Nonprofit Risk Management Center

Vetting Partner Organizations & Drafting MOUs

Resource Type: Articles

Topic: General

It takes more than a handshake between friends, neighbors or colleagues to ensure that collaboration will succeed. If your want to feel as good about your partners, the results and yourself coming out as going in to a joint project, fully consider the ethical and risk management implications before entering into the agreement. If you proceed carefully and diligently, collaborative efforts with other organizations can be an effective way to conserve resources and advance your organization's mission, whether the potential partners are from the private sector, public sector or nonprofit sector.

Joint Projects With Private Sector Partners

Joining forces with corporate sponsors or partners can broaden the horizons for your nonprofit. Knowledge, clout, finances and people can be brought to bear to assist you fulfill your mission. However, you must know the corporate motives and business goals in order to develop an equitable and mutually satisfying endeavor.

Consider these questions before accepting corporate assistance. The answers can save money, time and embarrassment in the long run.

- Are products and values consistent with the your organization's goals?
- Will key stakeholders, including board, other donors, or the general public, have concerns of problems with the relationship?
- Will the company's presence be taken as your endorsement of the company or its products?
- Does the company expect that as a result of its donation it will have some control over a sponsored event or the organization itself? Are those expectations ones that your organization can meet?

Contracting With Government Entities

Public entities are turning to contractual arrangements with nonprofit organizations to provide some of the services that they can't or would prefer not to provide. In this arena, you might find opportunities to secure long-term reliable funding for projects within the scope of your organization's mission. However, nonprofits may be targeted as a scapegoat for an entity's liability. Make certain that if you are providing services on behalf of the local government that you investigate the possibility of obtaining protection for your organization under the government's insurance or self-insurance plan.

Collaboration With Other Nonprofit Organizations

Joining forces with complementary nonprofits in times of increased competition and shrinking budgets can work to mutual advantage. You can conserve resources and access an expanded market for products and services. However, some nonprofits have found themselves canoeing upstream without a paddle as the other nonprofit had just latched on in a last-ditch effort to save itself from disaster. Make certain you do the homework to verify what you see is what you get.

No matter which sector your partner(s) hail from, the following checklist will help you protect your organization. And remember that memorializing your arrangement through a written agreement protects your nonprofit after the hand is extended and before the handshake is complete.

Risk Management Checklist

Confirm Compatibility — Is your organization compatible with your intended partner? Will you violate any precedents or policy by partnering with the organization? For example, is it appropriate for a youth-serving agency to engage an alcohol or tobacco producer (or its subsidiary) as a lead sponsor of an educational program?

Understand Motivations — The motivation for a nonprofit may be clear — to raise additional monies for a critical initiative. Your partner may be motivated by a number of factors, including some that may not be obvious, such as the desire to cleanse an image or to target a new consumer group, such as young adults or members of an ethnic minority group.

Conduct Due Diligence — It pays to conduct a minimal level of due diligence before formalizing a partnership. For example, is the company a subsidiary of a company that engages in activities that your constituents may find objectionable? Does the company engage in unacceptable business practices (foreign labor, child labor, and inadequate attention to environmental safeguards)?

Interpret the Message — Carefully consider the message your constituents will receive when they learn of your partnership or collaboration. Will they be bombarded with advertising that contains your logo? Will it appear that you have endorsed a company's or another nonprofit's products or services or a political stance? Have you?

Clarify Expectations — The most important ingredient to a successful partnership is clarity of expectations. Make certain you know and acknowledge what your partner hopes to get out of the endeavor. If the partner expects an increase in sales to a specific constituency, determine what they expect you to do to accomplish that goal. Push for additional clarity beyond the simple altruistic motives your contacts may describe.

Put It in Writing — Any partnership or collaboration that spans a period of time, involves a substantial sum of money (from the nonprofit's perspective), or where each partner has specific responsibilities, should be put in writing. A brief Memorandum of Understanding or Memorandum of Agreement provides an opportunity to outline expectations and responsibilities, and to assign risk to those who will be responsible if something goes wrong.

Consider each of the following areas as you craft a Memorandum of Understanding for your collaboration. As in all transactions with potential legal repercussions, consult your attorney for advice and assistance before signing any contract.

Checklist for a Memorandum of Understanding

Overall intent — reflects what the parties are intending to do.

The parties — name, type of organization, city and state of headquarters.

The period — a start and end date of the partnership.

Assignments/responsibilities — describe each organization's responsibilities separately, beginning with those that are the sole responsibility followed by any shared responsibilities.

Disclaimers — employee's relationship to each partner, and what the partnership isn't intended to do, guarantee or create.

Financial Agreements — spell out in detail, including which entity will pay for each item and when payment is due.

Risk Sharing — describe who will bear risk of a mishap. Never assume responsibility for something over which you don't have control. Ideally indemnification provisions should be mutual: each party is responsible for its own acts or omissions. (Make certain each partner isn't only *willing* but is *able* to pay.)

Signatures — by each partner’s representative who is authorized to bind the organization contractually.

In summary, understand your partners? motives, communicate your expectations and document the agreement in writing. With care, caution and due diligence, collaborative efforts with other organizations can be an effective way to conserve resources and advance your organization’s missions.