

Nonprofit Mergers, can be helpful, not for everybody

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Nonprofit mergers are a hot topic, mostly due to bad economic times. Although local, American United Ways have been talking about this for at least 10 years, nonprofit boards haven't always been listening. One barrier is nonprofit funding structures (R.F.P.s) that foster a competitive posture, stifling exploratory discussions. Now that nonprofits are having some success in mergers, it might be an option to consider. But read on before thinking that a merger will give the board a break; get them off the hook; or put their feet up on the desk!! A sound merger process involves a tremendous amount of up front work by the board and senior staff but when done right, it can be the ultimate in nonprofit stewardship.

Doesn't have to be a merger

There are other ways to realize efficiencies. Strategic partnerships, joint board councils and other strategic leadership structures can achieve some of the same benefits as a merger while allowing organizations to retain significant autonomy. David La Piana and Amelia Kohm offer a number of ideas on this in their "[In Search of Strategic Solutions](#)" report of 2003.

Why merge?

Most nonprofits begin to think about merging when they realize challenges are coming for which they aren't prepared or can't get prepared to meet. It may be a realization that the organization is not set up for private fundraising efforts as soon as needed. The time necessary from hiring a great fundraiser to raising money in excess fundraising expenses is *at least* 18 months. Or, the challenge might be that an older building in need of a significant cash investment. There are many foreseeable challenges that could or should cause alarm.

Efficiency, strengths/weaknesses, client needs

Good reasons to merge include two organizations realizing significant savings in overlapping expense: Executive director, reception, building rental, printing in volume, etc. This is basic. Another good reason to merge has to do with bringing two organizations together where the strengths of one match up to the weaknesses of the other. If one organization has a strong fundraising arm but poor programming technology, and a merger candidate has the opposite, synergy can result. Finally, the last good reason to merge has to do with service recipients. When two organizations provide similar services or when they provide different services to the same population, merger talks make sense for clients and the community.

When are the best times to look?

Strategic planning: Of course the ideal time to think about this is in the midst of strategic planning in which the board and senior leadership begin to see potential obstacles coming. So if you are in strategic planning, think about chartering an ad hoc committee to explore merger ideas and report back to the full board.

ED vacancy: Another good time to consider merging is when the executive director position is vacant. As a board, you might hire an Interim ED (really good idea) to buy some time to evaluate your options. Interims love to help the organization, they can be totally mission focused and they don't usually want the permanent position. Great platform upon which to evaluate options.

Bad building: another time to look at mergers may be when an older organization owns a facility that requires a large cash investment. If this facility is in a good location, it may be very attractive to a

successful organization that is in a bad lease or busting at the seams in their current location. Instead of a building, it could be technology needed to make the services more efficient, etc.

Crisis time: Alas, the reason most nonprofits actually think about merging is in the midst of a crisis: loss of major funding (how did you not see this coming!) or significant shift in how state contracts are rewarded (this is coming fast with state budget deficits.)

When is not a great time to approach another board?

There are characteristics that generally but not always, make a nonprofit a difficult merger-sell. These would include organizations in which:

- Ongoing deficit funding has not been addressed;
- A disengaged board is getting ready to abandon ship;
- There is significantly less cash on a monthly basis than is needed for operations;
- A significant regulatory or accreditation finding of poor quality has been rendered;
- A scandal is reported publicly (either financial or human resource/people).

I say that these tough situations don't always make the organization unattractive because there might be a larger organization whose terrific strengths can overcome these weaknesses. It is not a science, it's an art!

What bases must be covered?

Both boards should first decide if they want to have an initial, confidential discussion. Each board's role is stewardship of its own mission/its own clients/population served - what you originally told the IRS you were going to achieve for society's benefit. This would involve an informational meeting of both boards with presentations on financials, programming and human resource operations. The things each board should be listening for:

- Who do you each serve: Is there mission overlap or synergy?
- Where are the strengths & weaknesses and is there overlap or intersection?
- If the relative sizes differ, will it be a merger or acquisition;
- Would the merged group be better for clients and the community long term (not necessarily board members or senior staff)?

At this point in the discussions, I would ignore the potential affect on staffing. Everyone must understand that some jobs will be lost, but service of the mission will be sustained. A number of creative strategies can support staff whose jobs are lost. Significant employee relations issues will arise and communications must be honest, timely and ongoing. A full discussion of the merger HR implications is beyond the scope of this article.

If discussions survive to this point

There are fiduciary responsibilities for the board to consider regarding their clients and the mission. An ad hoc board committee can conduct this evaluation. Boards should consult their Articles of Incorporation, original materials submitted to the IRS, the IRS determination letter, and corporate bylaws for guidance. This is a good time for the clerk (the attorney designated by the board, if you have one) to weigh in about barriers or specific steps that might make sense. A formal vote of both boards should be made to investigate a formal merger and create an overall plan of what would be needed. If the following investigation is pleasing to both sides, a formal vote to actually merge would come later.

What to study?

At a very broad level, a merger steering committee, with members from both organizations, would look at the following factors:

1. Mission statements and intent;

2. Board operations (process and committees);
3. Programming;
4. Financials;
5. Human Resource policies and practices;
6. Employee relations status (including formal and informal culture);
7. Technologies;
8. Facilities (administrative and service delivery); and
9. Overall expected efficiencies to be gained.

This process when done well, should take anywhere from 6 to 18 months. Much depends upon organization sizes, cultures and service complexities. Boards and senior staff do much of the analysis but I would advise an objective third party consultant to facilitate the process and help to ensure fairness to both organizations.

Online resource for nonprofit leaders --the MAP report at: [What do we Know about Nonprofit Mergers?](#)