Synergies, Resources, and Culture: A Roadmap to Strategic Partnerships

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Many organizations are exploring the benefits of mergers, acquisitions, and strategic partnerships to thrive in a challenging nonprofit landscape. As the COVID-19 pandemic continues to impact the global economy, nonprofits are facing myriad pressures that may result in the need for strategic partnerships. These include liquidity and resource challenges, operational efficiency, sustainability, and resiliency, and ultimately, achievement of mission and impact.

When considering a form of strategic partnership, organizations should focus on three critical pillars of success — synergy, resources, and culture — and ask themselves the following:

- What synergies can we create with existing operations that will have the greatest impact?
- Will the partnership create the resources, infrastructure, experience, and capacity necessary to succeed?
- What important cultural and mission-centric balance is needed in order to thrive?

Evaluating Synergies

Evaluating synergies is especially important for smaller nonprofits that struggle with the ability to stand on their own. These organizations should focus on the operational benefits of a potential strategic partnership and consider questions such as:

- Can you create economies of scale?
- What costs can be reduced upon back-office consolidation when you combine resources with other like-minded nonprofits?
- Can dollars be redirected toward improved and/or additional programs?
- Is there an opportunity to increase revenue or create additional revenue streams?

Evaluating Resources

Regardless of size, nonprofit organizations often struggle to secure the critical financial resources and human capital needed to thrive. An optimal strategic partnership will provide combined financial health and strength and the personnel necessary to maximize mission and impact.

To that end, it is critical to build financial models of what the new partnership will look like in the short-term and evaluate the impact the new partnership will have on long-term strategic plans. Organizations may find it helpful to evaluate certain key performance indicators — such as operating reserves and variation in funding mixes — to assess the financial health of the new entity compared to a peer group of similar organizations. According to BDO's fourth annual Nonprofit Standards Benchmarking Survey, only around half (58%) of nonprofits that described themselves as "Thrivers" had more than six months of net assets without restrictions, meaning many still may be overestimating their own financial wellbeing.

Additionally, when looking to enter into a partnership, organizations should ensure they have an available line of credit. This will help cover any up-front costs that might arise as a result of the transaction before efficiencies are realized.

Finances aside, strategic partnerships can also be helpful when it comes to succession planning, a challenge many nonprofits face. Even if the financial aspect of a transaction is not ideal for an organization, they may still decide to move forward due to the substantial human capital the other entity brings to the table. This can ensure that a leader's retirement does not affect the organization's programs or ability to carry out its mission.

People are a nonprofit's greatest resource. Organizations should evaluate the human capital resources that might come along with new partnerships, from program managers to fundraising professionals and other executives.

Evaluating Culture

Perhaps the most significant consideration for an organization thinking about a strategic partnership is culture. Organizations should be guided by their similar missions, values, expectations, and a shared vision, and strategic partnerships should provide opportunities to jointly develop new innovative services in order to have the greatest impact.

When thinking about the impact a strategic partnership will have on their culture, organizations should ask:

- How will this affect employees, stakeholders, and those we serve?
- Will this allow us to reach more people in need?
- Does this pose any reputational risk to our brand?

Recent strategic partnerships among nonprofit organizations that have been successful upon implementation include a common thread: management agreements. In these scenarios, the organizations enter into a precursor agreement which essentially allows for a "test drive," giving them a chance to develop an increased understanding of one another before the plan is formalized. Entering into a management agreement can also help streamline the eventual partnership as well.

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A Roadmap to Thrive

Organizations should be aware that there is funding available for nonprofits entering into strategic partnerships from various foundations aiming to foster collaboration between organizations.

While there is no one-size-fits-all answer, as outlined above, synergy, resources, and culture can serve as a roadmap for organizations looking to thrive in a strategic partnership.

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