the management level. Most often this occurs at higher professional levels, such as the chief financial officer, program director or, in the case of mental health agencies, the clinical director. These positions usually require more education and/or expertise and therefore command higher salaries. Part-time roles for these high-level staff can still be an effective way to gain their expertise at an affordable price.

Recent Examples of National Alliances

On a national level, there are two examples of interesting alliances that have yielded some good results. The first is the merging of the Canadian Centre for Philanthropy with the National Voluntary Organization, two large nonprofit organizations. The new organization is called *Imagine Canada* and has blended the strengths, resources and political clout of both organizations in a move that clearly gives the voluntary sector a much stronger face and voice in advocacy efforts on behalf of the sector as a whole. Staff and volunteers dedicated over a year

to negotiating this merger to ensure that the process was sound and yielded the desired results.

The second more recent example of a national strategic alliance, with much media coverage has already yielded some very positive results in the short-term. *Own the Podium 2010* is designed to help Canadian athletes participating in winter sports to have access to improved training techniques through scientific research and the use of new technologies. Another of their goals is to help Canada become the number one nation in terms of medals won at the 2010 Olympic Winter Games in Vancouver, B.C.

Own the Podium 2010 is a collaborative effort involving all 13 winter National Sport Federations and the major winter sport partners such as the Canadian Olympic Committee, Sport Canada, the Calgary Olympic Development Association, the Canadian Paralympic Committee and the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games. All partners agreed that Canada must change the way it supports sport and funding in order to achieve the above goals.

The 13 winter National Sport Federations, traditional competitors for funding, corporate sponsorships and media attention, have clearly understood that this collaborative venture will result in more success for all the athletes, especially those in the elite category. Corporate sponsors such as Royal Bank, General Motors Canada, Bell Canada and The Bay have signed on for long-term support

through 2010 because they see the advantages of this unified approach to seeking sponsorships.

Canadians were thrilled to see their athletes achieve significantly better results at Torino 2006 than in previous Olympic Winter Games. Given the results in 2006 it is easy to see how others will now want to become partners of the 2010 Winter Games.

It is evident that those involved in the initial discussions in 2003/04 had clarity of purpose and vision, and were able to encourage many others to sign on to that vision. The effort required to create this collaboration was, no doubt, very significant and nothing appears to have been left to chance. There is a strong governance model, benchmarks, and definitive accountability structures. More important, the benefits to the athletes, the development programs, coaches and trainers, spectators and sponsors will outweigh any difficulties that may be encountered along the way. And the boost to national pride will be almost immeasurable if the desired results are achieved!

Examples of benefits depend on how creatively you think about the issues at hand. The benefits we have listed above are not all inclusive but show up consistently in our research. The point is to determine, through your own internal organizational analysis, what is missing, what is needed, and what is the most effective and efficient way to achieve your goals.

THE POTENTIAL DOWNSIDE OF AN ALLIANCE

Alliances, particularly program acquisitions or mergers, do not come without risks and problems. The negative impacts that are most frequently associated with combining two nonprofits or taking on one or more programs from another agency are:

- dilution of operational skills – expanding the scope of programs beyond what can be managed properly or reallocating workloads of one organization to the existing staff of the other organization, causing overload
- clash of cultures, management personalities/board loyalties
- costs and time required to complete all phases of the process, particularly for a merger
- financial uncertainties – about future funding and dilution of fundraising talent or focus; this is especially true when a successful fundraising program is already in place, and/or there are concerns about whether existing funders will transfer money with the programs
- assumption of debt or liabilities of an organization
- legal or regulatory obstacles
- resistance – from funders, clients, staff or other stakeholders
- rights/ownership to signature programs/events

Given these potential consequences that might result from an alliance it is important to weigh all the potential benefits against them to determine if you can come out ahead. This requires that the board of directors carefully evaluate the degree of risk and the potential magnitude of each drawback. Significant risks to your financial, legal, or public image are possible. Other aspects of your organization's programs and services can all be at risk if an alliance goes sour. This risk/reward analysis requires an ability to separate real problems from perceived problems based on fear or speculation. It is therefore important to remain objective in considering all the issues.

Throughout any type of intrusive alliance process (merger, takeover or program absorption), the boards of both organizations must fulfill their fiduciary responsibilities by acting in the best interests of the organization, the customer and the community. Significant problems can arise from a failure to get proper legal, tax or accounting advice before entering into the alliance. In a badly structured partnership, merger or informal collaboration all board members may be individually and 100 percent liable for contracts and obligations arising from alliance activity. As a result, alliance structures should be carefully defined in a short or long-term contract setting out how risks as well as rewards are shared. Legal advisors can help alliance partners choose the best structure to govern the relationship.

The intention of this reference book is not to suggest that every organization facing challenges needs to

merge or allow itself to be taken over by another. However, the possibility of some form of strategic alliance should be factored into your strategic planning process. There are many lessons to be learned from those that have undertaken this work. See Chapters 12 and 13 for further information.

The key motivation for doing so is that the needs of those who look to your organization for help and support, for education, recreation or entertainment must be met in the best, most effective and efficient way possible, given all of the issues facing organizations today. If your organization is facing any of them, it is not easy to contemplate reducing staff or programs, closing your doors and ceasing to exist as an organization. Many people have relied on your programs and services and many others have shown loyalty and financial support. To some, even entering into this type of discussion is to admit failure or defeat, something most of us are unwilling to do. Patrick Collins, the Publisher of *The Hamilton Spectator*, once said that you can't cut your way to success. At some point an organization needs to make a strong investment in itself and its future growth or it will stagnate and eventually die. For some, that investment may be in the form of a strategic alliance or a merger.

Taking Action to Improve Performance

If some of the challenges and issues outlined at the beginning of this chapter describe an organization with which you are involved, serious discussions

about how to improve its performance are timely. This will be mandatory if you are looking at alliance options. An appropriate starting point is to critically analyze the strengths and weaknesses, the opportunities and threats that your organization faces (SWOT analysis). The results of this examination will be the basis for a strategic plan that charts a strong direction for the next three years for the organization, with clear, measurable goals against which a performance evaluation will be based. This front-end analysis would ensure that you are entering any alliance discussion from a position of strength.

There are many approaches to conducting an organizational assessment. In some cases, when an organization is struggling, it can undertake a Feasibility Study to assess the potential for sustainability. In more stable organizations, this assessment may take the form of a strategic planning process to confirm an organization's mission and vision and to determine its strategic directions for future growth. All approaches to organizational review and change involve similar steps.

Exhibit 1.1 — Steps in a Typical Feasibility Study

1. Formation of a task group, to conduct the review process, which is accountable to the organization's leadership and representative of the organization's internal stakeholders.
2. An environmental scan or situational analysis that examines the organization's current position in its community.

3. A full factual analysis of the organization's financial history and potential for revenue growth.
4. A review and evaluation of the delivery of programs and services.
5. A *SWOT* analysis of the organization's Strengths, Weaknesses, Opportunities and Threats.
6. Observations and conclusions about the facts and perceptions learned through the various review processes.
7. Proposed recommendations for action accompanied by timelines, assignment of responsibilities, and budget implications.
8. A report to the Board of Directors (and possibly the membership) summarizing the key learnings, the priority issues and the recommendations for action.

There are two ways to handle the above process. Staff and volunteers can effectively lead organizational assessments. However, the services of an experienced consultant can facilitate the process. They will provide assistance with some of the research, especially in the area of internal and external stakeholder interviews, and offer support to the leaders of the planning task group and of the organization.

There are benefits and disadvantages to both options. The selection of the best one for the organization should be based on what is the optimum fit with the organization's culture, financial resources, and time frame, as well as its history of working with consultants.

1. Steps in Planning

In order to plan for a successful future, it is important to understand your past and accurately assess your current situation. Planning is a systematic process of considering the past, and the present for the projection of the future by:

- setting measurable goals in relation to needs
- researching relevant data
- comparing options
- minimizing risks
- balancing resources
- taking appropriate action
- evaluating the results so you can make changes

It is vital for any organization beginning this work to have the right people involved in the process. It is difficult (and often counter-productive) to have everyone in an organization involved in a planning process. The group who will undertake this work must be representative of the whole organization but should also be kept small for practical reasons such

as accommodating everyone's schedule. However, it is critical to ensure that everyone who wants to have input has access to the process at some point.

Appropriate representation depends on the size and complexity of the organization and should include the following:

- Current and past board members
- Senior staff and/or program staff
- Service delivery volunteers
- Former clients/consumers (if appropriate)
- Members, donors (if appropriate)

Care should be taken in choosing these representatives to ensure that there is a balance within the group of skills, tenure, gender, geographical representation, or other elements that may be important characteristics of your organization and its clients/customers. Consider the following as you choose your planning group:

- planning skills and experience
- a good knowledge of the community
- a good understanding of the organization's history, its issues, and how they have been addressed
- skills in financial and statistical analysis
- a knowledge of other service providers

- communication skills
- understanding of the funding and fundraising environments locally, provincially and nationally
- an ability to focus on the 'big picture'

The Board President/Chair (or a designate) or the Executive Director (ED/CEO) often chair this type of planning group. The group can also be led by a volunteer/staff partnership. Other organizations, lacking the required expertise, will engage the services of a consultant to lead the process and provide guidance to the planning group. In some cases, if financial resources are limited, funders such as a government funded foundation (like the Ontario Trillium Foundation) may provide financial help to hire the expertise to ensure a valid and valuable process and outcome. It is important that the planning group have the confidence to proceed and the support to do the required work.

2. Hiring a Consultant

Consultants bring two critical benefits to the process: an outsider's objective perspective and specialized skills and experience. Consultants hired must have no vested interest in the outcome that could prejudice their advice. Therefore, an organization should never use a consultant who is on their board of directors (or the prospective partner's board). Above and beyond the question of objectivity is the perception that one side (who already

uses the consultant's services) has an unfair advantage over the other.

A consultant can step in at any point – in the beginning to actually design and implement the process, or to simply facilitate retreats for discussion or development of necessary documentation. It is easy for an experienced consultant to take on any number of roles and to use their position as a neutral third party to facilitate the process and identify when problems arise.

Given the increasing types of alliances in the non-profit community, and the fact that planning is an important first step in any type of alliance, consultants experienced in strategic planning may very well move into mergers and alliances. If one agency is lacking a lead staff person when embarking on the process, a consultant can act in an interim position to move things along. Or they may act in the role of an assistant to the lead staff, who does not have the necessary time to devote to this type of process, providing advice, preparing documents, and conducting all necessary internal and external research.

AGREEMENT ABOUT THE ROLE

If one agency in the proposed alliance hires a consultant to help them through the process, then the role is clear – the allegiance of the consultant is to the employer. However, if the two parties to the alliance jointly hire the consultant (and share the costs) that person is expected to be accountable to and candid with both agencies. This can cause some problems if

the expectations are not spelled out clearly from the beginning. Be clear about what you want the consultant to do. Do you want them to advise you on how to do the work or actually do it for you? Some will do both. An important consideration is your budget.

Look carefully at your budget. Do some research about whether certain funders might pay for these consulting fees and think about your own workload and available time. If you can afford to hire a consultant to do the work it will potentially speed up the process.

Selecting a Consultant

A recommendation from someone you know who has used a consultant in their alliance process is a good starting point. If none of your peers have used a consultant, contact a larger agency, or a funder for suggestions.

While there may not be many consultants available with expertise in alliances, try to find at least two who meet your criteria. Once you have those names arrange to interview each of them. The consultant should not charge you for this initial meeting, but confirm this when you call. The purpose of this meeting is to evaluate the consultant's skill, experience, and personality and their fit with the organization's issues, culture, and time frame. It is not a meeting to solve all your problems without paying for it.

The lead staff person and members of the board of directors who will deal with the alliance should

attend this first meeting. Experienced consultants will be reluctant to deal with only staff or only board members. The meeting is an opportunity for both sides to assess each other and both parties should have questions. You want to discuss and validate their experience, identify previous clients, qualify their specific expertise and appraise what they can do for your organization.

The consultant will want to learn about your programs and activities, your budget, your time line and what you expect from him or her. Be candid and forthright about the current state of affairs and the obstacles to success. It is only through full disclosure that both parties can make an informed decision about the potential for working together. If it increases your level of comfort to protect the sensitivity of the information shared at this meeting, ask each consultant to sign a confidentiality agreement. This may also be a requirement established by your Board of Directors.

If you decide to use a consultant, ask them to submit a proposal (including the work to be done, the time frame and the cost), or you can decide what specific work you want them to do. If it is only one or two elements of the process, ask for an estimate of each element. Finally, when you agree on a budget, negotiate what functions the consultant will perform within that budget.

A second option is to issue a request for proposals (RFP). If you are receiving the money from a funder to hire a consultant, an RFP will satisfy their

concern that you are being objective about whom you hire. However, if you have never issued an RFP before, do some research first. Don't send it to anyone and everyone. It will be a waste of your time and the time of many who respond. And do try to develop a 'fair' process. Too often organizations have specific people in mind they wish to hire, yet the funder requires an open bidding process. As a result of this situation, an RFP is developed to favour the preferred consultant who then typically wins the contract. Experienced consultants will usually recognize this situation and refuse to participate. In this scenario you may not end up with the expertise you require.

When you ask for references, make sure you check them. You are attempting to learn not only the consultant's areas of expertise, but also how they will relate to individuals in the agency. You need to be able to build trust with your consultant to speak freely about confidential issues and know they won't be broadcast in the community. You need a person who will keep you on task within the timeline, produce professional materials, and do any necessary follow-up.

When you have decided on the right person or firm, develop a clear contract stipulating the time frame for which the consultant is hired, the agreed-upon deliverables, the fee and the payment plan for the fee. Experienced consultants can provide this type of contract for you. Ensure it also includes a paragraph about confidentiality and who owns what. Consultants may bring their own research, templates

and processes to the client, but you own any work developed specifically for you.

Consultants can play a valuable role in creating the conditions for a successful alliance and helping you develop the structure and operating procedures. The right consultant at the right time can save an organization time, effort and money. Their value resides in the sound judgment, good instincts, and commitment to a positive outcome that comes from experience in a wide variety of assignments.