Grantmakers in the Arts
2004 Conference

DANCING WITH DIFFERENT PARTNERS

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MERGERS, ALLIANCES, AND JUST PLAIN COOPERATION

For years, funders have urged collaboration and mergers among nonprofit organizations. Motivations range from lack of resources, perceived duplication of services, and desire for greater impact, among others. What prevents strategic alliances in the nonprofit community that are so common in other sectors? What conditions indicate that a merger or alliance would work or is something to avoid? Experts in this field talk with community-focused funders about the barriers within the arts, explore ideal conditions, and seek to define best practices for the funders' role.

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CERVENY: Welcome to the last session at the end of two very rich and full days, at least from my perception. I hope the conference has been good for you.

I'm Kathleen Cerveny. Welcome to Cleveland. And welcome to the session that Neal Cuthbert from the McKnight Foundation and I have put together with two wonderful, wonderful practitioners, people who have traveled far and wide and worked with many, many different kinds of nonprofit organizations.

Neal, do you want to introduce Susan, and I'll do John.

CUTHBERT: I've known Susan for a long time, over fifteen years at least. I used to run a very small, struggling nonprofit. Susan ran a fund for nonprofits that had been set up in the Twin Cities, Minneapolis and St. Paul, called the Minnesota Nonprofit Assistance Fund, and we consolidated all this debt.

Susan is a person who has helped a lot of organizations in the Twin Cities and around the country. She's very straightforward, clear headed, smart, and I've always found her to be a wonderful and valuable colleague. I don't know what your academic background is.

STEVENS: As an adult person, I just got my Ph.D. in organizational behavior as personal development. That's what kind of nut case I am. But it was a really, a very, very, very rewarding experience.

CERVENY: I'd like you all to know John Yankey, who is the Leonard W. Mayo professor of the Mandel School of Applied Social Science here at Case Western Reserve University.

John has been in Cleveland for quite some time now, though not originally from here. Thirty-two years? Wow. He is a local legend in terms of his work across a very broad spectrum of the nonprofit sector.

In recent years, one of the things that John has been paying special attention to is the issues around strategic alliance between nonprofit organizations. John, I don't know if there's anything in particular you'd like to say about how you came to this aspect of your work?

YANKEY: It grew out of more of a strategic planning. Almost invariably in the last decade to fifteen years, some aspect of strategic planning gets into the art of development of strategic partnerships. That's what really fueled them for me.

CERVENY: When Neal and I were talking about developing this session, I certainly recognized that for many, many years as a grantmaker I had been suggesting, maybe urging, maybe pushing for organizations to get together.

First it was collaboration, and then it was less defined aspects of coming together around issues of efficiency or duplication of services that I saw from where I sat.

I recognize that none of those urgings or suggestions or pushings seemed to bring much result. I'm very interested in understanding a little bit better the conditions for success and the good reasons for talking with organizations about collaboration or alliance?

What is best practice for funders? What is an appropriate role for us in this whole realm of possibilities?

Neal and I are both local funders. We've talked about a number of things that resonate in our two communities. We decided it might be useful to have an open conversation, so this is not a presentation so much as it is a conversation among all of us about the issue of mergers, strategic alliances, collaborations and so forth that seem not to work so well in the arts.

Maybe that's just a perception of mine, and maybe it'll be debunked in the course of the conversation today. But exploring together what works, what doesn't work, why this makes sense, or when it doesn't make sense, and understanding more about that.

There are two things I'd like to do to kick this off. Susan suggested we could go around and say who you are, where you're from, and why you're sitting in the room today.

No big, long dialogue about that yet, but why you're here, and if you have a question that you hope gets answered in the course of the dialogue. Then I'm going to ask John to talk a little bit about this set of terminology that we have, and we'll go from there.

So could you start us off, Janet?

SARBAUGH: Yes. Janet Sarbaugh from Heinz Endowments in Pittsburgh, and I'm here because I've been involved both successfully and failurely *[Laughter]* in the idea of mergers. Now I have to tell the truth.

MCCOOMBA: I'm Debbie McCoomba. I'm with the Michigan Association of Community Arts Agencies, and we have a grant program that identifies three different partners, but we're also a service organization and a grantmaker. The service component is how we work in our communities in a better way, knowing that locally they touch people differently than a statewide does.

MCQUEEN: I'm Ann McQueen from the Boston Foundation. I've watched two acquisitions that have seemed to be successful. I'm watching some alliances that perhaps should become so further down. I'm not quite sure what my role is in this.

MCCALL: My name is Louisa McCall and I'm with the LEF Foundation. The reason I'm here is that about eighteen months ago we began an effort to bring together five media arts organizations to a table to reflect on their practice. We're now in the first year of funding.

My question is the role of the funder in this regard. How much leadership are we meant to carry, and how much of it should come from the organizations themselves?

SWENSON: I'm Tree Swenson, and I am from an organization, The Academy of American Poets. Before I became the director there the organization nearly merged with another poetry organization. In fact, the boards worked out all of the details of the merger. It apparently foundered on two issues, the name of the organization, and who was to be the executive director. *[Laughter]* We are currently involved in a number of discussions about alliance partnership, joint ventures, that I thought would be an interesting discussion.

TIERNEY: I'm Dan Tierney, I'm with the St. Louis Regional Arts Commission. I'm here because we were part of two attempted, intentional failed mergers. A couple of the organizations coming from a failed merger, a couple of the organizations were just currently merged, and now I'm curious as to their attempt. I'm just watching that.

BLUNK: I'm Rebecca Blunk from the New England Foundation for the Arts, we're based in Boston. And we're involved in a number of alliances and consortium networks both formally and informally.

In the divestiture category, I'm really interested in the idea of when programs are incubated and develop their own strength and capacity and are ripe for spinning off, how do you know, how do you really see that through responsibly?

LOPEZ: My name is Julia Lopez, and I'm here with the Leeway Foundation. I'm on their advisory council, which is now restructuring all of their granting programs.

I am also an artist, and I'm here because I have been a part of a gazillion attempts at alliances, mergers, having been the subject of acquisitions. And I'm really interested on this end, now that I'm in a different kind of role, what the potential is in terms of what I can do.

WOOD: Hi, I'm Sue Wood, I'm Arts Consultant with the Ruth Mott Foundation in Michigan. And I'm here for several reasons, competing reasons even.

About twelve years ago, I was a part of a group of people statewide who was responsible for the merger of four statewide arts organizations into one, which has been only partly successful.

In my current role at the Ruth Mott Foundation in Flint, I'm faced with an incredible fragmentation of small and midsize nonprofits, huge duplication of efforts, and I'm curious about what the role of the funder might be in trying to solve that.

DONAHOE: I'm David Donahoe, and I'm the Pittsburgh connection. *[Laughter]* I'm with the public funding agency that funds the arts in Pittsburgh, and this is an issue that has come up with us. The only mergers we've seen are when one side is simply bankrupt. I'm curious as to whether there are examples or things that funders can do before bankruptcy.

WARLOW: I'm Melissa Warlow with Baltimore Community Foundation, and my arts and culture committee has just asked me to explore changing our priorities to 100 percent collaboration of the arts. And I'm here to find out how I can avoid that. *[Laughter]*

CERVENY: Maybe and why you should be trying to avoid it.

STWYER-WATALAMET: My name is Aurolyn Stwyer-Watalamet. I'm with the Potlatch Fund, which is Northwest Native American philanthropy. We are in the startup phase, so I'm sponging in all the good, bad and ugly of collaborations.

KRATZ: I'm Carol Kratz with the Virginia Piper Charitable Trust in Phoenix, the Metropolitan Phoenix area. We are the largest foundation in Arizona and now about the only funder, rich funder, in arts. Collaboration is something that we're trying to figure out what to do with, because we cannot possibly fund all of the arts organizations that we fund.

But we have had a wonderful collaboration that maybe we could talk about at some point in time called Alliance for Audience, which is an Internet-based calendar called showup.com. It's discounted ticketing; they're going to do special marketing; and they really work like the Energizer Bunny.

I talked to Janet earlier about another collaboration that we would like to quote/unquote "encourage strongly," to get major arts organizations together for the experience in kind of forcing collaborations.

KIM: My name is Angie Kim, I'm with the Flintridge Foundation, and I'm here because we traditionally don't force mergers or networks or anything of that sort. Our funding is California, Oregon and Washington. In Los Angeles we have six ensemble theater companies that are very small, and all of them don't have space.

An opportunity recently came up where there was one space. We began a dialogue with them to see if they were interested in residing and programming that space because we are not, and we don't have the resources to be presenters or programmers.

I'm still struggling with whether this is a good idea. The energy level ebbs and flows, and we don't want to create more work for them. At the same time, in the hope of it being successful, I want to hear about what the tools are, in terms of my role as a funder in that conversation. When should I step back so that they have full ownership over this project etc., etc.?

CHEVALIER: My name's Nicole Chevalier, I'm with the Emily Hall Tremaine Foundation based in Connecticut. Right now in our arts program we don't really deal with collaboration, are not encouraged to collaborate. We share information but not like collaborations.

I also do the environment program, and in that respect you do do that a lot. And it doesn't usually work as well as we intend for it to work, and I think that because nonprofits are very similar, whatever applies in the arts, I can take lessons learned for all my environmental work.

ROTHERY: My name's Anne Rothery, I'm with the Southern Arts Federation in Atlanta. I'm really glad to hear what everybody here is saying. We've been able to agree pretty much on a name and a logo, so that's about as far as we've gotten.

We're working with Kenan Institute for the Arts in Winston/Salem, North Carolina, and Carnegie Mellon's Master of Arts Management Program, to help provide professional development and adult learning for people in the arts. We're very different cultures, and we know we're going to be working together. How do you prioritize? What do you work on first? Obviously, everyone has dealt with some of this.

SUTHERLAND: My name is Margaret Sutherland, and I'm in the California permanent office for the JPMorgan Chase Foundation. I had to live through three bank mergers, so I've been on the other side of the equation, which is quite interesting. We're putting together two foundations right now.

I've supported some organizations in both the arts and community economic development and human services sectors that have merged. I've started to have a dialogue with a few other organizations in San Francisco, where I think that there's an overlap of services, although not in the arts sector. I'm interested in what everyone has to say.

CERVENY: Great, thank you all very much. John very graciously put together the list of terms that you have in front of you, and I'd like him to explain why.

YANKEY: When I was asked to come here, I was told that it's near the end of the conference and very near the end of the day. I kept asking myself why would I want to do this? Part of it is because this gets me out of the university, where I have to truly learn about what's happening in the real world, which makes my teaching far, far stronger.

And the university's been very kind to allow and encourage many of us to do that. I also did think about timing. I indicated to you that in my early years I trained as a Baptist minister, and I was told that I could lapse back into that as long as I didn't try to take up a collection here.

I need to appreciate the culture of this group and not get into collecting. Ordinarily, at this time, I would be up pacing this floor. I tell you, dearly beloved, we may all be… *[Laughter]*

The reason for the list is really very simple. There is absolutely no agreement in the field as to what the terms mean. That's important for us to understand, because you pick up a particular author's piece of work and you may find that collaboration is used as a process, and the person talks about collaboration in a process way.

Other authors talk about it being a collaboration, a noun, an outcome. It's a big, overarching word that captures all kinds of these relationships between organizations.

We had a big conference in San Francisco where about twelve or fifteen of us came together to see if we could agree on a set of words. As you might suspect, we did not. If you understand that some of this was written by those of us in academia, we could not use the same language and get published. We have to have frameworks, and they have to be labeled. If we had the same language, then we wouldn't be able to publish. And that means, in academia, you perish.

The rewards system for those of us in the academy might get in the way. It's important for us to understand that, regardless of what we label them, there is an array of these relationships. I've chosen to use the phrase "strategic alliances" to capture them.

We have a number of them on this handout. Think about it, put it in your mind as if this is a continuum, working from left to right, and place these at different points on the continuum, in the descending order that they're on here.

As you do that, the kinds of impacts that we will be looking at will be these.

As we move from one to the other we should see that there will be increasing need for compatibility of mission.

Secondly, that there will be an increasing need for a shared vision.

Third, that as you move on out that continuum, each of the organizations give up or cede some part of their authority to the alliance.

Four, they become increasingly legalistic and formal.

And five, we find as we move out that series, proactive communication becomes exceptionally more important.

Last but not least, he said unto the brethren, we found as we move out from one of these to the next level, and particularly out at the merger and the consolidation level, trust is at the center of these alliances.

Think about them as we move from left to right, those variables will be happening. I'm not going to bore you by going through the reading of these, but it's important for us to understand that the field generally references all of these as alliances and all of these as important, and there's much more activity going on than just the mergers and the consolidations.

Is that helpful?

AUDIENCE: Very much. Yeah. Yeah.

AUDIENCE: I notice the word "collaboration" is not on this list.

YANKEY: Yes. I've just led you to the promised land by talking to you. Collaboration for some people means all of those. All of these would be a type of collaboration.

Other people, when they use the word collaboration will say, we go through a process to create these collaborative relationships. They reference collaboration as a process. Both are fine, and we just need to distinguish when we use them, whether we are talking about a process or we're talking about a type of an alliance, or both of the above.

When I use collaboration, I'm often referencing both the process and the outcome. Is that responsive to your question?

CERVENY: So, Susan, I'm wondering in your experience, what are the kinds of motivation towards collaboration that lead most successfully towards success?

STEVENS: They're almost too numerous to mention, but I'll name a few. I want to emphasize the question is the exact right one. Whenever I look at anyone who wants to get into any collaborative effort, it's really important that they understand why. Why are they doing this? What do they hope to gain?

In the end, the one thing I can guarantee, unless it's on the very front end of John's continuum, even there there's going to be problems, but the more towards the middle or the end of it, the more pain there will be to make it happen.

It's guaranteed. If there isn't pain, I almost don't trust it. It's almost as if it didn't happen, or no one got it when it happened.

So understanding and keeping in front of yourself, why you are doing this. What is behind it?

So what would some of those likely motivations be?

One of my specialties is life-cycle theories. So it would help me if I could frame it in that framework because that is how I look at it.

At different stages of an organization's life they have more or less to give or to get. Let's just take a startup organization, which would be the beginning stages of life.

Sometimes start up organizations want to start on their own. Others decide they'd be better off starting under the auspices of someone else, someone else who could do the bookwork, the administrative stuff.

I'm seeing more and more people who do incubate some place else. We're seeing more incubators starting, like overall service organizations that can do the books, can do the development, can do that kind of 501(c)(3) important stuff, so this group can do its programming.

That would be a motivation for getting together in the startup stage where the startup wants to get together with a more administratively focused organization to put something together.

That to me is a no-lose proposition, because you're not messing around with the program identity. That's where you start getting into trouble. Hardly anybody cares in the beginning about their backroom anyway, it's just a way to get it done.

That would be a valuable suggestion you might be able to make to groups starting up. You can see they can't put their budgets in, they can't get you reports, they can't get their audits done. You might want to suggest they put themselves under some kind of incubator umbrella.

So the startup is one possibility. In the growth stage, the key challenge is there's so much programmatically going on, that the capacity within the organization is often not keeping up with all of the wide-eyed programmatic stuff happening in the organization.

This actually happened to my own company when I had the Stevens Group for sixteen years. Sixteen years! We were successful, we did very well. I knew that if this thing was going to go any further, I didn't want to put a bunch of money into the infrastructure of it. I really didn't even want to run it. I just wanted to do the work.

So I sold it to a larger company. It was an out and out acquisition, I sold my company to somebody else, and now I work for that somebody else. But that was to gain capacity and to take it to the next level. That was a motivation. But it was a voluntary thing, nobody made me do it. I wouldn't have done it if anybody would have made me do it, which is, again, kind of a valuable thing to say.

I'll give you one more example, a motivation that's life-cycle related.

Oftentimes large organizations mature, keep going up the life cycle curve, and are just one step away from being has-beens. They're not quite all the way into the has-been department, but they're just about there.

They're mad at all of these little upstarts coming along doing exciting, cool dance or whatever the thing is. They want to kind of co-opt them.

Or, I see this with predominantly white organizations who want to have more diversity in audience and in programming, who will take a small, fledgling or struggling organization of color and bring them into the fold.

The cultures are, of course, very, very different. The one feels used by the other, and the other feels not appreciated by this group they're doing so much for!

So I think two things, understanding the motivation, which Kathleen raised. And frankly understanding what the lifecycle dynamic is of both organizations. What are they getting out of this? What's the gain for each of them?

Is it something at the end of the day where two and two make fifteen? Because if two and two just make four, I wouldn't do it. To me, to do anything on this back side of the sheet, two and two has got to make fifteen or some big number, some big multiplier, because there's too much pain involved.

AUDIENCE: All of the mergers and things that you've talked about, the motivation is from the organizations. Say you're a funder in a Midwest town, and that this Midwest town happens to have, say, two symphony orchestras. *[Laughter]*

I suppose we're being taped right now too. So this is hypothetical.

CERVENY: Two unnamed symphony orchestras.

AUDIENCE: Two unnamed symphony orchestras. Now, those two unnamed symphony orchestras are not going to merge on their own, but they have a lot of expenses, a lot of back of house, a lot of similarities in terms of the industries and the costs. Is that something a funder should do something about? *[Laughter]*

STEVENS: I'll just lay my cards right on the table with you. I think you've got to be really careful as a funder to try to be the instigator or to be the forcer, "You've got to do this. You've got to do this."

I think you can raise the question. I think you can plant the seed. I think you can even not fund them! But in the end, it's their organization, not yours.

You may be an investor. It's theirs! It's their blood, sweat and tears! Even though you might think it's yours because you've bailed them out eighty-five times from Sunday. Certainly not the two organizations we're talking about. *[Laughter]*

I just think we've got to remember who we are. We're investors in these community gems, and if you don't think they're a gem don't invest in them! That's my fundamental philosophy.

Now, how could you do a little maneuver? How could two big symphonies or two big orchestras, let's say, what could you do? And not just with them, but with any two mature organizations. I'm a big one in backroom mergers.

Do you know what I mean by backroom? The essential but the non-programmatic functions.

AUDIENCE: The non-identity things.

STEVENS: The non-identity things. Because who cares if you have eight accounting staff, you have four. That saves some money. I've even seen organizations merge their development functions.

Now, I can't imagine that in a big symphony, but I've seen it in lesser organizations where they've worked together on development or use the same staff, one really good person as opposed to two halfway good people.

CUTHBERT: I've shepherded and been involved with a variety of different mergers. Most of them don't seem to save money, ultimately. Even though that's the desire.

STEVENS: If they're any good, they shouldn't.

CUTHBERT: They shouldn't?

STEVENS: See I'd say that too. I don't think they should. If two and two is going to make fifteen, you better be paying more for it. There's going to be a bigger budget.

AUDIENCE: That's not the motivator.

STEVENS: Do you see what I mean?

AUDIENCE: The motivator wasn't the money.

STEVENS: I don't think so. That's why groups don't want to merge. You and I've talked about this. Maybe you could weigh in on that, the kind of threat of feeling like they have to merge with somebody.

YANKEY: Coming back and picking up and reemphasizing and underscoring some of Susan's comment, we can break these drivers down into about three or four categories. Why are they doing it? Susan's experience matches mine, in terms of why organizations are exploring these.

You have a series of those that relate to programming. Expanding programs, expanding market share, diversifying product lines, you pick your language, but it has to do with programming. So they're looking for synergies.

You've got a series of these drivers that are around increasing, and you used the word capacity, I'm just going to build on that because I think it's a great one. The infrastructure and leadership capacities of the organizations. You will often find one that might not be as strong, and rather than bring on a person with greater strength, they will look to get that strength through some collaborative relationship.

It's sometimes people, it's sometimes boards, and sometimes it's technology. You have a number of drivers in that area where we're trying to create strength in both organizations by maximizing those human resources. It further gives potential for career ladders for people that might stay connected with those organizations rather than going somewhere else.

Then we have a series that really are the economic series. These have to do with gaining access to capital, that some might not have by themselves, as Susan said so well, gaining fundraising capacity and developing that. Some want to do that because they're pursuing economies of scale.

We have a whole different category called environmental factors. What most of you probably know is that in the decade of the 1990s, every year, we came online with about 26,000 new 501(c)'s every year of that decade. That pace is not declining as we move into the 2000s. Phenomenal.

Those are obviously not all art organizations, but the funders also have to figure out how to allocate <u>their</u> resources. As that competition rises, these are either real or perceived pressures on these nonprofits. Whether you say anything or not, they are cognizant of this.

Some of the federated funding bodies are talking to them, they are encouraging them, they are defunding some of them. I want all of that to say in response to the specific questions, I beg you! That's probably too strong a word.

AUDIENCE: Beseech. *[Laughter]*

YANKEY: I beseech ye, sisters and brothers, do not do two things.

One, don't look at these alliances, particularly at the mergers and consolidations, as saving mega bucks, particularly in the short-term. It will likely not happen in the nonprofit culture. There are two very sensible reasons.

One is, so much of the budget of the nonprofit is in the human resource, the personnel line item. Someplace between 65 and 70, 80 percent, depending upon the size of the organization, of its revenue streams.

But when they come together, particularly around mergers and consolidation, both boards are working hard to sustain and retain their respective staffs.

Unlike business when we have an announcement that there's going to be a merger, it is usually accompanied by an announcement of how many people will be losing their jobs and/or relocated or downsized. You pick your verb. To whomever it's happening it feels the same, regardless of how it's described.

But that's how they get that instant, major savings. We in the nonprofit sector have not embraced that culture.

The second reason, closely associated, when we come together we generally will have two different compensation and benefit packages. I say unto you, do we go to the lower of the two? No! We got to the higher of the two. Should we? My bias says, yes. But the economics of that says you're not likely going to get savings if you do that.

When Susan and I chatted about this, it was a common experience we have had in our consulting, that a client wants to position these as major savings. It's not likely going to happen unless we bite that personnel bullet.

So please don't encourage people, at least that far end of the continuum. Economies of scale are <u>great</u>, and we should achieve some economies of scale. Over time, we can probably achieve some savings. But cost avoidance, economies of scale, is much better language to use.

The second thing I beseech you not to do – and we can come back to this – is don't punish the nonprofits that you fund for doing this by then reducing their funding when they do it.

STEVENS: That goes back to motivation. What the nonprofit's motivation is are the many things we've talked about here. What's your motivation in the encouragement? If it's to get out of funding them, that's a very big disconnect between your motivation and their motivation.

Believe me, I've worked with so many foundations through the years and been involved in advising many of you on what to do about certain circumstances. I think to myself, I can see if I were in your shoes, why sometimes it would just make sense. It's just <u>logical</u> that three or four organizations, or two or three organizations, or whatever, would come together.

But it isn't logical to them, and it really isn't logical before they form their identity because they haven't really figured out who they are and what they're going to be as they grow. Once they do form their identity, they don't want to do it, unless they can see some really big gain in it.

AUDIENCE: I was going to ask a question about a particular class of organizations. In our community we've got a shared services program that's working pretty well between six big arts organizations. It's back-of-house.

One of the things that we're more worried about is a particular class of midsize/small organizations. They're not startups, they are small by choice. As conditions get more and more hostile for them, they're having a tougher time with administrative function.

One of the great interests in our community is how can we take some of these small organizations, small characterized by maybe $250,000 or less, and there is no marketing director, there is no development director. All of this is done by either a volunteer board or one or two staff.

Are there any examples, nationally, that you all know of, of incubators or umbrella organizations that are playing the back-of-house role for small arts organizations like that and making it work?

CUTHBERT: There are a couple of examples that come to mind in the Twin Cities. One, the Minnesota Opera, which is a major organization, it's got this wonderful facility called the Opera Center that they use for rehearsal and set construction and everything except performance. They've often got a lot of space, and they have a history of letting smaller organizations use the space for extended periods of time, and then benefiting from some of the other functions at the opera. It's an informal thing that they've done with other primarily vocal-based organizations.

Another one that comes to mind, but I'm not quite sure what to call it. Open Book, which is a shared facility of several literary organizations in Minneapolis; the Loft, which is a writers' organization; Milkweed, which is a literary publisher; and the Center for Book Arts; and then a few other folks thrown in there.

That was a joint effort where all of those organizations came together. They all had space issues of different kinds. They jointly purchased a building, and then they created another 501, which became the management core and the owner of this facility.

STEVENS: A separate one?

CUTHBERT: A separate one that they are all on the board of.

AUDIENCE: Did they do that themselves. They didn't have encouragement?

CUTHBERT: No. Several of them were looking at dire space concerns, and they were talking... They came to a couple of funders for some planning money because they started to think about a shared space solution. They did a very thoughtful planning process that led them to conceptually design a space and then they located the space and then did a $7 million+ capital campaign.

It's a facility that has a lot of common space, there's a coffeehouse, that kind of thing, in it. There's an auditorium that they all use, and a variety of meeting rooms and things like that. So there's some of the physical back-of-house stuff that they share. They haven't gotten into sharing much of the administrative stuff.

AUDIENCE: It works financially?

CUTHBERT: It works great!

STEVENS: Just one more quick thing on that. There are these examples like Neal gave, of the back-of-house or incubator thing. I know of several of these outside of the arts, in community centers, etc.

AUDIENCE: Environmental organizations often can... I've seen examples of that emerging in environmental organizations.

STEVENS: I think that would be something in the way of encouraging, or in the way of capacity building. Those of you who have these capacity initiatives could be something that could be very helpful to organizations. Especially the $250,000 to $500,000, where you can't keep increasing your budget, but it should be less expensive to have your books done in one central place and then know it's done right, and maybe even have a development function for those.

AUDIENCE: It sounds like some funder would need to initiate that.

AUDIENCE: It's just interesting that with times as tough as they are, I haven't been able to come up with any examples of this group of organizations coming up with something like this. I think they're uniquely, as artists are, independent voices. Perhaps some of them would rather go out of business than share.

AUDIENCE: I think there is something about the independence of spirit, not just in the arts, but definitely in the arts, particularly if you still have founders or if you still have close to the best people involved.

CERVENY: We have some folks with questions.

AUDIENCE: I wanted to get back to your discussion of understanding the logic of the collaboration. In the past, we brought these five media arts organizations together in order to reflect on our own individual practice in the context of this larger group so that they would understand their strengths better and understand other organizations' strengths. We had hoped that that would strengthen their individual practice.

But by just bringing them together, collaboration was implicit to them. They just from Day One wanted to figure out how to collaborate, and that hadn't been our intention at all.

STEVENS: That's cool. To me that's something that worked well: an unintended positive consequence. That's terrific!

YANKEY: But they will perceive that you have an agenda as a funder. It just needs to be dealt with honesty, because it will be a hurdle, in this instance, an unintended positive consequence.

STEVENS: Let me ask this question too. I'm going to make a prediction about these groups. I don't know anything about him. I remember you're Boston, right?

AUDIENCE: Yes.

STEVENS: So I know where you're from. I'm going to guess that these organizations were started in the 1990s or later. Would I be at all right on that?

AUDIENCE: No. In fact there's much more diversity here within this group of organizations. Some are startups, and some are major, like WGBH local productions, and Central

Productions, which is two people producing narrative films.

STEVENS: Now that's actually really cool.

AUDIENCE: And they're sitting at the same table, and the whole idea was to look at how filmmakers are supported in their need for production support.

STEVENS: Very cool. My point is often, I'm finding that people who grew up in the 1980s or later are much more collaborative, are not into building big structures. Let's get together, let's figure out the best way to do it. They don't have this vesting of their whole ego into everything.

I'm one who has vesting of my ego. I'm an ego type, so I get this. But it's amazing to me that many of my staff are much more collaborative than I would have ever tended to be.

CERVENY: We had some other questions. Gentleman in the back.

AUDIENCE: I was going to make one comment. We have a consortium grant that we fund. It would be more of a program sense and not an operational sense.

But what I found out is when the organizations do decide to do these whole-hearted merges, that we're behind it and our funding level is the same for both, combined. But the corporations, and I'm not going to name any of them, will come in and say, "Well, great, now I'm going to fund this at half!"

So the two plus two first turns out to be ten, and the next year it turns out to be three. That's one of the things that we've been noticing, and it's almost like a wholesale system for people to encourage them and then turn around and cut them.

CERVENY: It's a real disincentive if you've got your eyes open and you watch what happens.

AUDIENCE: You have it happen a couple of times, and then all of a sudden nobody wants to touch anybody else.

YANKEY: It isn't just corporations or business. As the arts and cultural organizations get more invested by public funding, with a lot of the human service organizations, this is a major barrier to them. Both of the organizations have been getting a public grant, and they come together, so one of those grants is lost. It's a combination of corporations and government, as well as, in some instances, foundations.

CERVENY: Ann, you had a question?

AUDIENCE: A question and a comment. First, I also see the potential for, especially smaller and midsize organizations, to come together and bulk-up and have more of an impact, and, therefore, potentially not lose that added dollar. Or, at least, that's how I'm looking for it to happen.

CERVENY: What would it take? Intellectually, that makes sense. What would it take as a funder? What would we need to see in order for us to respond effectively to that?

Let's say you've got two small artistically meaningful but structurally weak organizations, what kind of case would they have to make to us for us to say, "Yeah, your two plus two is going to become a seven."

STEVENS: I'm wondering the other way around. What kind of funding program would we put in place to encourage them in a thoughtful way? Would it mean, if you do this for the next four years we will give you exactly what each of you would have gotten and maybe a little bit more because you've got operations now, you've got to have a consultant as well.

AUDIENCE: Ann, just in response to that, I think our role as funders is in the planning. We sit, and we can look in on these organizations, but I think you're right, they have to self-identify that they're ready, that they're willing, that they know what the situations are.

But maybe our role is in the planning of that and giving them time, space, dollars to support their conversations so that they know it's the right move. That's probably what's missing in a lot of people just running into this and then things not working. The funds are there to help that merge, but the problem is the planning is not there.

What is it? The failure to plan is a plan for failure? I think it's really imperative that we put dollars, as funders, into that planning process.

CERVENY: John, I know you have some thoughts about planning.

YANKEY: I'm always, particularly with this audience, cautious about what I'm about to say.

We studied about fifty or sixty of these nationally, as well as about twenty of them locally, cutting across all these different types.

One of the things that emerged when we asked them what they felt contributed to their success, had to do with the money available to bring in an independent consultant to lead them through a process.

Since we both do a lot of that, I'm not sure whether I should say that. But it shows up even when we didn't ask a specific question about the consultant. What we also found is because trust is so important, if there were elements of mistrust or distrust, sometimes that was alleviated by having trust in the consultant.

Both organizations could trust the consultant, and, therefore, they could move through a series of steps, and that helped them do the planning that was necessary. Because there are a series of things that organizations need to do in this exploratory phase.

So I think you're right-on, and the selection of that person can, indeed, be very helpful.

The other thing from the planning perspective that we found, is that many times the organizations do not spend time talking about how they're going to evaluate the success of this alliance.

When you go to talk with them about whether they have been successful, we find that they will arbitrarily judge yes or no, and give you very soft information about why they perceive that. If the planning were a little more thorough, then you could build in the criteria that we're going to use to make judgments about whether or not this is successful and achieving what we want. The planning is really very, very critical.

CUTHBERT: There's this one merger that we've been working on for a few years. Someone from your shop has been working on it with us. We're bringing in the consultant for the third time. It's two years post-merger. They came in pre-merger and got to the altar two or three times almost. Finally the merger happened, and the consultants may be coming back for one more round.

I totally agree that role is key, where you have parts of the two old boards who are getting along and then suddenly something happens where they're looking at each other rather than looking ahead. The consultant can come in and say, what are we trying to accomplish here.

AUDIENCE: Yes, and that's been really important.

AUDIENCE: There are certain differences when we talk about small, midsize and large organizations. I want to say something about the small organizations because all the groups that we work with are really small. I'm talking about budgets of maybe $60,000 a year.

One of the things that I've been a bit discouraged about, and I know that the groups have been a bit discouraged about is, when they get together and want to fundraise for the project that they've gotten together about, there is an issue about space. We want them to be able to share space because none of them have it.

Who can they go to for support? Because what I've tried to encourage them to do is think creatively so that they don't have to create another 501(c)(3) for them all to share the management of.

Obviously, we can't act as a fiscal agent for them or a business sponsor. They're really strapped that way. The resources to encourage that sharing of resources aren't there.

STEVENS: Often the skill even when some of these service centers do get created, then <u>they</u> need to be supported. So you think, this is a never-ending problem! It's a really big issue.

AUDIENCE: We have the same kind of issue. It's a different kind of scale, it's not putting one and one together and getting two; it's serving forty in a certain way.

We have an intermediary area organization that sells tickets for small organizations. It sells the tickets for forty organizations, and it sold $800,000 worth of tickets last year, which is really pretty good.

So now everybody's looking at that organization and saying, could we build some other services onto them so they can serve forty organizations financially, and they can serve forty organizations in marketing?

Those things don't necessarily compute, but everybody's looking at that as a real additional economy of scale. But I can't find anything else like it.

CERVENY: It occurs to me that that example, and it's a terrifically successful example, is one in which for smaller organizations it's a net gain to them. They don't have to give up in order to get from that kind of an arrangement.

Managing your own box-office is not necessarily a desirable thing for a small arts organization to do, and most of them don't do it very well. It isn't tied to the programming, the artistic product, the artistic identity, so it's a get/get. Maybe that's a place to start.

CUTHBERT: There's a group of middle-aged dance group. The choreographers who head these organizations are all middle-aged. I just refer to them as our middle-aged choreographer group. There's about eight to ten of them, and they self-identify that way too, so it's not obnoxious. It's okay.

We brought them around the table because they're all hitting fifty, and they're all small organizations and have had peaks and valleys and national touring and things like that. I thought that this was going to be a really interesting conversation where the sparks would fly and people would say, "Wow, I could use that. We should do this!"

We went around the table, and I didn't force it, but I was trying to push it a little bit. What it turned out is that these were a bunch of middle-aged folks who were really stuck in their ways! I do my marketing this way, and I've got this person in New York who handles my booking, and my mother-in-law does our books, and that works for me.

The fragility of their organizations is based on all of these negotiations and things that they've done for years, and they've created these little ecosystems that support them.

Here the funder's coming in, and he's saying, "Boy, well, let's do something that will make you run faster and jump higher." *[Laughter]* And they weren't having any of it. Because they didn't want to change!

STEVENS: It's even more than that. Because that's all true, they don't want to change, because they've put it together with chewing gum, in a way. Yet they're complex systems. It's not like they're real simple.

If you've got five balls in the air and they're all propped up with a different piece of chewing gum, you take one out, the whole thing could begin to unravel. Or your mindset unravels. You start thinking differently.

These are people near and dear to all of our hearts! Many of them were founding influences in their field, let alone founders of their own organization. These are geniuses! I mean they are!

So they're half cracked sometimes. Logically, you look at it from the outside and you think, what are they getting out of this deal?

CUTHBERT: You're going to run a dance company?

STEVENS: That's it. But they do run a dance company, and they've been rewarded for this. We have to be careful, except for in the very beginning. In the beginning you can mess around with about anything because it isn't set. As they get a little older, and I don't mean even middle-age either, but at some point their systems get set.

It's like you in your own life. We get habits going, and some of them are dumb habits, but we have them anyway. They hurt you, and some don't hurt you. But that's what we have going. You start to chip away.

Here's how I look at it. You've got to have more to gain on the other side, to change.

CERVENY: And you have to see that there's more to gain on the other side.

STEVENS: And you've got to see that there's more to gain. It's like any behavioral change in your life. You know you should quit smoking. You know you should lose twenty pounds. You know it, if you've got it upstairs, what you should do, now doing it.

That is what happens with so many, it's organizational behavior.

CERVENY: I'm wondering how much is the fear factor there. I'm going to say something, and maybe this is just my crazy way of looking at the world from my own experience.

CUTHBERT: Should I turn off the tape recorder?

CERVENY: No, I'm willing to put it out there. How much of it might be that founders or people who came up without the organizational training, have figured out how to do it. Behind all of that, they know they don't know how to do it in the way that the funders or others like.

People talk at them with language that I never learned that language, I never learned that vocabulary. I think I understand what it means, but I can't speak that same language. No, I'd rather keep things the way they are. I'd rather keep those ills that I have, than fly to others that I know I might not be able to control. How much fear might be in losing control and maybe losing the ability to continue to make the art?

AUDIENCE: Hearing you say that, I'm wondering, is there something intrinsic to the making of artistic wonder that is antagonistic to the kind of organizational development that we as funders look for? Are you saying yes?

CUTHBERT: Well, I think there's some. I wouldn't say it's a generalization.

STEVENS: I think art and entrepreneurism is the opposite, in many ways, of organizational structure. Many people, not everybody, and particularly in the beginning, that's what I would say too.

They didn't get in it to have an organization! They got in it to do their thing in a way that would get supported or have a chance to be supported.

So in the beginning, I think that is fair, I think it's a good point.

YANKEY: But I would say that it is not different in the art and cultural organizations and many of the other nonprofit organizations. The same dynamics, the same questions, the same issues play out there.

You may have personalities. You may have more creativity. But these issues we're talking about are not just in this subsector. They permeate the whole of the nonprofit sector.

But your point is very well made, but it's just a bigger point. It isn't just in these type organizations.

AUDIENCE: I wonder if we can't tie this conversation to what we heard Bill Ivey talk about and the fact that he feels that this model of supporting nonprofit cultural organizations has almost reached its end. We need to start thinking differently about how to support cultural organizations. And I'm wondering if you guys have any thoughts about that shift.

I made my comment in response, Ann, to your comment about what incentives do that we give out there so that these groups can come together and collaborate. The fact that we preclude funding for organizations that don't have 501(c)(3)s, I think it's a huge stumbling block already.

Also the less sexy grantmaking for space. In LA that's a huge issue for these groups. If it's not project-support specific, if it's the behind-the-scenes that we're trying to support, there's really not that much money out there.

STEVENS: I'm just going to dodge your question. That's something we haven't talked about yet, and I'm afraid we wouldn't want to leave you with an impression fifteen minutes before our end time, that you don't have any role in encouraging...

What could you do that could be helpful to an organization? I'm going to lay out a few things. This is not a be-all-and-end-all list. But here's where I've seen funders be helpful in organizations to begin thinking differently about their futures, and, particularly, along a more collaborative future with other groups.

One is, there's nothing wrong with asking the question, have you ever considered... Maybe this is off the wall. Have you ever considered getting... I just talked to so and so the other day, or I don't know if you can tell tales out of school, but, have you ever considered getting together on some level with so-and-so for programming?

In healthcare, or in social services we call it continuum of care. But is there a continuum of audience or could contemporary jazz live with formal jazz? Could they have a season together?

I think it's always appropriate to ask a question. Because you as funders more than anybody else are outsiders to them, yet you're invested in them, and you're the one who can see what's going on the macro, and you could bring things to them that they might resist, but they might think about too.

When I sold my company, it took four years for them to buy my company. I said no every time. No, no, no, are you kidding me? No, no, no. And one day I thought, why not? So it takes a while to get through that crust.

When you know an executive director is going to be departing from one organization, that is one of the most ideal moments because as one of you said, the failure of a merger, the slip-sliding away happens over the name. You see these people come up with eighty-five names in their name, so they can get every word of the former organizations. It's ridiculous! And then who's going to be the executive director?

So if you have some foresight. Somebody is departing, and these are two organizations that might want to get to know each other, this is something that could be done quietly and not in a maneuvered way. That's really the time when you have more of a chance of success, I think. When one executive director is leaving, you won't have to face that battle.

A third thing is making sure that if you do get down the road that there is a champion other than you. Without the internal champion, it is not going to happen. If you're it, you cannot drive this from outside. I can't stress that enough, no matter what a good idea it is. If it doesn't become theirs, it's not going to happen. Or if it does, it'll be disaster.

So those are just a few thoughts about that.

AUDIENCE: Is there greater success when the suggestion comes through the board versus the ED? Have you had any experience... Have you thought about partnering, merging, whatever the verbiage is, when it comes to the board of directors?

YANKEY: It cuts both ways. Frequently, you will have execs or CEOs who have a long friendship, who have struggled in their respective organizations, and they began a series of informal conversation that then will last in a more formal discussion by an executive committee, frequently, before the full board.

Other times it's because of the crossover membership of some of the boards. People who are serving on multiple boards themselves at the board level decide that this is something we should explore. I haven't seen it more pronounced one way or the other, it comes both ways.

CUTHBERT: In my experience with a few of these, I felt that the mergers that seemed to be driven by the staff leadership worked better. If the staff wasn't onboard with it, and it was a board-driven thing, it was very problematic. You would sometimes have a board member who may or may not be that informed who thinks it's a great idea.

CERVENY: I've seen staff really sink merger conversations or sabotage the process in a hurry.

AUDIENCE: We also had a case once where two very powerful board chairmen came to the foundation leadership and said, "Please help. This is silly between these two organizations." And, in fact, requested us to intervene in a more overt way than we might have.

That actually worked after some wailing and gnashing of teeth on the part of the staff people. Maybe that's an anomalous situation, but that was a case where board leadership opened the door for the foundation.

STEVENS: The impetus can come from about anywhere, but as Neal said, if a key staffer is not on deck on this thing, the chance of implementation is small. Honestly, in my own merger, if I wouldn't have been 100 percent the champion of this, it wouldn't have happened. Even on the days I went and banged my own head against the wall, I never let my staff see me bang. Because I did this, and, by God, I'm going to make it work!

My firm acquires people all the time, and they said, that Stevens Group, that's the most successful acquisition we ever had! Because I said, if we're doing it, we're doing it! And we did it! But somebody internally has got to be the leader and champion for the rest of the staff and carry them.

CERVENY: We don't have a whole lot of time left, but there's two other aspects of this whole conversation that I'd like to put on the table for our practitioners to speak to.

One is to talk about implementation. You're at the altar, you got married. What are the pitfalls, what are the things in the implementation process that have to be paid attention to in order to make a success?

And the other thing is how important the culture of the organizations are that are thinking about merging or collaborating?

YANKEY: You've given the first answer in your second question. Doing the deal is one thing, making the deal work is quite something different. Often one of the greatest challenges in making it work is difference in organizational culture.

The process that you use in planning will help you work through some of that organizational, cultural difference coming in. But there will still be much left to be done in the implementation.

So organizational culture would be very close to the top.

Another of the major challenges, and Susan hit a couple of these very well a little bit earlier, will be the final name that you choose, the choice of that executive director.

We found that on average, take all these different times, it took on average between twelve and eighteen months from the time of the first conversation to the implementation, not successful implementation always.

If you think about that timeframe as just an average, then you begin to understand that organizational culture, name, office location, the use of what you're going to do around the personnel policies, are key implementation factors.

The champion notion is about the only way to make it work. We can call it champion, we can call it whatever we want. Preferably, that's someone who has been engaged in the process up to that point in time.

I found more resistance in the merger and consolidation from boards, than I found from staff.

AUDIENCE: And why?

YANKEY: Because of some of the things that we had talked about. Many of the board, in some instances, were founding members, and they didn't originally create the organization to have an organization. They had a cause, a mission, a passion. If they remained, as Susan said so well, that has to be dealt with. It doesn't mean it cannot be overcome. So that's one.

Secondly, and I think you hit it, there is a natural fear on both board and staff as to, what is my future with the organization? What role will I have to play? I know it now. And I get in some instances there's certain prestige and status. I'm viewed as a community leader. That could be eroded dramatically as a result of this.

Those are just commonsensical. There's absolutely nothing rocket science about this. It is those commonsensical things, things that we know about human behavior.

The other thing that I would say, although I know it won't be true of any of your experiences, will be ego and turf. *[Laughter]*

AUDIENCE: I'm surprised that it's taken this long.

CERVENY: I think it was an unspoken given in the room.

YANKEY: It's true. And the other last point I'll make is that we found that there is no relationship between success and the size of the organization. You can have these alliances among the small, the medium and/or the large. But if the initiation is taken by the large organization, it is often felt to be a takeover or an acquisition by the other party.

We jokingly asked one of the people we interviewed, when's a really great time to do this? He said, "When the needy meet the greedy." Now he was a little facetious, but the way it is perceived by those who may be quote "needy" often does look like it's the greedy that are pursuing them.

But those are three or four things, Kathleen, that I think really do contribute to why the boards react.

AUDIENCE: I've been in experience with two. With the Regional Arts Commission in St. Louis, we tried to merge twice with the United Arts Fund and failed both times. I'll be honest, in the first failure I was the one who intentionally killed it.

Mainly because the United Arts Fund, their books had not been audited, I didn't know what they owed or anything. There was a lack of trust, as you're saying.

The second one, went right to the board. Finally the staff was all for it, we had everything in line, the executive director had quit from the United Arts Fund, and we had everything in perfect line, and then it got to the board, and our board and their board just didn't trust each other.

Now, they didn't have any founders in either one, but we were a public agency, they were a private agency. I'm sure there are probably others in other cities that have the United Arts Fund and the local agency together. There are all these models out there, but when it came down to it, it was an ego, and it was a board dynamic.

Eventually it will merge. We have to do it over time. But everything you've mentioned here has probably occurred with us.

Now I'm turning around and talking to my organizations and talking to them about merging, and I'm trying to talk to them with a little experience, this is what you've got to do.

AUDIENCE: When you talked about the large takeover of the smaller, how do the smaller organizations, guarantee they not get eaten up by the larger? Is it the champion of the leadership that comes across saying, these are things that I have to have before this is going to happen?

STEVENS: I think by having something to offer. That's why I'm a big one in not merging or not losing your identity before you have it. So being a little bit more, I'm not saying mature, but knowing who you are, at least being a teenager, before you go marry up with somebody, organizationally.

In my own situation, they wanted my culture. What we had developed and how we did our work, and the entrepreneurism that we did, this company wanted! So they were invested in making sure I could do my thing in their organization, because they wanted other people to do that thing too.

I needed something from them, but they needed something from me. Whenever they wanted to act like I shouldn't be doing that, whoa, whoa, whoa, This is why you wanted me, remember?

I knew we had an identity. We had ego too, but we had more than that, we had an identity that we knew they wanted and we could offer.

CUTHBERT: We had a midsize theater basically acquire a small theater. They bought it for 800 bucks. Their budget was much larger than that, but that's essentially what they did, they bought the name and they bought whatever backhouse stuff there was.

And the small theater company was ultimately just relieved, because they were so far beyond burnout. They were like lucid dreaming. And it was just...gone.

But they knew that they still had a value to the large theater as arts! They knew that they were still going to get the gigs and the work, but they were losing all of the headaches. And they were relieved!

YANKEY: I can say this and get out of Dodge, I don't have to live with it. But when I was taught negotiation many years ago, I was taught that when you come to those difficult issues you set them aside. You allow the discussion to continue, build up momentum and then you come back and you deal with them, and that momentum will drive you through that.

I say unto you, I've had a conversion experience in the last decade. In addition to all these good things and that early facilitation around the strengths, the perceived weaknesses across the organization, what do you think will be the benefits if we do this? What's our mission, what's our shared vision?

I also, now, very early facilitate, what are the deal breakers? What will cause you to walk away? In that conversation, we begin to get the sense, if there is a perceived difference of opinion about the values or the benefits, and we get a notion of whether they are perceiving it as being a takeover.

You will hear that. They may not use that language, but you will hear the messages loud and clear. I've found that that kind of open, honest communication, even in the first meeting or two in the exploratory process, frees up energy that can then be put into trying to think further about it.

I don't know whether that's been your experience.

STEVENS: That's a great point. Yes. We call them make or break points, what are they? Lay them on the table in the first meeting. You can always add to them. You can always subtract.

But what are they? The elephant in the room, let's take care of it right now. You don't take care of it, but you lay it out there, then you can work up to dealing with it.

I really agree with you 100 percent on that.

CERVENY: Great. Great. Thank you.

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