A PUBLICATION OF THE NATIONAL ALLIANCE FOR NONPROFIT MANAGEMENT

FORGING NONPROFIT ALLIANCES

Jane Arsenault

A comprehensive guide to enhancing your mission through:

- Joint Ventures & Partnerships
- Management Service Organizations
- Parent Corporations
- Mergers

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To my family: Raymond, Gregory, Anne, and Michael.
Each, by patience, encouragement, hands-on help,
or simple willingness to do without me for a while longer,
has contributed to my ability to complete this work.

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Preface

As many nonprofits have discovered to their cost, an organization's own structure—its corporate identity—can impede its ability to compete for the resources necessary for survival. In my consulting practice, I have spent a majority of my time in the last three years helping organizations explore changes in corporate structure as a tool to protect and enhance their mission and to manage in the face of major environmental challenges. In each instance, my clients and I have had to work through the basic concepts together, as there were few written sources to support the process of making these decisions. This book aims to fill that gap, capturing the decision process needed to support the restructuring effort in terms that reflect the perspective of nonprofit management.

The options defined in these pages—joint ventures and partnerships, management service organizations, parent corporations, and mergers—can be powerful tools to enhance mission accomplishment. This book is designed to provide supports to the process of determining whether these options are appropriate for a particular organization's purpose, to describe the process of negotiating the agreements on which alliances are based, and to provide insight into the challenges of making the transition to the new entity.

As I speak at conferences and work with clients, I hear from executive directors who are facing the challenge of integrating what their organizations do into a more cohesive system. They tell me that the pressure is increasing to integrate across disciplines in one field of service after another. The lack of naturally existing relationships between or among CEOs can be a particular challenge in building networks that are *horizontal* (involving continuums of service) and in building networks that are *cross-disciplinary* (such as job-related services with mental health and domestic violence). These

CEOs face the challenge of negotiating with partners where there is neither knowledge nor trust. They are often perplexed about how to structure the new relationships, worrying most about balancing local control against the centralization of control for the joint effort or system.

Other arenas in which these same concerns arise are regional conferences of organizations that are similar or that are linked by a shared national office. These groups are increasingly exploring ways to work more effectively together. I also find these questions raised among small groups of organizations from the same field, who may have been meeting for years to share common problems and approaches. They, too, sense that their informal network might be made more valuable but lack the knowledge to make it so. These groups have an advantage in that the CEOs are often colleagues and friends and are well known to one another, lending a base of trust and support. Some also say that this familiarity is a weakness, incorporating as it does what may be long-standing enmities, jealousies, and personality conflicts that somehow must be managed in a new structure.

In my nonprofit community of southern New England, I have watched several organizations make costly errors in judgment because their leadership was not fully informed of the alternatives available to them. I have seen organizations attempt mergers and fail, when some less onerous form of alliance might have served equally well—and I have seen loose and free-form relationships fall apart when a more centralized model would have accomplished the intended purpose.

I am personally motivated by a profound concern for the future of the sector and worry that the significant changes in management expectations will result in the loss of community control over services. As I see it, the task of managing a nonprofit is becoming so complex that small, locally based organizations will not be able to compete for resources or consumers. When I discuss this with colleagues, there is real pain in their expressions of concern that only mega-agencies may remain. I believe that some of the models discussed in this book may help protect the concept and practice of local governance.

In addition, my practice has brought me in contact with a large number of health care agencies who, due to the incursion of man-

aged care, have been forced—often precipitously—to consider corporate restructuring. The models they have chosen to accomplish this forced consolidation come mostly from the for-profit sector—and, in some cases, these models have been adopted without alteration. But I have also noticed that some groups of organizations are adapting the adaptations and are creating new kinds of organizations that capture both the value of the for-profit model and the *value system* of nonprofits, creating new variations that are uniquely suited to the sector. It is my belief that these variations may benefit a wide array of organizational types: cultural, artistic, and environmental, as well as health and human services. This is the good news I hope to share.

Audience

Executive directors and Board members interested in examining their options will find this book particularly useful. It may also be helpful to consultants and legal counsel who count nonprofit organizations among their clients. The material included here is not to be considered as a substitute for legal counsel or for consulting support, but should enable Board members and executive staff to have informed discussions with these professional advisers.

It is also my hope that this material will attract an audience beyond health and human service agencies. As noted earlier, some of the innovations described here have the potential to solve thorny problems that have beset the sector for a long time, such as the lack of management infrastructure in fields dominated by a large number of small nonprofits, such as arts, preservation, environmental, and other kinds of advocacy. I have tried to include a variety of examples and applications so as to help a wide range of nonprofit leadership see themselves and their organizations in the material.

I will be very pleased, as well, if the staff of foundations and state funding sources also find the book helpful, expanding their knowledge of what it takes to restructure a nonprofit. Perhaps this material will also help them build empathy for grantees facing the challenges of these processes.

To address concerns about language, wherever possible, I have couched the discussion in words that nonprofit leaders will feel comfortable with while simultaneously offering the more commonly

used business terms for these discussions. In the end, I believe that including both sets of vocabulary will make it easier to discuss this material with our Board members who come to us from the business community. Should any of these Board members be readers, it may also help them apply what they already know about corporate restructuring to the circumstances of the nonprofits they serve.

Structure

Chapter One explores how your organization can discover potential opportunities for consolidation. Chapter Two looks at how your organization can prepare for negotiations that you will initiate and for responding when your organization has been approached by another to participate in a new venture. Chapters Three through Six explore each of the four models currently available for nonprofits considering restructuring: joint ventures and partnerships, management service organizations, parent corporations, and mergers.

The remaining chapters apply to all four options. Chapter Seven discusses early stage negotiations, while Chapter Eight describes formal negotiations, including the use of professional advisers. Chapter Nine deals with issues involved in designing both the governance structure and operations of the new entity. Chapter Ten discusses integration of corporate cultures, and Chapter Eleven defines the process for ratifying final agreements, communicating with external constituents, and designing the transition plan.

Nothing (Jointly) Ventured. . . .

I have been told again and again by colleagues who are in positions of nonprofit leadership that this is "tough stuff." Yes, it is. Why is it so hard?

First of all, many of us within the sector don't like to think of the entities we manage as corporations. We prefer *organization* or *agency* or *community group* or *association.* Some of us are actively repelled by the language of the corporate world. Unfortunately, most of what has been written about these processes is written in the language of business, and while some of us are getting used to the idea that we are managing social-purpose businesses, many of us still resist thinking of our nonprofit as a business enterprise. As

well, discussion of restructuring involves dealing with our legal identity and requires mastery of some legal terms.

Another concern raised by colleagues is the complexity of the process of consolidation. As my own knowledge of what it takes to build a successful consolidation has increased through my consulting practice and through additional research, I have become convinced that the complexity is, for the most part, necessary. I have also discovered, though, that these processes stretch themselves out over a substantial amount of time—six to twelve months of negotiation and another twelve to eighteen months to complete the transition. The tasks outlined here are not the work of one horrible two-week retreat; they can be dealt with comfortably over the two to three years that the process involves.

Nonetheless, the complexity can seem intimidating up front, and there are weightier reasons for a reluctance to contemplate restructuring. Some of us hesitate to look at these options because we know that nonprofit governing Boards are in charge of corporate identity. Changing this part of the organization requires intense engagement of Board members—and some already feel frustration at the lack of engagement of our Boards and will hesitate to involve them in such complex decision making. In any case, there are no readily available models for this involvement.

These decisions are legally binding and involve alteration in the ability of our organization to engage in fully autonomous decision making. All the options require us to share power to some extent. Some of them involve significant changes in the positions of staff, managers, executive leadership, and Board members, changes that may range from additional responsibilities to redesigned jobs to eliminated positions—and that is potentially painful. There aren't very many of us who seek out potentially painful situations on purpose.

One of the very helpful reviewers who ably critiqued an earlier version of my manuscript put it this way, "Why, why, why? Why think about this now? Why involve our Board in such dramatic change, when we are trying to get them more active in our current needs? Why operate in such a different manner?"

From my perspective, there is only one answer to that question that is worth stating. It is worth our time to add these tools to our strategic options because they offer so much to our ability to

accomplish our missions in a turbulent world. It is my hope that this book will assist nonprofit leadership not only to learn how to think this way but to learn how to recognize *when* it is important to think this way and to be able to identify the full range of options available. Only then will intelligent, informed, and fully effective decisions be reached as to which of these tools should be used, when, and by whom.

Acknowledgments

First, I thank all my clients who have struggled with the hard choices of consolidating their organizations, and who have allowed me to share their experiences. From them, I learned what I needed to know to help others. In particular, I want to acknowledge the encouragement of the Collaboration Committee of Kent County Mental Health Center (KCMHC) and Westbay Community Action, who willingly served as guinea pigs for some early draft materials, and the support of David S. Lauterbach, CEO of KCMHC, who always assured me that I have something worthwhile to teach. I also want to thank members of the Joint Planning Committee of Child and Family Services of Newport County and Riverwood Mental Health Services, who asked me to develop the initial version of the tool to allocate power within a parent corporation model.

And I thank Rick Smith, former executive director of The Support Centers of America, who has provided encouragement and good counsel, patiently, throughout the project.

May 1998
Lincoln, Rhode Island

JANE ARSENAULT

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The Author

JANE ARSENAULT has served as a management consultant for nonprofit organizations and organizations that fund nonprofits for the last eighteen years. She has concentrated her practice in five key areas: strategic planning and market analysis, program evaluation, governance, conflict management, and most recently, consolidation models. In addition to consulting with nonprofits, she has spent approximately two hundred hours annually in a variety of teaching and training settings. Her work brings her into contact with the management of organizations throughout the many fields of the nonprofit sector, including health, human services, libraries, arts organizations, and environmental groups.

She began her work with the nonprofit community as executive director of the Rhode Island office of Opportunities for Women in 1977. Her interest in evaluation and in management assistance grew from her work as manager of training, technical assistance, and evaluation for the United Way of Southeastern New England, a position she held from 1980 through 1986. During the last twelve years, she has consulted with over three hundred nonprofit organizations in southern New England, serving as executive director of The Support Center of Rhode Island from 1993 to 1997.

In addition to client work, she is involved in a number of other projects. One is the composition of the answers to the most frequently asked questions about program evaluation to be published on the Internet as part of the Clearinghouse on NonProfit Management, a project of The Support Centers of America. Another current effort is the facilitation of two learning communities based in Rhode Island. One deals with the concept of consumers as partners in the design and delivery of human services. The other is exploring the question of the effectiveness of traditional governance models in the current turbulent climate for nonprofits.

She is a graduate of Hunter College of the City of New York, where she earned a Bachelor's Degree *cum laude* with Departmental Honors in English Literature. She received her Master's Degree in Business Administration from the Executive MBA Program of the University of Rhode Island.

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Part One

When Mission Matters Most

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