



A FIO PARTNERS PERSPECTIVE:

Thoughts on Funding Collaboration and Consolidation in the Nonprofit Sector

Jane Arsenault, MBA



In 2009, The Calgary Community Foundation asked me to address the issue of a foundation's role in the consolidation of the nonprofit sector. As the nonprofit sector consolidates as a result of the worldwide economic downturn, foundations will play two important roles in the process of supporting collaborative activity. First, they respond to requests from grantees to fund collaborative work. When in receipt of such a proposal, foundation staff and volunteers have to determine whether what is proposed is both useful and *feasible*. Second, foundation staff and volunteers encourage collaborative approaches, suggesting, even strongly suggesting at times, that a grantee find one or partners to undertake what has been proposed. In this instance, it is important for foundation staff and volunteers to understand the *magnitude* of what they are suggesting, its impact on cost, timing, and level of effort for the grantee. This article seeks to offer some helpful information to begin to inform these roles.

In thinking about how to be helpful, it occurred to me that a set of frameworks or screens through which to "see" a collaborative opportunity might be helpful. I have tried to capture these frameworks as a decision tree, organized from general to specific. From my perspective, these frameworks are: (1) What kind of collaborative structure is proposed? (2) Does the proposed structure match with the proposed purpose? (3) What are the likely cost, time, and level of resistance that the proposed structure inherently involves? (4) From a process perspective, what are the process elements that we should see to create these structures?

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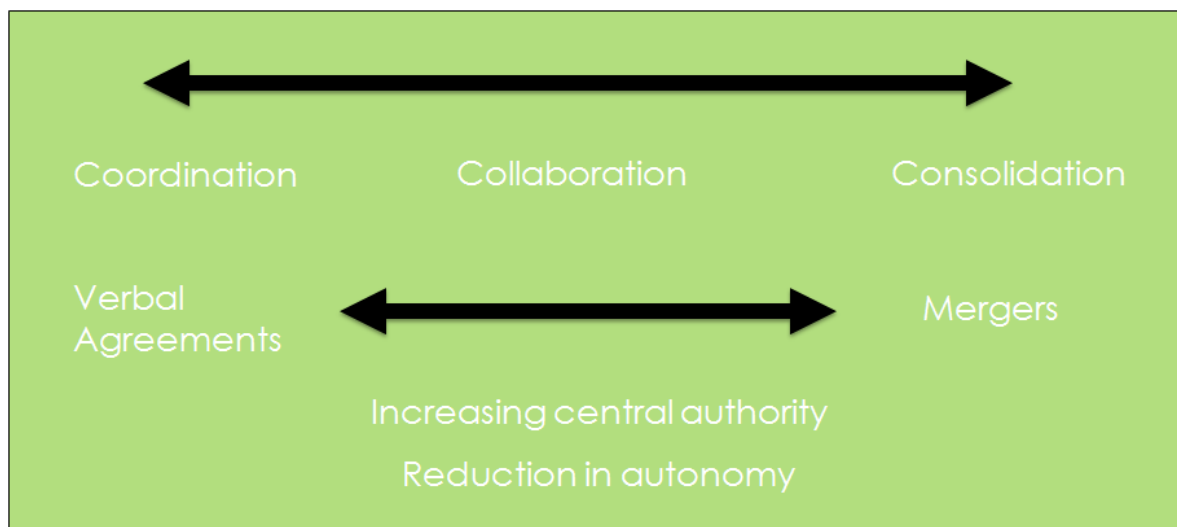
FIO Partners, LLC
6 Wilbur Road
Lincoln, RI
(401) 651-1994
www.fiopartners.com

Each of the structures presents unique challenges to those who are attempting to create them. Program Officers must also determine (1) Is the grantee prepared to deal with the inherent challenges? (2) To what degree are there predictable constraints or likely enhancements based on the specific set of circumstances offered in this proposal? And last, (3) how will we evaluate the success of this particular collaborative work? Funding of collaborative work is not easy. I hope this material is helpful to those faced with these important decisions.

The Continuum of Coordination to Consolidation

One of the keys to determining feasibility and to understanding the magnitude of the effort involved is the ability to understand the various structures that can be used to capture the relationships between or among nonprofit organizations. The following typology is offered as a means to compare a particular proposal or suggested collaboration with a common type.

Figure 1. The Continuum from Coordination to Consolidation



Coordination

Too often we either forget or ignore the very real option of coordination among nonprofits as valuable in the typology of options. Coordination is the least expensive and the option that generally experiences the least resistance. It can be a precursor to the other more complex options. Coordination typically has all or a majority of these attributes.

Organizations:

1. Keep one another aware of one another's intent and plans
2. Avoid duplicative efforts (or efforts that are at cross purposes) in the same region or with the same target group
3. Work to orchestrate calendars of events
4. If service providers, develop cross referral agreements
5. If advocates, be mindful of opportunities to support one another's position if possible

Collaboration

To my mind, collaboration differs from coordination in a couple of ways. First the complexity of the work is greater and the number and kind of organizations involved may be greater. The magnitude of the purpose rises in significance and the number of levels that must be coordinated increases. Collaborative action is often captured in one of these models, though this short list is not meant to be exhaustive.

a. Coalition models

Coalitions are generally aggregates of nonprofit organizations, citizens, advocates, and policy makers. For profit entities are also occasionally part of the mix. The purpose of a coalition is to advocate for a particular solution set to a societal problem. Coalitions sometimes include service coordination in their efforts as well as sponsorship of demonstration projects to generate new approaches. Education of public officials and influence on how resources are allocated and spent are usually part of a coalition's agenda.

b. Policy Strategy Network (Trade associations)

Policy strategy networks are most often aggregates of providers in a particular service system, such as an association of behavioral health agencies, or a group of domestic violence shelters. The primary purpose of these groups is, most often, stabilization of the environment around these providers. Stabilization is accomplished by joint advocacy with common funders, by sharing efforts to train personnel, by sharing information or best practices. This is a "raise all the boats" strategy and is common in the sector; there are many "industry" groups.

c. Regional Networks

These groups are formed to coordinate services in a particular geographic location and are most often made of up of unlike organizations. The purposes of a regional network can be many. The most common purposes, in my observation, are increasing service coordination, coordinating planning, cost reduction through elimination of duplication, and creation of common intake portals (“no wrong door” models).

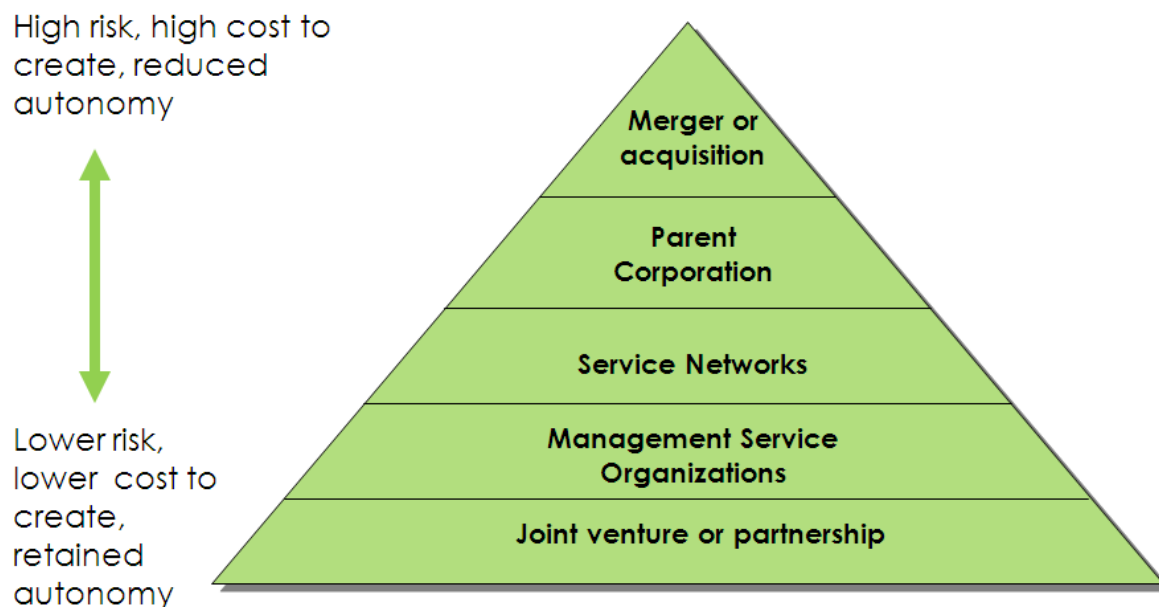
d. Service Networks or “systems of care”

These service networks have emerged most strongly in children’s mental health in the US in an effort to provide “wraparound” services for children with behavioral health issues. The model has begun to spread to child welfare as well. This is an effort to redefine the relationship between government payers, providers both nonprofit and for profit, and consumers, with consumers elevated to a much more powerful and influential role. Government changes the way it pays for services, shifting much more influence to consumers. Providers, forced to provide more comprehensive services that are more closely linked and aligned, are brought into networks, often with common intake, common quality assurance, common practice standards, and, sometimes, a single capitated rate structure. While each entity remains independent of each other, service providers are brought into very close proximity and are expected to plan and provide services in partnership with families and one another. If a single contract is negotiated with the network, and the network centrally administers the funds, service networks can also be considered a type of consolidation.

Consolidation

Consolidation begins to alter the legal links between organizations. This is accomplished through legally binding contracts or alterations of charter and bylaws. Consolidation options are part of the larger continuum, but can also be captured as its own continuum as shown in Figure 3 below. The triangle in Figure 3 also represents volume. At this juncture, there is far more joint venture activity than other types of consolidation. Mergers are the least common choice.

Figure 2. Consolidation options



Joint Ventures

Joint ventures can be developed through contractual agreements, partnership agreements or jointly held corporate entities. Nonprofits use this model to share information whether knowledge and expertise or mailing lists, and to house joint demonstration projects or small business enterprises. Two factors influence the kind of legal agreements chosen: (1) projected length of life of the project with longer term efforts more likely to be captured in more complex agreements; and (2) the amount of risk, with higher risk (liability or funds), requiring more complex agreements.

Management Service Organizations

This model is used when organizations seek to capture economies of scale around back office operations such as finance, development, marketing, building maintenance, etc. These entities can be created as contractual agreements or as jointly held corporate entities. Complexity drives the process here; the number of areas of consolidation requires more complex agreements and structures.

Parent Corporations

Parent corporations create a corporate umbrella over two or more nonprofits. Creation of a parent corporation is a legal change in corporate control for all of the subsidiaries. These models are useful for managing a portfolio of related programs, consolidating administrative functions, combining development efforts, or housing for profit businesses that support an entire system of organizations.

Mergers

Mergers can occur in two ways: first, and most commonly, a small organization can be acquired by a larger one. Generally, the smaller agency disappears and the result is a larger organization. Less often, two organizations of similar size combine to form a third entity that is entirely new. Mergers are used to create economies of scale or reduce duplication, to diversify programming by larger organizations or to eliminate or reduce competition.

What is the relationship between structure and purpose?

The most important decision that a nonprofit organization can make relative to working with another organization is how to structure the partnership. A key question in these deliberations should be: "How interdependent do the organizations need to be in order to successfully carry out the project?" A paradigm that is often used in job design provides helpful insight here. There are three basic kinds of interdependence, organized below from easiest to most difficult to manage.

1. Summative interdependence

This model entails organizing work into a set of discrete tasks. Each organization does its own work in its own way. By adding the work together, a goal is reached. This model is like a swim team in which each swimmer is coached separately and practices separately. By doing his or her best, each contributes to the team "win."

2. Pooled interdependence

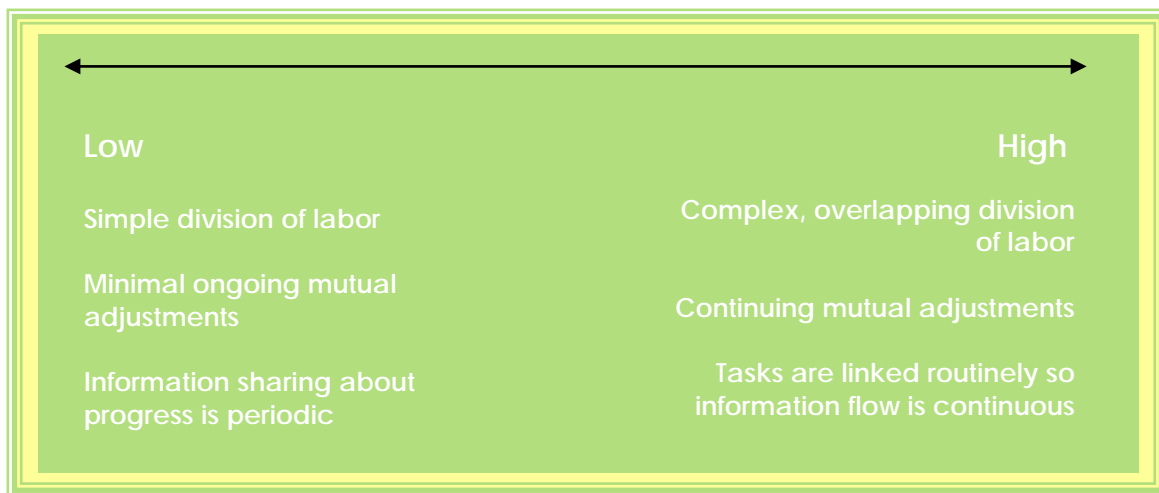
This model organizes work like an assembly line. One organization starts and then passes the next step in the project to the next organization in a planned sequence. Managing work in this fashion requires careful attention to the handoffs between the organizations, like a relay team passing the baton from runner to runner.

3. Reciprocal interdependence

This model requires a much higher degree of coordination, with one organization continuously adjusting to another. A great deal of information must be available in order for the coordination to be successful. The information exchange must be sufficient to ensure that one organization can fully anticipate what the other's next move will be. The "players" must be able to cover for each other and success only comes from careful ongoing orchestration, much as a successful basketball team might operate.

Interdependence, then, is a continuum as shown in the figure below.

Figure 3. Interdependence as a Continuum



Understanding the degree of interdependence is critical because it links directly to the amount of central authority that is needed and the amount of central authority links to the type of structure that will best support the endeavor. The higher the degree of interdependence the more central authority is required. Central authority helps us to (1) allocate resources on an ongoing basis, (2) resolve disputes, and (3) provide oversight to continuous communication. Central authority helps us to reduce coordination costs (always higher with higher interdependence), and to create standardization (another means of reducing coordination costs.)

So the earliest questions for a potential collaboration are:

1. What are we trying to do? What will success look like?
2. What is the nature of the work that has to be done in order to achieve success?
3. How should it be organized? And how does that design relate to the interdependence continuum? What does that tell us about how much central authority is needed? Is there enough central authority to get the proposed work done?

Understanding the answers to those questions will help us determine where in the continuum of coordination to consolidation, the “best” structure options are likely to be found that match the work that needs to be accomplished.

3) What is the likely cost in staff participation, time, level of resistance, and services that must be paid for that the proposed structure inherently involves?

Figure 4. Cost

Type	Process and participants	Time to final agreements	Level of resistance	Cost elements involved in negotiation
Coordination	Mid or senior management negotiation	30-60 days	None	None
Coalitions	Mid or senior management negotiation	6 to 12 months	Low	May involve use of a facilitator
Policy strategy network	CEO or senior management negotiation	4 to 6 months if participants know each other	Low	May involve use of a facilitator
Regional network	CEO or senior management negotiation	6 to 12 months	Medium	Will involve use of a facilitator
Service networks	CEO, senior and mid management negotiation	12 months	Medium, higher if based on a capitated contract	Will involve use of a facilitator and an attorney to define contracting provisions; accounting and actuarial support for rate setting

Type	Process	Time to final agreements	Level of resistance	Cost elements involved in negotiation
Joint ventures	Senior management, CEO involvement if risk is high	Depends on complexity	Low	May involve use of a facilitator. Attorney review of contracts or bylaws if separately incorporated. Accounting support if a business entity is created.
Management Service Organizations	CEO negotiation Board involvement if complex	3 to 6 months	Medium	Facilitator, severance for separated staff, accounting support to analyze whether projected cost savings are real, attorney review of contracts, bylaws.
Parent Corporations	CEO and Board negotiation	12 months	Medium to high, but depends on amount of staff dislocation	Facilitator, attorney review of bylaw changes, operating agreement, involvement in transfers of licenses and contracts. Accounting support to help identify cost savings opportunities. Post affiliation consulting support to promote healthy integration. Severance for separated staff.
Mergers	CEO and Board negotiation	9 to 18 months	High	Facilitator, attorney involvement in transfers of, assets, licenses, certificates, leases, contracts. Post merger consulting support around healthy integration. Severance for separated staff.

(4) From a process perspective, what are the process elements that we should see to create these structures?

Basic Definitions

Letter of Intent: a letter binding the parties to a particular period of engagement in discussion of the possible collaboration. Should set a clear timeframe, define outcomes, provide rules for behavior of the parties during the discussion, addressing such issues as confidentiality, proprietary materials, communication both internally and externally.

Due Diligence: the process of testing the fitness of the partners. This can be a relatively minor exercise such as exchange of audits and annual reports or can be an enormous undertaking with exchanges of lists of documents including multi-year financial reports; disclosure of litigation, pending or completed; and review of contracts, licenses and leases.

Definitive agreements

Memorandum of Understanding or Letter of Agreement: a letter between the parties that defines what each has agreed to.

Operating Agreements: define how the new relationship within more complex collaborations is supposed to work. Content will vary widely with the structure chosen.

Bylaws: will be created to give shape to governance models for any jointly held entities and will be altered for parent corporations.

Board adoption of definitive agreements: process designed to allow the Boards involved to review the definitive agreements and to pass resolutions allowing signing. Needs to be carefully orchestrated for MSO's, parent corporations and mergers.

Communications plan: how the communication about the collaboration will roll out to stakeholder groups. Who will know what by when? Who is responsible for what kinds of communication? This is a critical element when there are any staff layoffs or changes in responsibility envisioned and when there is a change of corporate control. In the latter instance, every license, lease, deed, contract, and certificate of occupancy may be affected.

Transition plan: a carefully thought through roll out strategy, dealing with all the possible points of change that will occur: staff changes or layoffs; naming, logo, and signage issues; legal issues; donor management; fund development implications; information management; and culture redesign. Post creation supports to ensure healthy integration should be included in the plan, if needed.

Figure 5. Process elements

Type	Process elements
Coordination	Sufficient discussion among management to outline a clear agreement so that a simple MOU or Letter of Agreement can be framed.
Coalitions	Use of a multi-stakeholder steering committee to develop recommendations to the larger group. Open discussion and formal adoption of recommendations. Operating Agreement that defines membership and how decisions will be made. Bylaws if incorporated. Personnel policies if the entity employs staff. Membership dues rate structure.
Policy strategy network	CEO level discussions. Open discussion and formal adoption of recommendations. Operating agreement that defines membership and how decisions will be made. Bylaws if incorporated. Personnel policies if the entity employs staff. Membership dues rate structure.
Regional network	CEO level discussions. Letter of Intent. Open discussion and formal adoption of recommendations. Operating agreement that defines membership and how decisions will be made. Bylaws if incorporated. Personnel policies if the entity employs staff. Membership dues rate structure. Minimum level of due diligence before Operating Agreement is signed. Board resolution allowing signing of Operating Agreement.
Service networks	CEO and Clinical management discussions. Letter of Intent and minimum level of due diligence. Operating agreement that defines membership and how decisions will be made. Contracts with member providers. Operating Standards should include policies on intake, screening, assessment, Care planning, care coordination, termination, utilization review and quality assurance. Governance model and model for clinical oversight. Depending upon the financing structure, may also be organized as an MSO below.

Type	Process Elements
Joint ventures	Simple, low risk, joint ventures can be set up with a Memorandum of Understanding. A contract, or creation of separately incorporated and jointly owned entity to house the venture, are used for more complex or higher risk ventures. If separately incorporated and jointly held, the entity will need Bylaws and an Operating Agreement. Full due diligence process for jointly held entities. Minimal otherwise.
Management Service Organizations	Contracts are used if between a larger and smaller organization. If jointly held, Letters of Intent and full due diligence process are needed. Bylaws and Operating Agreements, process for Board approval, Communication plan, and Transition plan are critical.
Parent Corporations	Letters of Intent and full due diligence process are needed. Changes in Bylaws, embedding the Parent Corporation in the Bylaws of subsidiaries. Operating Agreement defining how the relationships should work is required. Definition of Governance Model, process for Board approval, Communication plan, and Transition plan are critical. Careful attention to transfers of licenses, leases, contracts, etc.
Mergers	Letters of Intent and full due diligence process are needed. Integration of corporate charters and bylaws. Definition of Governance Model. Operating Agreement. Process for Board approval, Communication plan, and Transition plan are critical. Careful attention to transfers of licenses, leases, contracts, deeds and other assets etc.

While the material in this article is not exhaustive, I hope it provides a basic overview of the array of models and approaches to alliance work in the sector. Further inquiries about the content, can be submitted to jane@fiopartners.com.