Institute for Civic Leadership together with THE BOARD NETWORK

MANP maine association of nonprofits

Advancing Together:
The Role of the Nonprofit Board in Successful Strategic Alliances

with Stern Consulting International

> *"All social sector nonprofit organizations must **lead beyond the walls** by forming partnerships, alliances, and collaborations that produce mutual benefits and results. The challenges our society faces cannot be met -- or our opportunities fully realized -- by any one organization or sector alone. Effective collaboration with other nonprofits, government agencies, and businesses is an imperative."*
> -- James Austin and Frances Hesselbein, The Collaboration Challenge

Workshop Overview

Strategic alliances involve challenging high-intensity relationships between organizations where resources, risks, and rewards are shared, and decision-making power and public recognition are negotiated. In this session, you will be introduced to an "alliance continuum" which flows from occasional cooperation to regular coordination to "low intensity" collaboration to *strategic alliances* and, in some cases, to merger. Whether you are interested in large-scale coalitions or two-organization partnerships, you will have new information and governance tools for strategic alliances that provide the maximum benefits to your organization and community.

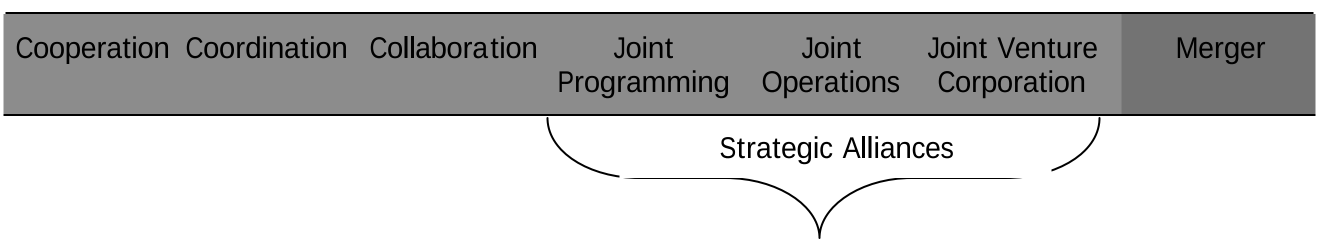
Agenda

A. Welcome, Introductions, Learning Objectives
B. The Collaboration Continuum
C. Purposes and Forms of Strategic Alliances
D. 10 Roles for the Board

The Collaboration Continuum

Nonprofit leaders have a rich history of weaving alliances of all forms, which bodes well given the current sector-wide emphasis on effectiveness, efficiency and making an impact that contributes to long-term positive change. Strategic alliances can improve organizations' ability to advance the mission and serve their customers — by achieving a scale that increases the availability or types of programming and by making a deeper impact through the capabilities of several partners. Successful strategic alliances strengthen organizational capacity and quality, expand knowledge and connections, and enhance effectiveness through collaborative leadership, combined staff and volunteers, joint fundraising, and shared technology and facilities.

Alliances take a wide range of forms and may involve partnerships among nonprofits or a mix of nonprofits, businesses, and government. One way to conceptualize the various forms of alliances is to view them along a continuum of intensity from occasional cooperation to regular coordination to "low intensity" collaboration to *strategic alliances* and, in some cases, to merger.



In strategic alliances, partners experience the highest intensity relationships where resources, risks, and rewards are shared, decision-making power and public recognition are negotiated, and participating organizations often become legally connected.

What types of collaborative relationships is your nonprofit currently involved in?

Opportunities and Challenges

The most important goals and resulting benefits of strategic alliances are:

- Increased services.
- Increased programmatic collaborations.
- Increased market share/competitiveness.
- Increased funding.
- Increased administrative capacity/quality.[i]

Experience spells caution. Alliances require in-depth commitments of organizational resources including management and governance time and attention —sometimes large amounts over extended periods. And sometimes, despite careful planning and best efforts, alliances come to naught.

Ideally, alliances are formed to advance mission and vision, build and sustain organizational capacity, and invest resources for the greatest return. Nonprofit boards are wise to appraise and balance the benefits, risks and costs of strategic alliances as they guide and monitor their organizations' approaches.

What are your organization's opportunities and challenges with regard to forming and maintaining strategic alliances?

Ten Roles of the Nonprofit Board in Successful Strategic Alliances

1. Understand the different purposes and forms of strategic alliances

Joint Programming

Two or more organizations create new projects or significantly modify or expand existing programs in order to have an impact beyond what one organization can achieve alone. Programming is broadly defined here to include direct services, performances and exhibitions, advocacy, research, publications — the myriad nonprofit undertakings. Expansion may include services to new populations, work in new geographic areas, programmatic affiliations with regional, national or international networks, and so on. Specific structures and terms related to this kind of alliance include co-sponsorship, partnership, network, coalition, consortium, collaborative, and the like. Joint programming will typically leverage the assets[ii] of each organization — perhaps unique access to target audiences, a strong public image, links to powerful officials, established regional, national or international affiliations, or specific knowledge or skill sets.

Joint Operations

Often called a "back-office consolidation," administrative services are shared by two or more organizations in a combined infrastructure. This may include facilities, fleet, technology, staff – from receptionists to chief executives – and even integrating whole departments such as human resources or accounting. Joint operations can create efficiencies while enhancing effectiveness, such as joint capabilities for sophisticated use of the Internet, delivering real value for "visitors". Joint operations can also build "bench strength." Alliances allow greater breadth and depth of expertise in administrative functions than most nonprofit organizations can afford alone. Extending to the role of executives, alliances provide the opportunity for top managers to contribute their expertise to more than one organization and for a chief executive to serve more than one organization on an interim or permanent basis.

Joint Venture Corporation

A new nonprofit or for-profit corporation created by two or more participating organizations to accomplish a specific programmatic or administrative purpose. The separate entity is often developed to address complex legal, liability, marketing or financial issues, or to address an opportunity that requires a new "arms length" organizational form. Examples are:

- Management Service Organization: joint operations are provided through a separate corporation, which is owned by the partner organizations.
- Nonprofit or for-profit "social enterprise": a social mission is combined with the goal of realizing net profits.
- Parent-subsidiary relationship: one organization experiences a type of "cell-division" in which a program or initiative emerges as a new interlocking corporation.

2. Ensure that alliances fit with mission and vision through strategic planning

- What opportunities are there for us to maintain or pursue strategic alliances?

- What organizational resources and capabilities are required to successfully form and sustain strategic alliances?

- How might specific alliances advance our mission and benefit our primary customer: those whose lives are changed through the organization's work, the ultimate beneficiary?

- How might potential benefits stack up against risks and costs?

3. Create governance policies for strategic alliances

1) **Create a pro-active statement** that encourages exploration and development of strategic alliances.

2) **Identify the conditions under which the organization will consider participation** in strategic alliances, such as when benefits to primary customers would be enhanced, when the number of people served within specific target audiences would be significantly increased, when costs of delivering services would be significantly reduced, or when operations would be enhanced by significant sharing of staff or physical infrastructure.

3) **Determine the investment level or contract conditions** that require an alliance to be formally reviewed by the board.

4) **Develop structures and responsibilities** for the oversight and support of specific alliances. Define the:
   - Board's accountabilities and representation on joint governance or oversight bodies.
   - Content and timetable for required programmatic and financial reports.
   - Roles for working together with the chief executive and designated staff on board committees, task forces and as individual board members.

5) **Call for a periodic review of the organization's "portfolio of alliances"**[iii] in which board members analyze the significant staff, resource, and governance implications of developing and maintaining multiple strategic alliances. This may lead to:

- Analysis of "opportunity costs": Are there better things we could be doing with our time and resources?
- Restricting the number of complex alliances engaged in at any one time.
- Working with the chief executive to ensure sufficient management capacity for complex alliances, including possible consultant contracts or new staff positions dedicated to developing and managing the organizations' partnerships.

4. Assess the benefits and risks of strategic alliances

1) What is the purpose of the strategic alliance?

2) How would the alliance fit with the mission, vision and goals?

3) How would the alliance lead to improved or expanded programming which the organization is not able to provide on its own?

4) How would the alliance lead to improved infrastructure?

5) How might the alliance affect the organization's brand?

6) Would the alliance provide for greater staff depth for the partnering organizations?

7) What will be the required short-term and long-term investments of both financial resources and people's time?

8) How will the risks presented by the alliance be addressed?

The easiest area to *under*estimate is the time and energy required to develop and manage successful strategic alliances. And the easiest area to *over*estimate is the speed at which there will be an actual return on these investments. As a participant in a study on partnerships reports, "To collaborate takes so much more time, effort, patience… People work so hard just to keep their own organization running… Then, with collaboration, they're maxed out."[iv]

5. Assess possible structures for strategic alliances

As Hoskins and Angelica state in *Forming Alliances,* “For most organizations, it makes sense to form the least complex alliance and still get the job done. Too often organizations create alliance structures that are more complex than necessary to accomplish the goals of the project.”[v]

Less formal structures defined by Memoranda of Understanding (MOUs) between partnering organizations.

MOUs spell out the specific roles and commitments that each organization is assuming and tend to be shorter-term so that partners can respond to the changing needs of the alliance. For example, one alliance partner may initially take on the role of “fiscal agent” wherein they accept, administer, and have legal oversight of alliance funds. Because MOUs are official agreements, they establish mutual accountability and should be viewed as legally enforceable contracts. MOUs are frequently used to formalize strategic alliances, especially in their early stages, and should be subject to governance review when meeting the organization’s “intensity threshold.”

More formal legal structures created together by partnering organizations.

Whether supporting joint programming or joint operations, these formal structures are longer-term, strengthen mechanisms for mutual accountability and always meet the threshold for governance review. Many formal alliance structures can be put in place without incorporating a new joint venture corporation, whereas some are ultimately best served by doing so.

The hallmark of a joint venture corporation is a structure in which alliance partners share governance powers. This can be accomplished through a parent-subsidiary relationship or establishing a new “shared ownership” entity. In both cases, the alliance structure defines alliance partners’ control through board composition and clearly delineated governance responsibilities.

While there are technically 28 types of tax exempt nonprofit organizations noted in the IRS codes (which covers everything from credit unions to churches to the National Football League), the structures most commonly used for nonprofit strategic alliances are: 501(c)3 public charities; 501(c)4 political education organizations; and 501(c)6 professional associations.[vi]

In addition, for-profit incorporation can be an option. The Limited Liability Company (LLC) is a business structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. It is thought to be one of the easiest and least expensive forms of ownership to organize and can be a viable alternative to nonprofit incorporation.

6. Assist with developing alliances and documenting alliance agreements

Board members can continually scout for partnership opportunities and, in close coordination with their chief executive, act as liaisons to other organizational and community leaders. Board members – as well as their business and personal contacts - may also contribute specific expertise, skills and knowledge to developing an alliance and documenting an *alliance agreement.*

Among the many important topics for partners to successfully communicate about and negotiate are:

1) Defining the alliance purpose and structure.

2) The major benchmarks and overall plans for developing the alliance and implementing its activities

3) Initial and longer-term budgets for the alliance and who will bring what resources to the table.

4) How new resources will be obtained and administered by alliance partners.

5) How the partners will manage liabilities and risks.

6) Who will have what management responsibilities.

7) How confidentiality and sensitive records will be handled when individuals are being served by more than one organization.

8) How the alliance itself will be "branded" and the ways in which each organization will be publicly recognized as a participant.

9) How partners will address difficult negotiations and situations in which there is a potential conflict of interest or problem with competition.

10) "Entry" and "exit" provisions covering required investments and how assets and expenses will be divided upon concluding an alliance.

11) What mechanisms will be put in place for ongoing communication and appraisal once the alliance is up and running.

12) What documents and proposals will be prepared for the partners' boards to review and approve.

7. Formally approve strategic alliances

All significant alliances should be formed or continued only with formal board approval based on four governance responsibilities:

- **Strategic:** Forming the alliance must advance the mission and vision and address one or more of the organization's strategic goals.
- **Fiduciary:** Board members are responsible for ensuring that the organization's resources are used in a way that minimizes risk and that ensures a fair return on investment both for the organization and the community. A "fair return" is a values-based discussion - what good, for whom, at what cost.
- **Brand protection:** Board members need to be vigilant in protecting the organization's reputation, especially when alliances are high profile or high stakes.
- **Public representation:** Board members must understand and approve strategic alliances so they can represent their organization and its alliances to the public.

The following questions should be answered to the board's satisfaction before taking formal action to approve a strategic alliance:

1) What is the purpose of the alliance and how does it advance the organization's mission and vision?

2) What are the benefits to primary customers, the community, and for the organization?

3) Who are the partners?

4) What are the major benchmarks for the alliance?

5) What is the structure of the alliance?

6) How are the organization's costs for the alliance covered?

7) How are the organization's risks in the alliance addressed?

8) How does the alliance fit with the agency's management capacities?

9) How will the board be involved in ongoing oversight and support?

10) How will the success of the alliance be evaluated?

8. Prepare for sharing power and control

As Hoskins and Angelica note in *Forming Alliances*: *Working Together to Achieve Mutual Goals,* "... it is too simplistic to say a direct link exists between releasing control and gaining more resources, each organization must determine for itself how much control it is willing to give up for an opportunity to gain resources."[vii]

Practically speaking, there are several principles that board member should keep in mind when sharing power and control:

- In alliances, self-interest is a good thing. Those who represent a participating organization need to ensure that the self-interests of their own organization are clearly stated. Understanding and honoring the various self-interests around the table makes it safer and easier to share decision-making.

- Many alliances make decisions based on arriving at a consensus among the partnering organizations. Achieving consensus means that the decision is one that every partner can live with rather than the preferred solution of any one organization. The board needs to know its "bottom lines."

- When engaged in joint programming or operations, staff employed by one organization may take some of their work direction from an alliance partner. It is important to recognize this and reflect it in human resource policies.

- Since tasks are shared, accountability is also shared. For alliances to work smoothly, the partners need to hold each other accountable for their commitments. Not to do so damages the long-term prospects of the alliance.

9. Provide oversight and support for strategic alliances

The keys to supporting strategic alliances include:

- Monitoring progress toward established benchmarks.
- Partners' willingness to be honest (and tactful) about their concerns.
- Commitment to illuminating options and working things through - often with the help of a skilled facilitator.
- Regular progress reports *to* the board and timely response *from* the board on any pressing issues.
- Enough flexibility on everyone's part to keep reorganizing as necessary.
- As warranted, taking steps toward a positive conclusion and celebrating alliance achievements.

10. Capitalize on synergies

Board members should watch for and help the organization to capitalize on foreseen – and unforeseen – synergies:

- By adding different disciplines or perspectives through partnerships, staff and board members are able to consider opportunities and challenges in new ways and develop innovative approaches across the organization.
- Combined resources often result in even greater opportunities for resource development.
- A successful experience whets appetites for new or significantly expanded projects with existing partners.
- As an alliance's reputation grows, more organizations want to join the effort.
- Once partnering organizations have achieved success through an alliance, their reputation in the community attracts more ideas and proposals for what they might do.
- New networks and relationships lead to new opportunities (including prospective board members).
- Research conducted through an alliance points up what the community needs next – and positions the alliance partners to respond.
- Successful advocacy conducted through an alliance changes the landscape – and produces new opportunities for joint programming.
- Alliance leaders can show the way through demonstrating best practices or reducing the cost of doing business for an industry.
- Board members' "discretion is enlightened"[viii] by enlarged views of what is possible, which can influence a range of governance considerations.

What are your board's and your organization's next steps with regard to strategic alliances?

Consistent Innovation and Courage

Margaret Wheatley observes, "In communities all over the world, there are many brave pioneers experimenting with new approaches for resolving the most difficult societal problems. These new leaders have abandoned traditional practices of hierarchy, power, and bureaucracy. They practice consistent innovation and courage - wherever they see a problem, they also see possibility. They naturally think in terms of interconnectedness, following problems wherever they lead, addressing multiple causes rather than single symptoms. They think in terms of complex global systems and yet also understand this world as a global village."[ix]

---

[i] Kohm, Amelia, La Piana, David, and Gowdy, Heather, *Strategic Restructuring: Findings from a Study of integrations and Alliances Among Nonprofit Social Services and Cultural Organizations in the United States* (p. 15 – 17), The Chapin Hall Center for Children, University of Chicago, June 2000, http://www.chapinhall.org/article_abstract.aspx?ar=1274

[ii] The Drucker Foundation (now Leader to Leader Institute), *Meeting the Collaboration Challenge Workbook: Developing Strategic Alliances Between Nonprofit Organizations and Businesses* (p. 3 – 6), Jossey Bass, 2002, http://www.leadertoleader.org/collaboration/challenge/pdfs/mtcc-complete.pdf

[iii] The Drucker Foundation, *Meeting the Collaboration Challenge Workbook* (p. 42 - 44)

[iv] Ostrower, Francie, *The Reality Underneath the Buzz of Partnerships: The potentials and pitfalls of partnering* (p. 37)

[v] Hoskins, Linda and Angelica, Emil, *Forming Alliances: Working Together to Achieve Mutual Goals* (p. 18), Fieldstone Alliance, 2005

[vi] *501(c),* http://en.wikipedia.org/wiki/501%28c%293

[vii] Hoskins, Linda and Angelica, Emil, *Forming Alliances: Working Together to Achieve Mutual Goals* (p. 18)

[viii] Jefferson, Thomas, September 28, 1820, as quoted by Holman, Peggy and Tom Devane, *The Change Handbook* (p. 295), Berrett-Koehler Publishers, 1999

[ix] Wheatley, Margaret, *Supporting Pioneering Leaders as Communities of Practice: How to Rapidly Develop New Leaders in Great Numbers,* The Berkana Institute, 2002, http://www.berkana.org/resources/pioneeringleader.html

Stern Consulting International
24 Taylor Street
Portland, ME
207-871-0774
gary@sterninternational.com