CHAPTER 6

The Role of Funders

Funders such as private foundations, governments, and even large donors often anguish about the proper role to play in collaborations. Should they take a passive role and watch as their grantees pinball through the process, lurching inexpertly from step to step while racking up cost overruns? Or should they take a hands-on role and risk alienating the very people they are trying to help?

Taking a completely hands-off approach arises from a perfectly understandable funder instinct. At the opposite end of the spectrum, government officials and foundation funders that try to insert themselves into a merger of two independent nonprofits probably will not want to do so a second time. Actively intervening tends to mean they will achieve something between mischief and mayhem, and no funder wants to be in that position.

We seek a more balanced way. To put it succinctly, funders should encourage and fund mergers and alliances, not manage them. Nonprofits are an ingenious delivery system for social development, and they should be treated like the marketplace of solutions that they are. Part of the back-and-forth of solution development is offering the full range of choices, good and bad. Funders should shape and influence, not manage and control.

What Funders Can Do

That said, there are several things that funders can do to encourage collaboration in their communities. Happily for funders, most of them cost little or nothing. What they do require is the willingness to be a step ahead of their communities and to be willing to take the criticism and the applause that is likely to accompany such a stance. A few concrete things funders can do include:

- Give permission
- Hold harmless
- Do not replace; merge

Give Permission

The most important thing that foundation leaders and individual donors can do is to give permission to talk about collaboration. While the economic downturn that began in 2008 gave more credibility to the whole notion of mergers and alliances, there is often still a sense that a merger implies failure on the part of one of the entities. Funders operate at an enormously powerful crossroads of resources and respectability that gives them a unique position to publicly promote the strategy—without advocating for it in any given case.

Giving permission consists of obvious tactics, such as funding specific collaborations and publicly approving of the choice generally. It also means encouraging dialog and education on the subject, convening conferences, and sponsoring training sessions on the topic. It could mean defending organizations choosing to explore a merger when the media or a group of stakeholders objects.

In keeping with funders' justifiable desire to maintain a neutral stance, they could insist on giving organizations time and space to consider specific collaborations even when others seem intent on foreclosing the option. A strong form of permission giving is taking stands on behalf of the approach, especially if other funders in the area disagree or have not made up their minds.

Hold Harmless

Most nonprofits' greatest premerger fear is that publicly acknowledging that they are considering a merger with another organization could be enough to persuade a common funder to cut back on its historic donation levels. If organization A gets $50,000 from the local United Way and if organization B gets $50,000 from the same United Way, the nonprofits' enduring fear about a merger is that the United Way will decide to fund the newly merged entity at $50,000, giving the other $50,000 to an unrelated organization. In practice, this happens only rarely, but that is not the point. The concept has become a kind of urban legend among some board members and fundraising types, and funders could go a long way toward supporting the merger choice if they swiftly and demonstrably rejected this practice in advance.

"Do Not Replace; Merge"

Perhaps the single most powerful message that funders could send their grantees and potential grantees is "Do not replace; merge." This simple, powerful idea communicates a smart leadership response to normal executive attrition. This phase is when most organizations go through some period of introspection. As a result, they may be more willing to rethink old assumptions.

Of course, this is also when organizations engaged in a merger discussion may feel most vulnerable. Often their first response to the suggestion of a merger is to acknowledge the sensibility of the option—and then to propose a delay in discussing it until they replace the chief executive officer (CEO). Naturally, hiring a new CEO effectively quashes any merger discussions. In response to this and similar situations, interim CEOs have become a mini-industry in the nonprofit sector. These individuals, often former nonprofit CEOs, managers, or consultants, take on temporary assignments in the top seat and can be instrumental in maintaining consistency while the organization ponders a merger. Board members, in certain situations, can fill the same kind of role.

Funding Collaborations

All of the preceding ideas have the very considerable advantages of being both smart and cost neutral. But the main business of foundations is to provide funding to assist nonprofits' worthy ventures, and mergers and alliances certainly qualify on that count. So it follows that many foundations, especially in economic downturns, will look for ways to fund collaborations. In doing so, they will encounter a subtle but major difference in the objective and the nature of the funding necessary. The vast majority of foundation work consists of funding programs, but mergers and alliances are management activities. They must be evaluated and funded differently from traditional programs, and the bulk of the grant development work is likely to involve a different kind of person from those whom foundation staff typically encounter.

The implications of this difference are multiple. Collaboration processes are very different from program development or replication. Managers with generic skills, such as financial management or human resource management, will do most of the funded work instead of program people. Programs tend to be one of a kind, highly specialized, and aimed at an external constituency. Most collaboration work is done by and for insiders. And some merger-related decisions ultimately have to be made in a legal and regulatory context.

Another difference between foundations' traditional program funding and collaboration funding has to do with the long tail of most foundation funding. Funding proposals is a slow-motion game. Partly this is because of the legal requirements of being a foundation, partly it is the nature of societal change, and partly it is related to sector culture. Recipients experience this firsthand as grant cycles covering months and even years. Proposals sometimes work their way through a foundation's process and some projects are accepted for funding but are asked to wait for a future grant cycle. And some of today's unfunded proposals may nonetheless be favorites of the foundation staff, who know that for one reason or another, the internal prospects for funding will be better in a year or two. In sum, foundations rarely are without promising ideas that just need a bit of work to get them to where they need to be. These are all components of the long tail of foundation funding. Collaboration funding is not usually part of that long tail because it is so time sensitive and the window of opportunity closes quickly. Moreover, the whole idea of collaborations, particularly mergers, has taken a long time to be acceptable to many foundations, and often there is a kind of urgency to them that does not characterize the usual projects. These factors combine to make collaboration funding very different from what foundations normally see.

Still, none of these differences is insurmountable. In fact, the generic nature of most functions being merged makes it a bit easier and more predictable than most programming functions. The foundation staff—or the individual donor—just needs to be aware of the differences and take steps to minimize the potential disruptions.

These kinds of distractions should not diminish the funder's ability to set the right tone and create centers of strength.

Models for Funding Collaborations

Implicit in the notion of collaboration as a tool for reshaping the voluntary sector is the assumption that collaboration must happen on a widespread basis. Those who see collaboration between and among nonprofits as the primary tool for organizational accomplishment in the early twenty-first century know that we must move beyond a cute collaboration here or an interesting collaborative idea there. This means that funders who support the notion of collaboration must become quite serious about mass-producing it. The next section suggests three concrete steps foundation funders can take in their own markets to improve the quantity and quality of collaborations they fund.

Joint Funding Pools

With more than one million nonprofit public charities alone, the U.S. voluntary sector is enormous, and so any one collaboration in one geographic area will make little impact. What will make an impact is a large number of collaborations, which implies a scale well beyond that which most single foundation funders can even contemplate.

Joint funding pools are a powerful tool for extending impact, ensuring quality, and building support resources to help nonprofits merge. Joint funding pools (we have heard them called everything from critical juncture funds to catalyst funds to community innovation resources) are a logical way to aggregate resources for maximum impact. The fact that they embody the very collaboration among funders that they fund among recipients is an elegant touch not lost on grantees themselves.

The key elements of such funds are:

- Dollar commitments on a large scale (for the region) from multiple foundations
- A pool manager, which could be one of the foundations or another nonprofit
- Simple but compelling guidelines and processes

To understand how the dollars would be spent, consider the three logical stages we have found most successful mergers or alliances go through:

1. Feasibility determination
2. Implementation planning
3. Postmerger integration

Here is a brief description of each:

Feasibility determination. This is the early stage of exploratory discussions. At some point, participants decide the collaboration idea has merit, and they move to a more formal basis. Often they refer to it as "due diligence," but usually it is a broader and more strategic discussion than that phrase implies. The feasibility stage ends with a joint understanding of the potential pluses and minuses of the collaboration and a sign-off from each board that the idea is worth pursuing.

Nonprofits Do It in the Right Order

For-profit companies, largely for legal and regulatory reasons, must decide to carry out a merger and then see if they can make it work. The actual decision-making process must be secret because premature disclosure actually could unfairly damage—or improve—stock prices and therefore the value of investors' holdings. Consequently, the discussions must be kept a tightly guarded secret within a manageable group of executives and consultants.

Once the merger is announced, the due diligence process begins—an exhaustive examination of the other organization to make sure that what has been represented in negotiations is in fact true. This process, plus putting the finishing touches on the merger, takes months. Planners often insert penalties for unwarranted withdrawal from the process to guard against bad-faith negotiations. The result is that the initial plans may or may not have been based on good information and may have to be reworked in a potentially contentious atmosphere.

Without Wall Street restrictions, nonprofits do not have to negotiate in total secrecy and can wait until each party's knowledge of the other is complete and thorough before making a final determination.

Implementation planning. The parties think through matters of governance, corporate structure, mission, program deployment, administration, and economics in this stage. The end result of a good implementation planning stage is a shared plan for how the collaboration will work and—in the case of a merger—a vote by both boards of directors to merge their organizations based on the plan.

Postmerger integration. In this stage, the newly merged entity's executives and managers operationalize the combination according to the implementation plan but almost certainly make adjustments along the way. Unlike the first two stages, which are so heavily rooted in the specifics of collaboration, postmerger integration tends to look more like plain old day-to-day management tasks: assigning and managing personnel, creating or modifying basic management systems, managing leases, changing insurance policies, and so on. Each of these distinct stages entails very different kinds of activities, and funding vehicles can vary accordingly.

Grants

Grants are an obvious choice of funding method for feasibility studies and for implementation planning. They are especially appropriate in these stages because often most of this work is done by outside consultants, a typical use for one-time grants. This is also a chancy period because there is no guarantee that anything will come of the effort, and the participants should be well aware of this fact. Grants are a logical funding mechanism because of their one-time nature and because professional grant makers have made their peace with the fact that grants do not always achieve their objectives. Grants can also be used for postmerger integration, although by this stage, many funders are experiencing merger fatigue and the prospect of funding something so invisible to most outsiders has a weaker appeal.

Program-Related Investments

Program-related investments (PRIs) tend to be better utilized in the postmerger integration stage. Unlike in feasibility determination or implementation planning, the integration stage can be heavy on asset management because buildings and equipment may need to be disposed of or renovated and computer systems or other equipment may need to be updated. Those involved in an integration process often think of it as composed of millions of little details, and surely it is. But the items with the biggest impact on the new organization are the capital asset changes because a single transaction can change the entire financial complexion of the organization.

Of course, foundations can do all of these things on their own as well as in a pooled fund. Why go to all that trouble just to coordinate the funding of a finite number of mergers or alliances?

The answer lies in the differences between mergers in the for-profit sector and those in the nonprofit sector. When a publicly held company decides it wants to be part of a merger, it has a distinct advantage over its nonprofit counterpart. The for-profit company knows that there is a proven pathway through a merger or acquisition because thousands of other companies have been through it before. The for-profit company knows that there are outside consultants ready to help with every phase of the merger or acquisition process. They know or could easily discover the names of the best law firms, the most experienced systems integration people, the most reputable pension plan consultants, and so on. They know all this because the merger and acquisition process is a well-known, well-trod, and predictably regulated path.

The nonprofit sector has none of these advantages. Culturally, nonprofit mergers in the first part of the new century are still subconsciously regarded as one-time, interesting but unfamiliar events. There is no infrastructure of companies and individuals with thousands of transactions to their credit in this sector, nor is there much delineation of legal or regulatory requirements. The result is that each pair of organizations considering a merger at some point realizes that they are on their own. The result can be a meandering, unsatisfying, expensive, and potentially unsuccessful experience.

Quality Assurance through Foundations

The primary nonmonetary contribution of foundations and donors to their service area's nonprofits is to ensure that a collaboration infrastructure emerges as quickly as possible, including proven methodologies and approaches and the empirical validation to prove it. This is not a common activity of most foundations. But what other organizations are in a better position to help shape and fund the planning infrastructure necessary to carry out large numbers of mergers and alliances?

Foundations can do so by applying some of the material in this book in a systematic way. They can:

- Insist that their fund recipients show their plans for feasibility determination, implementation planning, and postmerger integration.
- Devise and promote quality standards for mergers and alliances, whether the work is performed by consultants to nonprofits or by the participating organizations themselves.
- Fund training sessions for area consultants.
- Research and circulate information about successful mergers.

In short, foundations should seek to build community capacity.

Foundations and even individual donors are in a unique position regarding nonprofit collaborations. They must find innovative ways to fund these projects, but they also should embrace the opportunity to approach them in such a way that gets individual mergers done while building systemic capacity for the future.