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# Coming Together: Partnerships, Consolidations, Mergers & Acquisitions

by Julie L. Jones on January 26th, 2024

Nonprofits are in an unrelenting battle. Revenue streams are being tested, membership numbers are dwindling, and support from conferences and contributions is uncertain. Facing volatile economic and social conditions and increased demand on resources, nonprofit managers must explore new avenues to ensure the organization's financial sustainability.

These changing economic and social conditions have forced managers to think outside themselves and look to other organizations for collaboration through partnerships, consolidations, or mergers.

**The Need To Come Together**

The COVID pandemic decimated many of the resources and in-person programs that are the lifeblood of nonprofits and forced organizations to undergo significant transformations, adapting operations and fundraising strategies or reinventing the portfolio of initiatives. While government funding in response to the pandemic brought some financial support, increased needs brought more demands.

Managers continue to combat lingering effects such as heightened service demand, financial uncertainty, and shifting priorities. Through the decline of nonprofit revenues, staff are requiring higher salaries to keep pace with inflation and are no longer willing to accept lower wages just because they work for a nonprofit.

The members of Forbes Nonprofit Council recently published a list of factors facing all nonprofit organizations, and the common theme was "change." The published report showed that the recent trends are focused on changes in resources and the need for these resources in the form of increased financial support, staffing, flexibil in work arrangements, and increased use of technology/artificial intelligence (AI). The need for change will have managers thinking differently and seeking strategic growth out of necessity. The *Giving USA 2022 Annual Report on Philanthropy* shows a significant drop in giving: "Total charitable giving by corporations, foundations, individuals, and bequests to support the work of nonprofits dropped 10.5 percent in 2022 compared to 2021 when adjusted for inflation, according to Giving USA's new report. Charitable giving by individuals fell by an even steeper, astonishing rate of 13.4 percent after adjusting for inflation."

**The Power of Partnerships**

Partnerships hold immense potential. By forging collaborations, strengths can be pooled and reach expanded, preserving mission and achieving an even greater impact. Amidst resource constraints, leaders can leverage partnerships to share resources and expertise and create collaborative initiatives. These newfound partnerships allow maximized efficiency, reduce duplication of efforts, and tap into specialized knowledge, all at a reduced cost per dollar of revenue.

Such partnerships include working with corporate sponsors, joint programming initiatives, coalitions of organizations with common missions, or shared services. More and more corporation leaders find these nonprofit partnerships ideally suited to meet their social responsibility goals. Companies such as Bombas or TOMS donate a portion of sales to charities and regularly feature their chosen causes in their advertising. These collaborations allow corporations to leverage nonprofits' capabilities and reputations when launching new products and services and gain reach into an increasingly socially conscious marketplace.

According to data from Nonprofits Source, 90% of corporate managers say they gain consumer trust when partnering with reputable nonprofits, and 89% believe such partnerships enhance their ability to drive societal impact.

**Opportunities for Consolidations & Mergers**

Consolidations and mergers allow nonprofits to streamline operations and reduce overhead and administrative costs. By combining administrative functions, such as finance, human resources, and information technology (IT) infrastructure, leaders can achieve cost savings while maintaining or even improving the quality of their programs and services. This cost efficiency enables them to allocate more resources to the core mission, ultimately increasing their bottom line and long-term sustainability.

While these reorganizations can occur at any time, opportunities might exist when there are transitions in executive leadership (i.e., retirement or resignation) or at the beginning of a strategic planning process.

**Strategies for Successful Collaborations**

Managers must carefully navigate the process to ensure successful partnerships, consolidations, and mergers. Members of the board of directors should formulate key strategies for identifying compatible organizations, identifying champions within the volunteer and executive management team(s), conducting due diligence, and managing the transition effectively.

Maintaining direct and clear communication and engagement with all stakeholders will minimize potential conflicts and build consensus. Ensure you have the right resources for investment in this process because it will take time and money.

Once the organizations are merged, there needs to be a realistic understanding of the effect on staffing and awareness that redundancies will need to be eliminated. The key is to focus on the outcome of the goals of being better together with a streamlined and efficient delivery of impact.

**The Role of Leadership and Stakeholder Engagement**

Strong leadership is crucial in driving successful partnerships, consolidations, and mergers. Effective leadership is critical in navigating the complexities of these endeavors, including engaging stakeholders (board, employees, members, donors) throughout the process to build support, ensure buy-in, and foster a shared vision for the future. When the board, management, and legal and financial advisors combine to develop a plan, the chances of success are significantly increased. Bringing all the skills and resources to the table in a spirit of trust and openness is essential to reviewing all possible scenarios and outcomes.

**The Challenges**

While partnerships, consolidations, mergers, and acquisitions can bring significant benefits, they also pose challenges that organizations must navigate. Cultural differences, conflicting missions, power dynamics, fear of loss of identity, and governance issues can hinder successful collaborations. The common theme of these challenges is the people within the organization and governance structure, experts that guide and lead the process, and stakeholders of the existing and new organizations.

Leaders must carefully consider having the right champions to develop and execute a plan, ensuring mission alignment, shared values, and compatibility to ensure the partnership or consolidation aligns with their strategic objectives.

**Always The Right Answer?**

While partnerships, consolidations, mergers, and acquisitions offer valuable options for sustainability, they might not be the ideal solution for every organization. Leaders should carefully assess their unique circumstances and strategic goals before pursuing such endeavors. You must consider factors like culture, legal and regulatory implications, stakeholder support, and potential impacts on staff and programmatic outcomes. For some organizations, alternative strategies such as fundraising diversification, programmatic innovation, or capacity building may be more appropriate. The board members need to be willing to ask tough questions and raise valid concerns throughout the process.

**Key Considerations**

Before embarking on any partnership, consolidation, merger, or acquisition, nonprofits should consider:

- Mission alignment, compatibility of organizational values, culture, and complimentary programming;
- Clear communication and collaboration strategies to address potential conflicts and maintain stakeholder engagement;
- Be honest about your intentions, keeping in mind that these nonprofit organizations are businesses;
- Identify the goals and definition of success for all parties;
- Financial and legal implications, including tax-exempt status, funding sources, and compliance with relevant regulations.
- Ongoing governance structure and decision-making processes to ensure transparency, accountability, and equitable representation.

Finally, be patient and persistent. Seek to preserve the best of each organization — the people and programs as well as the systems and technology. With a thoughtful strategy, the right collaboration can be the key to nonprofits confronting challenges and achieving more, together.

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