Strategic Alliance Resources

TO SUPPORT INTERNAL CLARITY & A CONSIDERED PROCESS

MARCH 2025

INTRODUCTION

Nonprofit work is fundamentally relational. Exploring strategic alliances is an opportunity to re-think how to achieve your mission by working with other community organizations.

From loose coordination to formal collaboration and consolidation, partnerships play an important role in developing service systems and advancing community outcomes. Regardless of the type of partnership, organizational leaders should first establish internal clarity regarding their purpose for initiating a strategic alliance. Then, they can prepare to navigate the process deliberately and with care.

This packet supplements Fio Partners' workshops and consultative support. It includes tools and resources developed over decades of work helping nonprofits develop strategic alliances. Some are excerpted or derived from Forging Nonprofit Alliances*, written by Fio's Co-Founder, Jane Arsenault.*

The tools and resources below are linked to their corresponding workbook section.

Building Internal Clarity

Preparing to Partner

Negotiating and Developing the Alliance

FINANCIAL HEALTH / WARNING SIGNS

Below are key financial health indicators to assess using data from your last three years of audited financial statements. Negative results for any one of these criteria should get leadership's attention. Three or more negative results should cause a "stop and think" occasion and initiate deeper conversations about the entity's future. Conversely, a strong financial position can help inform growth and development strategies or contribute to a conversation about risk tolerance for innovation.

Category	Key Financial Ratio or Trend	Warning Sign?
Deficit Patterns	*12-month Change in Revenue* – Have you experienced a reduction of total revenue greater than -20% within a 12-month period?	
	Operating Deficit Trend – Do you have an operating deficit greater than -10% for 2 out of 3 years?	
Net Asset Trend	*Change in Net Assets* – Have you experienced a reduction in net assets from last year to this year?	
Financial Runway	*Defensive Interval* – Reflects how many months the organization could operate with its cash on hand, assets convertible to cash, and cash due, if no additional funds were received. Do you have a defensive interval of less than 4 months?	
Liquidity	*Debt Ratio* – Does your total debt exceed 50% of your total assets in either of the past two years? (A high debt ratio indicates future problems with liquidity or reduced ability to borrow funds.)	
	Accounts Payable Aging Indicator – Indicates approximately how many months it takes an organization to pay its bills. Does your organization take longer than three months to pay its bills and have an operating deficit greater than -10%?	
Overhead	*Fundraising Ratio* – Does your ratio of fundraising expense to fundraising income exceed 30%?	
	Administrative or Management Cost Ratio – Does your percentage of management expenses to all other expenses increase over a period of two or more years, or is it projected to increase to more than 30%?	
Revenue Mix	Is there a pattern of decline in multiple revenue streams?	
	Is there a projected, major decline (greater than 25%) in a revenue stream that accounts for more than 30% of total revenue?	
Total Number of Warning Signs		

BROAD PROGRAM STRATEGIES TO DISCUSS

Consider the following broad program strategies based on your financial viability and market position. This is neither an exhaustive list of options nor our recommendations. ***These frames simply should help you consider possibilities, stimulate discussion, and suggest avenues for further exploration.***

Strong Financial Viability
Strong Market Position
Broad Strategy to Consider:

INCREASE MARKET SHARE

Emphasis on expansion strategies and aggressive marketing.

Consider whether a strategic alliance could help:

- Expand your service network or area
- Increase your capacity and market share through a merger or acquisition.

Financial Turbulence
Strong Market Position
Broad Strategy to Consider:

STRIVE FOR STABILITY

Emphasis on program adaptation and appeals to loyal stakeholders.

Consider whether a strategic alliance could help:

- Protect your market share
- Improve your program utilization
- Create efficiencies or cost savings
- Open doors to larger grants or contracts.

Low Financial Viability
Strong Market Position
Broad Strategy to Consider:

CONTAIN COSTS

Emphasis on adaptation and retrenchment strategies to protect vulnerable programs.

Consider whether a strategic alliance could help:

- Create efficiencies or cost savings
- Open doors to larger grants or contracts
- Responsibly transfer unsustainable efforts.

Strong Financial Viability
Moderate Market Position
Broad Strategy to Consider:

FOCUS ON QUALITY

Emphasis on deciding whether to improve or divest of mediocre programs that others can provide.

Consider whether a strategic alliance could help:

- Define your niche in the market
- Add new capacities to improve program reach, delivery, and quality.
- Provide your consumers with access to quality services that are valuable but not aligned with your mission or competencies.

Financial Turbulence
Moderate Market Position
Broad Strategy to Consider:

FOCUS ON SUSTAINABILITY

Emphasis on deciding to adapt, retrench, or divest depending on sustainability and market options.

Consider whether a strategic alliance could help:

- Attract new funding opportunities
- Create efficiencies or cost savings
- Enhance your capacity, reach, and quality
- Responsibly transfer unsustainable efforts while maintaining access to quality services for your consumers.

Low Financial Viability
Moderate Market Position
Broad Strategy to Consider:

RETRENCH

Emphasis on protecting the organization by mitigating or letting go of currently unsustainable programs.

Consider whether a strategic alliance could help:

- Improve sustainability
- Enhance your capacity, reach, and quality
- Ensure access to quality services for consumers and responsibly divest of unsustainable efforts.

Strong Financial Viability
Weak Market Position
Broad Strategy to Consider:

SEEK A PARTNER

Emphasis on protecting the agency's reputation and sustainability by aggressively seeking a partner to improve or divest of weak programs.

Financial Turbulence
Weak Market Position
Broad Strategy to Consider:

CONSIDER AN EXIT STRATEGY

Retrench and responsibly divest of weak and unsustainable programs.

Seek a partner to support exit strategy and continue programs or services, if applicable.

Low Financial Viability
Weak Market Position
Broad Strategy to Consider:

EXIT THE MARKET

Responsibly but quickly close weak and unsustainable programs.

Seek a partner to support exit strategy and continue key programs or services, if applicable.

CONSIDERING RETRENCHMENT STRATEGIES

Leaders whose organizations have moderate to weak financial viability and market positions should recognize that the entity will be more vulnerable in turbulent times. How should that discussion be framed?

The first scenario to consider is **whether the entity can shrink and re-organize, and still remain viable**—in other words, retrench. A bit of imagination is required as you may not know with complete certainty what the lost revenue will be or what parts of the entity are at risk.

In general, there are **four models** for designing the part of an entity that remains after a major loss. You may or may not be able to choose freely among these options, depending upon the nature of the funds lost. The options are:

- Option 1: The entire organization but on a smaller scale.
- Option 2: Retain the programs or services that are most adaptable or innovative under conditions of uncertainty.
- Option 3: Retain the programs or services most essential to consumers.
- Option 4: Retain the programs or services that survive the cuts chosen by funders.

You may want to consider more than one option. (You can use the Financial Health and Program Viability assessments to experiment with how changing variables may change the outcomes.) Again, this is not necessarily an exercise to yield a definitive strategy, but rather about critical thinking and conversation to guide the next set of questions and deeper explorations.

Even if you are in good financial shape, the retrenchment thought exercise can help you:

- Determine which issues are worth fighting for or most central to your mission
- Highlight your unique offerings (differentiation)
- Identify staff competencies to protect and emphasize
- Brainstorm program consolidation, combination, and re-invention ideas
- Identify the resources needed to support the core.

Ask yourself: What is your organization best at? What is most essential to fulfilling its mission? What could change? What can it let go of? **Your new core programming should sit at the intersection of your mission, your strongest competencies, and available resources.**

As you consider how you might shrink, also keep in mind the following issues in deciding what's left:

- Economics of service delivery at reduced budgetary levels
- Politics of reduced levels of service
- Relationships with other organizations
- Emerging areas of high impact/potential
- Historic mission of the agency.

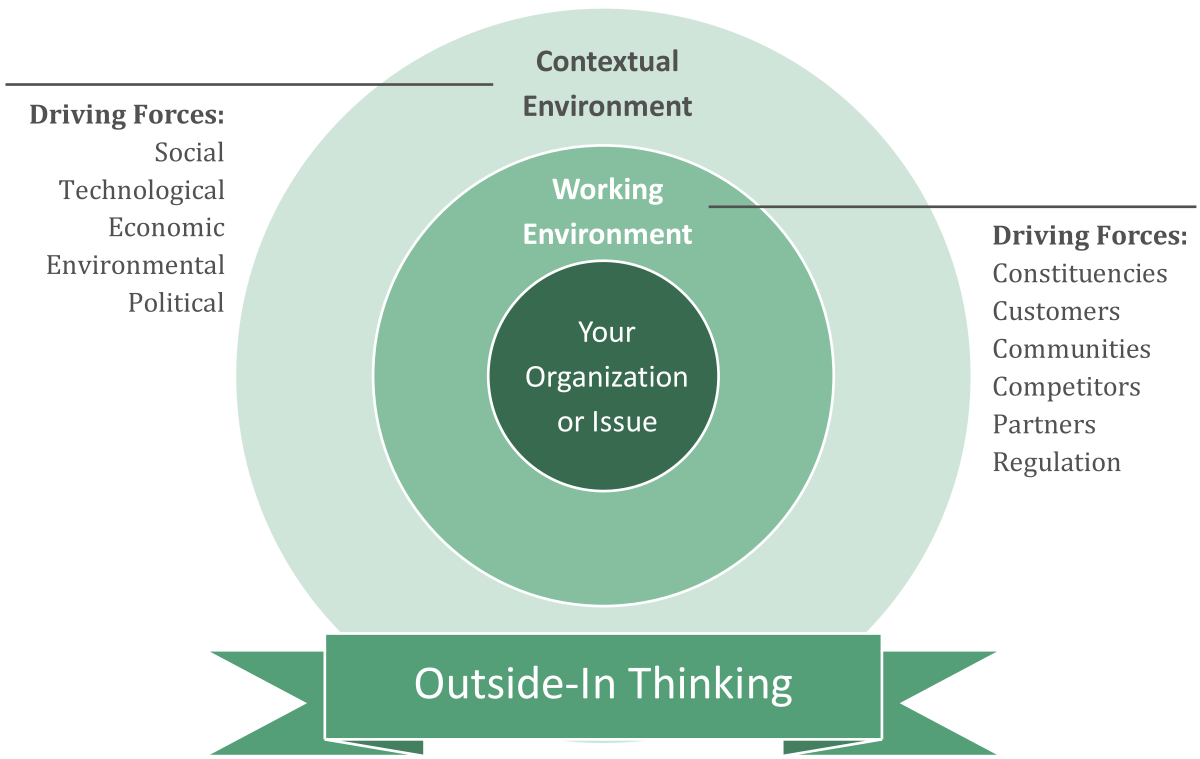
OUTSIDE-IN AND SCENARIO THINKING

Nonprofits do not exist in isolation. They are shaped by their community, stakeholder priorities and motivations, funding landscape, competitors and partners, regulatory requirements, and myriad other contexts and conditions. *These external forces influence an organization's possible futures.*

In "What If: The Art of Scenario Thinking for Nonprofits," Global Business Network (2004) explains that:

> "Scenarios are stories about how the future might unfold for our organizations... Importantly, scenarios are not predictions. Rather, they are provocative and plausible stories… designed to stretch our thinking about the opportunities and threats that the future might hold, and to weigh those opportunities and threats carefully when making both short-term and long-term strategic decisions" (p. 7).

Scenario thinking can be very helpful when you are dealing with a strategic issue and the solution is unclear, and/or you are working in a highly uncertain environment. That said, in order for scenario thinking to be an effective exercise, there also must be leadership support for the process and an openness to dialogue and change.



One of the key principles of scenario thinking is "outside-in thinking," which challenges leaders to first identify relevant driving forces in the organization's contextual and working environments and then use scenarios to consider their implications.

It sounds complicated, but *the simple point is to account for your organization's environment when developing its strategies.*

Applying your understanding to this point, use outside-in thinking and ask yourself:

1. How has your organization's working environment been disrupted? What are the opportunities created by disruption?
2. What are the most relevant forces (helpful and hindering) driving your working and contextual environment, now and in the near future? (3 months, 6 months, 1 year)
3. For each of the forces identified, note it as known/fixed or unknown/unclear.

When brainstorming forces, in addition to referencing the diagram and questions on the previous page, think about the conditions or contexts currently affecting your financial viability (revenue, expenses, cash flow) and programmatic viability (demand, participation, delivery, consumer needs and choice, competition).

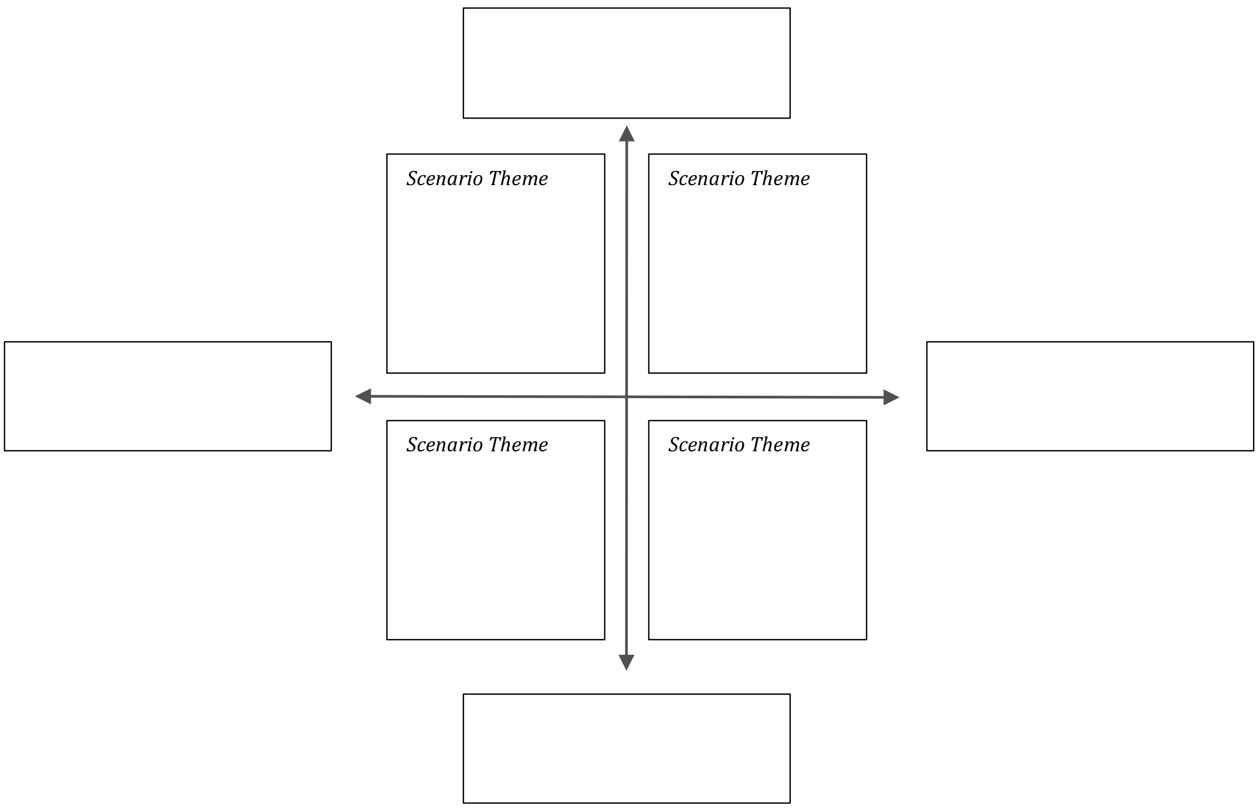
STATUS QUO

HINDERING FORCES (What forces might *challenge* the direction you want to go in?)	**HELPFUL FORCES** (What forces might *help* you move in the direction you want to go in?)

Next, experiment with how the external forces (helpful and hindering) you identified might converge and what the implications might be for your organization. Also note the time horizon involved (3 months, 6 months, 1 year). *Remember, this is a thought exercise, not a deciding exercise.*

SCENARIO THINKING WORKSHEET

Force 1	Force 2	Time Horizon
		☐ 3 months ☐ 1 year ☐ 6 months ☐



What are the implications for our organization? How might a strategic alliance help?

WORKSHOP EXERCISE: GUT CHECK

Financial Position			
Current financial health	☐ Weak	☐ Moderate	☐ Strong
Risk to major current funding sources	☐ Low	☐ Medium	☐ High
Financial runway: Est. months of operating reserves			
Notes:			

Market Position			
Program demand	☐ Declining	☐ Stable	☐ Growing
Service quality	☐ Low	☐ Medium	☐ High
Consumer loyalty	☐ Low	☐ Medium	☐ High
Number of alternative providers	☐ Low	☐ Medium	☐ High
Level of investment needed to complete in the market	☐ Low	☐ Medium	☐ High
Notes:			

External Environment			
Level of disruption in your working environment	☐ Low	☐ Medium	☐ High
Level of risk to services created by the disruption	☐ Low	☐ Medium	☐ High
Notes:			

Core Work
What is your organization best at?
What work is most essential to fulfilling its mission?

RELATIONSHIP MAPPING

Often, the most natural strategic alliance partners are organizations you already collaborate with in some capacity. Below, note your current partners in each category, along with how you collaborate and the overall strength of your relationship.

Organization Name	How we currently collaborate	Overall relationship strength
PROGRAM PARTNERS – Organizations that you currently partner with to deliver your programs		
REFERRAL PARTNERS – Organizations with overlapping service populations but distinct programs where you send (outgoing referrals) and/or receive (incoming referrals) clients to meet their needs		
OTHER PEERS in your field of service or community with shared interests – These could be key allies in associations or community / collective impact tables.		

PREPARING TO PARTNER IN 14 STEPS

Summarized from Forging Nonprofit Alliances *by Jane Arsenault*

Before beginning the pursuit of a specific partner, leadership needs to address the issue of organizational readiness. The following steps are meant to provide a format for thinking this through.

1. **Understand the Organization's Situation**: Ensure that staff and Board members understand the organization's position in its environment to provide context for the proposed changes.
2. **Identify Goals**: Clearly state the goals of consolidation in terms of outcomes to ensure precise communication with potential partners.
3. **Assess Internal Support**: Ensure strong consensus among the Board, management, and key staff to speak with one voice during negotiations.
4. **Gauge External Support**: Check in with key funders, donors, political supporters, and collaborative partners to assess their reactions and identify potential objections.
5. **Educate Leadership**: Provide the Board and management with information and context about restructuring options, possibly with the help of outside consultants.
6. **Manage Emotions**: Recognize and address the strong emotions that Board and staff members may have about the changes.
7. **Anticipate Impact**: Consider the potential impact of the initiative on the organization and its stakeholders, including any negative effects on key decision-makers.
8. **Budget for Professional Services**: Determine the funds available for professional services needed to support the process and assess the financial risk.
9. **Establish Communication Protocols**: Identify spokespersons and establish clear communication protocols for internal and external communication during the search for partners and early negotiations.
10. **Form a Negotiating Team**: Identify a negotiating team with relevant experience or expertise to handle the process from the outset.
11. **Define Organizational Strengths**: Identify and articulate the strengths and positive attributes that the organization brings to the table.
12. **Set Roles and Responsibilities**: Establish clear roles and responsibilities for partner identification and early phases of negotiation.
13. **Determine Screening Criteria**: Develop criteria for identifying and screening potential partners based on the nature of the consolidation effort and the values of the leadership.
14. **Identify Potential Partners**: Use existing relationships and further research to identify potential partners, or issue a formal Request for Proposals (RFP) to gather interest.

These steps are designed to ensure thorough preparation and minimize internal conflict, supporting more successful partnerships.

EXAMPLE CRITERIA FOR PARTNERS

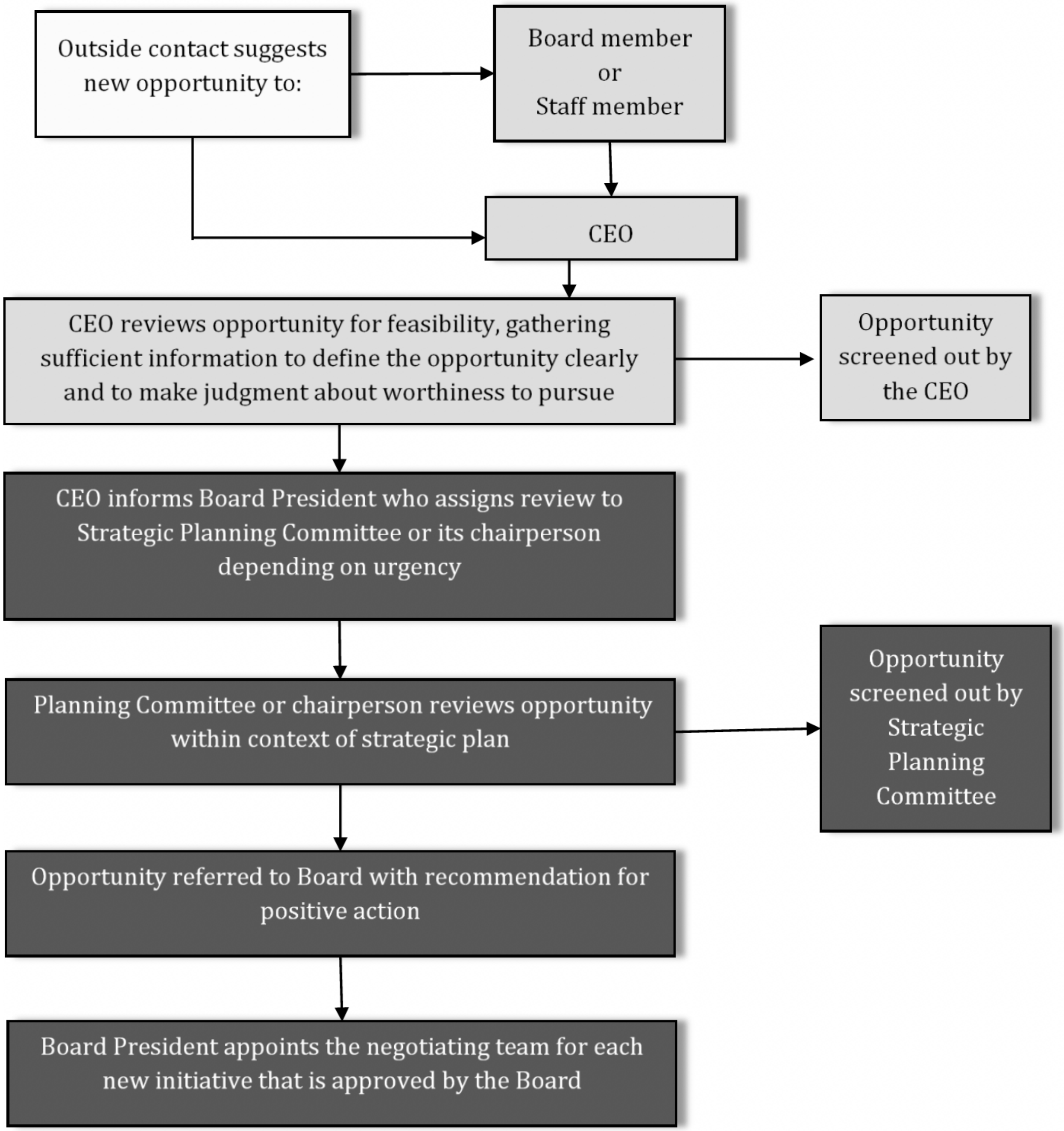
As you begin to consider what organizations might be a good match for your strategic alliance intentions, it helps to objectively and consistently assess potential partners against a set of criteria.

Start by articulating the vision for the shared work. Then, ask yourself: *What do you need to know about potential partners to assess their fit and the possibilities created by collaborating with them?*

Below are some sample criteria to consider. Edit and add to this list based on the type of work and alliance you're considering, and the degree of autonomy or close collaboration required.

ORGANIZATION NAME	
Organizational Purpose and Culture Attributes	
Mission	
Origin story / history	
Values	
Cultural alignment	
History of Relationship	
How we currently collaborate	
Pre-existing relationship(s) between leaders	
Overall relationship strength	
Programming and Outcomes	
Program/service types	
Primary population(s) served	
Geographic reach	
Community impact	
Organizational Resources	
Operating budget	
Funding mix	
Donor base	
# of employees	
# of volunteers	
Notable org. infrastructure	(e.g., information management systems)
Initial Assessment of the Mutual Benefit of an Alliance	
How would the people we serve benefit?	
How might each organization benefit?	

SAMPLE RESPONSE POLICY



ARTICLE: GETTING THE ATTITUDE RIGHT

By Jane Arsenault

When organizations come together, one of the key steps in moving from an informal to a formal collaboration is the creation of an operating agreement that balances power and responsibility in the structure. This helps provide a backbone to how key decisions will be made and important processes carried out. There are, however, a myriad of other decisions that will take place as implementation occurs and the operations proceed. It is these day-to-day operations that I want to address.

As the relationships unfold, the mentality of "partner" should operate in all aspects of decision-making, without regard to where each organization sits in the hierarchy and without regard to size or finances.

When one accepts a partner in any endeavor, it means, I think, that you have taken on the responsibility for mutual welfare, that you have given up the right to make decisions independently without regard to the impact on one another in exchange for the mutual benefit that working together will accrue. Both are agreeing to make decisions in this wider context, standing in one another's places to some degree as choices are made.

These relationships can be easily spoiled when that sense of partnership disappears and the affect shifts to "power over" rather than "power with," to competition rather than collaboration. At some points along the way, as these discussions proceed, questions inevitably arise about "permission." Do "we" need "their" permission to do…? I think this is typical of the wrong frame for this relationship, not the right one. The right one, is, I believe, "If this is going to potentially affect our partner, positively or negatively, we want them to participate in the decision process. We want their input before we choose. We want to make sure they understand what is going on and to hear about it from us." Similarly, when one asks something of the other, it shouldn't be framed as "Do we have to do that? Can they make us?" but rather, "Why would we not comply with this request if at all possible?" Unless there is strong evidence otherwise, you must assume good intent on one another's parts.

Some might say this is deceptively simple and that we need to think through all the contingencies and parse out the decision-making power in a more detailed way. I have not, in my experience, found that to be a useful exercise. First, it is almost impossible to anticipate what circumstances will arise. Second, the very process of attempting to do this sets up a potentially destructive set of dynamics that focuses on dividing power rather than sharing it. What I have found to be most successful is the adoption of a set of mutually respectful norms based on the ethic of partnership and a strong sense of reciprocity.

SAMPLE EARLY-STAGE ROLES AND RESPONSIBILITIES

As your organization begins to identify and talk with potential partners, it's important to establish clear roles and responsibilities. Below is an example where there is some potential for consolidation. If there is no possibility of corporate restructuring, executive staff may handle the entire process.

	Board President	*CEO*	*Senior Management*	*Negotiating Committee*	*Board (Approval)*
Determine negotiating roles	x				x
Identify potential partners	x	x	x		
Develop screening criteria		x		x	x
Research potential partners		x	x		
Review research				x	
Profile list of final possibilities		x			
Initial meeting	x	x			
Manage early relationships	x	x		x	
Narrow options	x	x		x	
Internal communication		x	x		
External communication		x	x		
Formal negotiations	x	x		x	
Final agreements				x	x

SAMPLE PROCESS OF ENGAGEMENT

Board determines the selection criteria.

Partnership Committee (PC) identifies potential candidates, gathers preliminary information, conducts interviews with agency representatives, maintains relationships through correspondence.

PC uses criteria to narrow the field and rank other potential partners, then presents findings to the Board of Directors, as ranked options or as a single option.

Board of Directors holds planning session.

Agenda:

1. Remind the Board where we are at this point
2. Review Partnership Committee deliberations
3. Present first ranked options
4. Discuss options relative to Board criteria
5. Identify most preferred partner or partners
6. Review next steps

PC frames strategy for sending positive message to most preferred partner and maintains positive communication with other potential partners.

Designated individual makes initial contact. There are three possible outcomes from this overture:

Option I

Preferred partner says it is not sufficiently interested to pursue further discussions.

- PC seeks to overcome rejection
- PC moves on to the next most preferred partner

Option II

Preferred partner asks for time to think about it or for additional exchange of information before deciding.

- PC seeks to negotiate the interim period with specific activities and time frames
- If time is of the essence, PC moves on to the next most preferred partner

Option III

Preferred partner responds affirmatively and promptly.

- PC negotiates letter of intent (LOI) and moves into formal negotiation
- PC asks for a 30-day delay before entering into LOI negotiation *

* The PC also notifies other potential partners that it will enter into an LOI with x unless a stronger offer is received within # days.