



Nonprofit Mergers

Potential Benefits and Effective Practices

Mergers. This is a buzz word in the nonprofit sector right now, due in large part to the current economic climate. A recent poll of nonprofit executives found that 20 percent of 117 respondents stated that “mergers could play a role in how they respond to the economic downturn.”¹ Historically, economics has been the primary reason for considering a nonprofit merger. A review of eighteen nonprofit merger, acquisition, and consolidation transactions in 2006 supports this statement – the chief motivation for mergers was financial circumstances.²

How does a nonprofit decide if a merger is right for them? Use this article to explore

- potential benefits of mergers,
- effective practices of mergers gleaned from the resources listed in the bibliography at the end of this article, and
- circumstances that should lead an organization to be cautious about a possible merger.

Potential Benefits of a Merger

More efficient use of backend resources. Administrative support costs money. Two organizations with two accountants, two administrative assistants, and two development directors may find that they can reallocate those resources or cut them all together when they merge. They can also reduce expenses by paying for the upkeep of only one photo copy machine, one phone system, and one set of membership fees. Cost per-employee of benefits can also be reduced when purchasing for a larger group.

Opportunity to share knowledge and expertise. Staff expertise that exists within one organization – such as a highly effective program director, dedicated board member, successful development director, or subject matter expert -- will be spread across two organizations following a merger. Additionally, a nonprofit enthusiastic about service but lacking the business acumen to run an organization can merge with another to compensate for that deficiency.

¹ According to a study published in February, 2009 by The Bridgespan Group. “Nonprofit M&A: More Than a Tool for Tough Times” <http://bridgespan.org/Nonprofit-M-and-A.aspx>

² Mark I. Singer and John A. Yankey. “Organizational Metamorphosis: A Study of Eighteen Nonprofit Mergers, Acquisitions, and Consolidations” *Nonprofit Management and Leadership* <http://www3.interscience.wiley.com/journal/114031301/abstract>

Opportunity for expansion or addition of new services. If a homeless shelter wants to add complimentary services such as workforce development assistance, it may be more cost-effective and efficient to merge with an organization already providing those services. Not only is the shelter better able to serve its clients, but the workforce development organization finds a “home” for its services.

Possibility of securing larger grants. Many funders are reluctant to provide grants that total more than 10 to 25 percent of the total organizational budget, because they don't want to be depended on as the principal revenue source for a program. Therefore, organizations that want large grants need to have large organizational budgets. Merging two organizations will in most cases lead to a larger organizational budget.

Less duplication of services. When two organizations that provide similar services in the same geographical region merge, they stop competing for clients and funding. The services they provide as one entity become more valuable to the community, because they are the sole source for those services. Funders are more likely to support an organization if it is the only organization providing those services in the geographic area.

With all of the benefits listed above, the merged organizations are stronger together than the original parts. The resulting entity has the opportunity to do more for less.

Effective Practices

Do an internal self-assessment of the organizations before a merger.

- Do the appropriate due diligence. An assessment can determine if a merger is even an option. Organizational weaknesses become the committee's checklist of items that need to be addressed before a merger can occur, and strengths determine what aspects of each organization become prominent in the newly created entity.

Create a committee that represents both organizations.

- The committee should be board-driven. Many successful mergers have been conducted with only one staff member from each organization on the merger committee. Board members add new ideas and can more easily put their organizational alliances aside. Staff self-interest regarding position and fear of job loss can interfere with the objectivity of process.
- The committee should work in private, with all deliberations and discussions remaining confidential until there is a package to present to the larger organizational boards.
- Additionally, the composition of the committee should not change throughout the process. Committee members should be asked to commit to the entire process up-front, including all of the meetings. Meeting dates should be established at the beginning whenever possible.

Break the process up into distinct phases.

- By working through the process of a merger in manageable steps, everyone involved will be able to focus on the task at hand without stressing about the big picture. Each merger will look different, but phases of a merger could include consideration, negotiation, and implementation. Within each of those phases, the workload can be broken up into pieces.

Engage an outside consultant.

- The outside perspective of a consultant is vital to the negotiation phase. Each person involved in the merger will be personally invested in a different way, and the unbiased opinion of an external consultant can guide them through the possible conflicts and roadblocks.
- The outside consultant is also instrumental in ensuring that authority for each phase is clearly delegated. They are the go-to person when conflict first emerges.

Create a process for adopting decisions.

- Many organizations determine which decisions were tentatively adopted at the end of each meeting. At the next meeting, the first item of business was to formally adopt each of those decisions. Following the formal adoption, the items were no longer open for discussion. Difficult decisions, such as the name and location of the new organization, can wait until a later time if they are causing conflict early in the negotiation phase.

Document decisions and key points of discussions.

- The merger process is long and complicated, and documentation of previous steps will help invested parties remember why they made the choices they made. Also, the negotiation phase will likely involve contention and debate, and documenting the decisions will force everyone at the table to either reach a conclusion or intentionally table the discussion for a later date.

Communicate with leadership and staff of organizations being merged.

- Staff will immediately worry about layoffs and it will affect the organization's service provision and productivity. The merger committee needs to communicate with staff the process and possible implications of the merger, being as honest about their intentions as possible. Mergers often do not lead to significant layoffs, and do not need to feel like catastrophic events.
- If the committee is working privately, the nonprofit boards will also need frequent informational reports. The updates created should be comprehensive and thorough, and should reflect the process of the committee without including all of the details.

Cautions

There are many reasons to decide *against* a merger. If you are considering a merger, exercise caution if any of the following circumstances exist:

- All other options have not been considered.
- No suitable partner is available at the time.
- Key stakeholders and funders are strongly opposed to the merger.
- One of the organizations has outstanding debts.
- There is an outstanding lawsuit against any organization involved.
- Immediate relief is being considered before long-term impact.
- Assessment of each nonprofit reveals:
 - 1) significant and entrenched differences in organizational culture, values, and beliefs.
 - 2) indicators of strong staff resistance to change, such as evidence of mistrust or sabotaging behaviors within an organization.

Merging two organizations into one entity is a lot of work, and is not always the best option. This article should not be used to determine if a merger is the appropriate course of action, but the following additional resources can be used to learn more and make informed choices regarding mergers and acquisitions.

Additional Resources

Articles:

Nonprofit M&A: More Than a Tool for Tough Times: <http://bridgespan.org/Nonprofit-M-and-A.aspx>

Merge Right: <http://www.boardsource.org/Membership.asp?mode=archive&ID=1324>
(membership required)

Merging Organizations Topic Paper:

<http://www.boardsource.org/Knowledge.asp?ID=1.326> (membership required)

Piecing Together a Merger: <http://www.boardsource.org/Knowledge.asp?ID=1.703>
(membership required)

Organizational Metamorphosis: A Study of Eighteen Nonprofit Mergers, Acquisitions, and Consolidations: <http://www3.interscience.wiley.com/journal/114031301/abstract>

Should Your Nonprofit Be Considering a Merger:

<http://www.compasspoint.org/boardcafe/details.php?id=86>

Web-based resource libraries:

National Council of Nonprofits Special Section, the Nonprofit Economic Vitality Center:

<http://www.councilofnonprofits.org/economy>

Bridgespan's Special Section, Managing in Tough Times:

<http://www.bridgespan.org/LearningCenter/Default.aspx?id=2786>

Board Source's section on Leading Through the Financial Crisis:

<http://www.boardsource.org/Consulting.asp?ID=118.414>.