

Mergers, collaborations, and strategic alliances

 www.councilofnonprofits.org/tools-resources/mergers-collaborations-and-strategic-alliances

January 7, 2015



As nonprofits consider strategies for the future, it is not unusual for a board or staff to explore the possibility of re-aligning resources, collaborating to increase efficiencies, or entering into a formal strategic alliance with another nonprofit(s). Merger may even be on the table. Before plunging into any strategic alliance, it is helpful to be familiar with common pitfalls and challenges. The good news is that there are plenty of resources opening a window into what's working to support collaborations. We have assembled many here to share lessons learned. Let's start with some basics:

"Strategic Alliance"

A strategic alliance is any collaboration that a nonprofit enters with another party, often intentionally designed to leverage the strengths of each party to achieve a common goal. Strategic alliances are sometimes loosely referred to as "partnerships" - but a word to the wise: "Partnerships" is a term that can imply the parties have accepted certain legal obligations so we recommend that nonprofits only use "partnership" when a truly equitable relationship exists, in which both sides have agreed to bear equal responsibility for liabilities, as well as share equally in any positive outcomes. If that's not the case, then "strategic alliance" is a term that expresses that the parties recognize they have a mutually useful relationship. Strategic alliances are used so often that certain "best practices" have been recognized, as demonstrated by these [principles](#) explained by the Montana Nonprofit Association.

Put it in writing

Nonprofits that enter into strategic alliances are wise to draft a **written agreement** that puts all the expectations and responsibilities of each of the parties in writing. It makes practical sense to memorialize the details of "who's responsible for what" in the event that any of the individuals involved at the outset move on to other responsibilities. It also is helpful to identify obligations and responsibilities in advance because that exercise can flush out issues the party can address up front, rather than waiting for problems to develop along the way.

Legal Review

Whether the written document is called a “Memorandum of Understanding” (MOU), or a “letter agreement,” or something else, it is likely to be legally enforceable, so it is wise to have the agreement reviewed by legal counsel.

- The Lawyers Alliance of New York offers these talking points for boards about mergers and strategic alliances .
- Whenever there are multiple parties involved, the question of legal responsibility for risk can arise. For instance, which organization's insurance will apply if there is an outcome resulting in the loss of property or assets/money for one or both parties?

For nonprofits engaging in collaborations/strategic alliances with **for-profit** entities:

- Have you evaluated the risk of prohibited “private benefit?” One objective of any collaboration should always be to protect the charitable nonprofit’s tax-exempt status and avoid “private benefit” transactions.
- Read about cause-related marketing and commercial co-ventures.

Mergers

Merging wisely (Stanford Social Innovation Review) points out that while there is great pressure for nonprofits to merge, especially when financial resources are constricting, but that mergers actually require new money, as well as significant resources of volunteer time, to be successful.