MergeMinnesota

Nonprofit merger as an opportunity for survival and growth

Ron Reed, Project ReDesign, MAP for Nonprofits

Susan Dowd, Library Strategies Consulting Group,
The Friends of the Saint Paul Public Library

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Introduction

About this Publication

In April of 2007, MAP for Nonprofits launched Project ReDesign—a three-year initiative to help nonprofit organizations with organizational realignment, including mergers, program transfers, joint operating agreements, joint ventures, parent-subsidiary relationships, and dissolution.

When we started Project ReDesign, we didn't know that an economic downturn was around the corner and about to reduce every income stream on which nonprofit organizations rely. We didn't know that the number of people in need would increase dramatically all across the community. And we didn't know how many organizations would need to awaken to the notion that mergers might be the best strategic path to preserve the services they deliver to the community.

What we *did* know was that we wanted to help nonprofit board members and nonprofit executives see that mergers and other forms of realignment could be positive strategic opportunities to promote organizational sustainability and preserve services. This publication tells that story.

By familiarizing nonprofit leaders with the language and processes that accompany organizational realignment, we hope that this

foreign territory can become familiar and less forbidding. Indeed, we hope it strengthens awareness that realignment may be the nonprofit sector's best hope to continue serving the community with fewer financial resources.

While we realize that organizations are working together in a variety of ways, such as sharing back-office functions, contracts for service, and formal collaborations, this publication primarily focuses on nonprofit mergers. It is the result of three major areas of experience and investigation:

1. The experience of MAP's and Project ReDesign's team of merger experts
2. Interviews with local and national experts in the area of nonprofit mergers
3. A search and review of current published literature about nonprofit mergers

The current economic environment and its challenges are inspiring many nonprofits to look at new ways of doing business, and merger is becoming an increasingly popular option. We hope that this resource will help readers begin to consider the benefits and complexities of nonprofit mergers and to view them, not as evidence of failure in the present, but as opportunities for success in the future.

Judith Alnes, Executive Director
MAP for Nonprofits

About MAP for Nonprofits

MAP for Nonprofits has provided innovative, high-quality, cost-effective management consultation and support to Twin Cities nonprofit organizations for 30 years. In 1979, a group of leaders from area corporations and community institutions joined in recognition that the nonprofit sector needed more management help to build a vital and healthy community.

MAP'S Mission: *MAP unleashes the power of the nonprofit sector in the community by increasing the capacity of individual nonprofit organizations to achieve their missions and by providing leadership for the effective management of the sector.*

Today, MAP is a leading resource for management consultation and board recruitment for nonprofit organizations across the Twin Cities metropolitan area. MAP uses a combination of its own staff, community consultants and volunteers to help more than 500 Twin Cities' nonprofits annually.

In January 2007, MAP teamed up with merger consultant Ron Reed, retired CEO of Family Service of Saint Paul, who brought extensive nonprofit merger experience to MAP. During his 28-year tenure at Family Service, five nonprofits joined that organization. Later, as an independent merger consultant, Reed helped several other Twin Cities nonprofit organizations merge. Reed was invited to join MAP's staff and, together with MAP Executive Director Judith Alnes, they developed a comprehensive new service. Thus, Project ReDesign was born.

About Project ReDesign

Project ReDesign helps nonprofit organizations improve their sustainability through realignment, a term that describes many kinds of formal collaborations. These collaborations include full merger, as well as major organizational changes.

Project ReDesign encourages, guides and supports nonprofits that are considering realignment by:

• Guiding a nonprofit organization through a continuum of merger options, such as merger, program transfer, joint ventures or parent-subsidiary relationships.

• Providing resources and support to help a nonprofit organization think boldly, evaluate options, identify opportunities, communicate effectively and make sound decisions.

• Offering a merger model that consists of a *10-Step Merger Decision-Making Process* and a *Merger Tool Kit* for use throughout the merger process. Project ReDesign breaks the merger process into four phases: 1) Assessment, 2) Planning and Decision Making, 3) Implementation and 4) Evaluation.

Together, Project ReDesign and MAP have the expertise to assist with each and all of these phases of merger.

The funding challenges nonprofits have faced since 2001 have escalated to a firestorm today, and many nonprofits now must come to terms with their worst financial times ever. However, there are options for survival, and sometimes strength comes from combining the best of two or more organizations. Through merger facilitation, Project ReDesign and MAP can access the resources to help guide nonprofits through the firestorm and survive the financial and environmental heat.

What is Realignment?

"Realignment" is a broad term that describes multiple kinds of organizational collaborations. While it often serves as a strategy to address economic pressures, realignment is also a natural process that occurs as the nonprofit sector grows and matures. In some cases, realignments are pairings of relatively equal organizations; in others, smaller organizations are folded into larger ones. Occasionally, one organization assumes control of a second organization, but the two remain separate. In still other circumstances, assets are transferred from one organization to another. The kind of realignment that works best is determined on a case-by-case basis by merger consultants, working together with the leadership of the organizations. Below are brief descriptions of eight common realignment options.

1. **Administrative consolidation:** Restructuring that includes the sharing, exchanging, or contracting of administrative functions to increase the administrative efficiency of one or more of the organizations involved. Such functions may include accounting, human resources, information and technology systems, marketing and purchasing, among others.

2. **Consolidation:** Combining separate organizations into a single one. Consolidation differs from a merger in that a new entity is created in the consolidation.

3. **Joint programming:** Restructuring that includes the joint launching and managing of one or more programs to further the programmatic mission of the participating organizations. For example, a domestic violence shelter and a rape crisis services organization got together to form and manage a domestic violence offenders' program, while continuing to operate their existing organizations and programs independently.

4. **Joint venture corporation:** An integration that includes the creation of a new organization to further a specific administrative or programmatic end of two or more organizations. Partner organizations share governance of the new organization.

5. **Merger:** The integration of all programmatic and administrative functions of multiple organizations, to increase the administrative efficiency and/or program quality of one or more of the partners. They can also integrate to increase geographic reach or achieve synergy between programs. Mergers occur when one or more organizations dissolve and become part of another organization's structure. The surviving organization may keep or change its name. A merger also occurs when two or more

organizations dissolve and establish a new structure that includes some or all of the resources and programs of the original organizations.

6. **Parent-subsidiary:** An integration that combines some of the partners' administrative functions and programmatic services. The goal is to increase the administrative efficiency and program quality of one or more organizations through the creation of a new organization(s) or designation of an existing organization(s) ("parent") to oversee administrative functions and programmatic services of other organization(s) ("subsidiary"). Although the visibility and identity of the original organizations often remain intact in a parent-subsidiary relationship, some organizations involved in such restructurings consolidate to the point where they look and function much like a merged organization.

7. **Program transfer:** Occurs when one organization spins off or transfers administration of one or more of its programs to another organization.

8. **Strategic restructuring:** Occurs when two or more independent organizations establish an ongoing relationship to increase the administrative efficiency and/or further the programmatic mission of one or more of the participating organizations through shared, transferred, or combined services, resources, or programs. Strategic restructuring ranges from jointly-managed programs and consolidated administrative functions to full-scale mergers.

"We are seeing an emerging trend of world-wide scope for nonprofits and government organizations to work together."

Peter Goldberg, President and CEO, Alliance for Children and Families

Thinking about
merger

Nonprofit leaders have described the current economic environment as "the perfect storm."

The Pain is Deep

Once somewhat insulated against economic challenges because of the strong and generous philanthropic community that the Twin Cities enjoys, local nonprofits are experiencing this crisis as intensely as those anywhere. It is not an exaggeration to call the present time the greatest financial crisis most nonprofits have ever known.

Government funding has been cut back or eliminated, and corporate dollars have shrunk. Individual giving has fallen dramatically for many nonprofits. In December 2008, the Minnesota Council of Nonprofits (MCN) conducted a survey to better understand the effect of the economic situation on state nonprofits. The survey reached nearly 2,000 member organizations. MCN wanted to learn how nonprofits are being impacted by the recession and how their services will ultimately be affected. The report on that survey, Nonprofit Current Conditions Report, describes the effect of the recession on Minnesota nonprofits as "unusually quick and sharp." Revenues have decreased as expenses have increased despite careful management. The report recommends that nonprofits be "nimble and open to alternatives." It concludes, *"Nonprofit organizations will need to make strategic choices about their own operations, including reductions in staff, possible mergers or even dissolution. And they will seek to minimize negative impacts on the people they serve."*

Challenges are all too apparent on the giving side as well. A 2009 Outlook Report released by the Minnesota Council on Foundations (MCF) in early January 2009 states that 40%

> "With financial pressures from all sides, coupled with increased demand for services stemming from unemployment and housing problems, many nonprofits will be hard pressed to keep up the juggling."
>
> *Kate Barr, Nonprofits Assistance Fund*

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of Minnesota grant makers anticipate a decrease in giving in 2009. An equal percentage expect their giving to remain flat. Foundation support will be affected into 2010 and beyond due to the use of multi-year rolling averages to compute the funds available for grants. In an effort to assist nonprofits in other ways, foundations and corporations are exploring broader methods of support, such as increasing in-kind giving and offering other non-monetary assistance.

And the greatest challenge of all? These changes have occurred during a time of increased demand for the services of nonprofits across the Twin Cities, state, and nation. Results of the MCN survey indicate that 42.4% of nonprofits experienced increases in demand for their services in 2008, increases that, in some cases, have proven difficult to satisfy. These increases were felt most acutely by organizations that assist with food, housing, employment, human services and youth development. The MCN survey report mentioned above describes the situation nonprofits are facing as "having to do less with less," that is, feeling forced to scale back services because of revenue challenges. The table below illustrates some of the MCN survey findings.

One result of organizational stresses has been a new awareness that "business as usual" can no longer be assumed. Indeed, tougher economic times have served as a resounding wake-up call to many nonprofits that have never before considered doing business differently, and merger is becoming an increasingly common strategy. The last decade has witnessed a surge in the number of nonprofit mergers around the nation. While hard data supporting this statement is hard to come by (the IRS does not track nonprofit mergers), anecdotal evidence from the public sector overwhelmingly supports it as a national trend. There are more than 1.5 million nonprofits in the U.S. today, all of which face an environment of fierce competition

MINNESOTA COUNCIL OF NONPROFITS CURRENT CONDITIONS REPORT
(December 2008)

54.5%	49.2%	47.4%	42.4%	8.6%	7.6%
Decline in total revenue	Increase in expenses	Decline in individual contributions	Increase in demand for services	Decline in volunteers	None
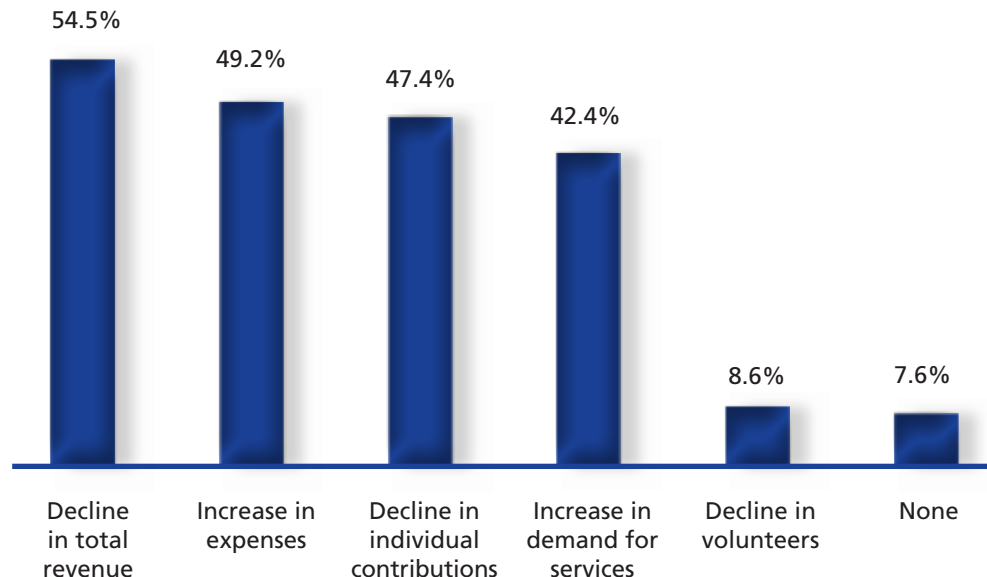
for shrinking resources. Clearly, the next few years are going to bring about real changes in the nation's nonprofit universe.

In the true spirit of viewing challenge as opportunity, nonprofits, including those in the Twin Cities, are examining a number of realignment options, including merger, as a way to improve services and/or ensure survival. Project ReDesign's mission is to guide this examination and, if merger appears to be the right course of action, to assist with that transition. In the past five years, local nonprofit mergers have also accelerated at a record pace, led by large national organizations such as The United Way, American Red Cross, Big Brothers/Big Sisters, scouting organizations, and others. In fact, the Greater Twin Cities United Way (GTCUW) has supported about two dozen mergers in the last five years through planning and/or implementation grants.

What is Merger?

A merger is the combination of two or more separate organizations into one legal entity. Program, administrative, and governance functions are all combined.

Why Merge?

Unlike nonprofit mergers of the 1970s and 1980s, mergers in the last 15 years have become increasingly values-driven, fueled largely by mission and common vision rather than by the financial crises that characterized nonprofit mergers in earlier years. Today, many nonprofits find they can take the best of their respective programs, governance, management styles and organizational cultures and create a new and more successful merged organization. In addition, mergers can strengthen the organizations' abilities to deliver on their missions and increase the depth and scope of services they provide. By realigning staff, personnel can be allowed to specialize, maximizing strengths and eliminating the need for staff to operate as generalists.

Organizations that consider merger usually do so for several reasons:

To better pursue a mission and deliver services more efficiently

Nonprofit organizations share a goal to provide the best services in the most efficient manner possible and practice careful stewardship of their resources. When two nonprofits share a common mission and provide similar or overlapping services, they face the problems of service duplication and confusion in the eyes of clients and donors. Merging streamlines service delivery, eliminates duplication and waste, and solves this confusion of identities.

To improve skill sets and grow strategically

Nonprofits are not created equal. They bring widely different skill sets to their communities. When two nonprofits identify critical strengths in differing areas (service delivery and fundraising, for example), they may decide to merge. In that way, combining their strengths—and, consequently, ceasing to compete for funding dollars—becomes the best way to expand their services and pursue a vital future for both.

"Mergers are about melding missions, thereby allowing the combined entity to pursue a common purpose with greater stability. Mergers become the 'rebirth' of an organization, rather than the death of a mission.

Dan McCormick, CEO, The McCormick Group

To improve the financial outlook and improve sustainability

Merging can help a struggling nonprofit achieve a more even cash flow, gain access to new capital, and forestall potentially fatal collapse. A smaller nonprofit with a strong program but unsteady finances may see an advantage in merging with a larger organization that has a solid funding base, but does not offer a program comparable to that of the smaller organization. In this case, the smaller nonprofit's excellent program can continue with a better likelihood that the costs of that program can be met. In addition, merging can enhance the essential infrastructure of a nonprofit that has had to cut back on resources such as staff and technology.

Merger, then is more than a life preserver for struggling nonprofits. It can also be viewed as a strategic option that can ensure continuation and/or enhancement of services. A recent study, the *Tropman Report,* November 2007, that asked participants why they considered merger revealed that a majority did so "to increase their organization's reach or mission impact." The community also benefits from well-planned and executed mergers that result in stronger services. Scarce resources can be used more effectively and efficiently, services can continue, and nonprofits can become more sustainable.

Look at the strategic, organizational, and financial questions below. Are they relevant to your nonprofit's situation? If you can answer "yes" to several of these questions, perhaps merger is an option worth further investigation:

- Does your strategic plan call for adding or expanding services, including geographic or demographic expansion?

- Are you looking for a way to gain new skills and/or improve your organization's infrastructure?

- Are there services that you do not currently provide that would be complementary or enhance your current services to clients?

- Are you losing a founder, an executive director, or experiencing other turnover at the executive level?

- Does your organization have a culture of risk-taking, growth, or an entrepreneurial spirit?

- Do you have close partnerships or alliances that might lead to merger?

- Does your organization sometimes get confused with another, similar organization?

- Is it difficult to recruit and/or retain board members, or are your board members burned out and looking to step back from their current levels of involvement?

- Are you experiencing difficulty retaining middle management and other key staff?

- Have you had to reduce your infrastructure, such as technology, marketing or accounting functions?

- Have you experienced a steep increase in overhead/administrative costs?

- Have you lost a funding source, or is this likely in the near future?

- Are your fundraising efforts inadequate to meet across-the-board organizational cost increases?

- Do you have a strong program component but continuing challenges supporting it?

- Are you annually budgeting uncommitted revenues?

- Are you continually losing potential dollars to other nonprofits with similar services?

- Have funders indicated that they would like to see your organization merge? Have they offered to provide funding to do so?

> "Imagine new partners or a merger, or a new way to deliver services."
>
> *Judith Alnes, Executive Director, MAP for Nonprofits*

What Makes a Strong Merger Partner?

Often, merger partnerships begin with something very simple: a relationship. Out of that relationship emerges a conversation between two (or more) nonprofits that may already know each other well, have worked together before (perhaps in joint programs), and value working with other organizations. Their conversation evolves into "merger exploration," which refers to all the activities leading up to a board's vote to complete a merger.

> The most successful mergers grow out of previously-established relationships.

In the November 2007 *Tropman Report: Nonprofit Mergers: An Assessment of Nonprofits' Experiences with the Merger Process,* researchers found that in over half of the cases (57%), the potential partners had "substantial involvement" with each other prior to the merger exploration. Most frequently (75%), those relationships involved "a program alliance or collaboration." This finding parallels an earlier Tropman study that found that "sustaining an even less formal collaborative project requires a strong level of awareness and trust between participating organizations."

Interestingly, the 2007 *Tropman Report* also found that the majority of merger explorations result in a successful outcome, even if those explorations don't result in two organizations joining to form a new legal entity. In this study, merger explorations resulted in a formal merger in nearly three out of four cases (71%); but for the 29% of organizations that did not merge, most viewed the merger exploration process as "worthwhile and helpful in further clarifying and reinforcing the missions of the organizations."

Common Merger Mistakes and How to Avoid Them

Project ReDesign's experience, along with that of the experts and information from our literature review told us that many of the difficulties encountered during the merger process fall into these categories:

1. Underestimating the importance of communication

Communicate, communicate! Effective communication sets appropriate expectations, maintains credibility, and reinforces good will among staff and supporters during all phases of the merger process. Having a careful, strategic communication plan in place will help reduce both internal and external resistance and manage fears about job loss, salary reductions, changes in supervision, and other alterations that workers feel are beyond their control. Without such a plan, it can be difficult for employees to view the merger in a positive light. Rumors will spring up, and some individuals' natural tendency to become "territorial" will become evident. High levels of communication are important even long after the merger has closed. Poor communication at any phase of the process can derail success as quickly as any other aspect of this complex undertaking. When creating messages and disseminating information, it is imperative that merging organizations prevent misinformation and drama.

"The leadership has to motivate the staff to buy into it. Finally, it will be individual staff members who have to do this work."

Emmett Carson, President and CEO, Silicon Valley Community Foundation

2. Underestimating the importance of organizational culture

As an organization evolves over time, it faces the challenges of integrating individuals into an effective whole, while adapting effectively to the external environment. As the organization finds solutions to these challenges, it engages in a kind of collective learning that creates the set of shared assumptions and beliefs we call culture. That culture informs the style and practices of the organization, as well as its value system, and no two organizations share exactly the same culture. Evidence overwhelmingly shows that culture can be among the most difficult aspects to align. Failure to integrate cultures and, in fact, to create a new culture that works for everyone, can derail the merger process.

Understanding and melding two distinct organizational cultures is a top priority.

Therefore, investigation that results in the acknowledgment and understanding of each party's organizational culture must be included whenever merger is under consideration. Where cultures are dissimilar, experts advise creating an intentional process for determining what culture is desired, then taking specific measures to create cultural cohesion for the newly-merged board and staff.

3. Underestimating the timeline

A timeline, first and foremost, must be realistic. Mergers will always be more complicated and take longer than the parties presume when entering into the process. It typically takes 9-18 months to successfully negotiate a merger, although some mergers require even more time. If the merger timeline becomes elongated due to ineffective management of the process, consulting costs will rise, such as those for legal and financial due diligence.

Involving middle management and staff, not just the board and executive, is important. While mergers may start from the top and work down, they must be successful from the ground up.

4. Underestimating costs

Hard costs most frequently underestimated include the costs for facilitation, legal advice and filings, cultural assessments, human resource audits, communications and printing, web content and redesign, signage, and additional infrastructure and/or technology. Nonprofits also underestimate the increased and accrued human resource benefits/costs, along with rent increases and other changes in their leasing contracts.

In addition to hard costs, there are opportunity costs that must be considered, and these can be significant. It is easy to miss funding and other opportunities when an organization is inwardly-focused. Organizations must attend to external opportunities while going through the merger so that competitors cannot gain an advantage in community buy-in and funding.

By underestimating or underfunding the real costs of a merger, too many nonprofits and funders pay the price later in discord, distractions and drama, along with the loss of valuable time, money and good will. In addition, when it is assumed that cost savings will result and they do not, merging organizations and funders become disillusioned and consider the effort unsuccessful. As a result, an organization can ultimately lose funding as a direct result of the merger, thereby creating a significant disincentive for other organizations to explore merger.

Funders play an important role

Enlisting the help of the funding community is essential when going through a merger because the cost of the merger process can be a huge obstacle to the very organizations that might benefit from it the most. Funders can provide direct assistance to organizations engaged in restructuring by offering workshops and incentives, training consultants, and by providing direct financial support.

> Mergers almost always cost more and take longer than anticipated.

The experts interviewed by Project ReDesign included an individual from the Twin Cities who told us, *"Foundations are in a unique position to be able to see overlaps between nonprofits across sectors and issues. They can share knowledge across foundations, from the staff to the board levels via the Minnesota Council of Nonprofits (MCN) and Minnesota Council on Foundations (MCF). They can create a joint approach that draws upon their respective giving priorities and strategically contributes to a community-wide strategy."*

The experts we interviewed offered a number of specific recommendations for funders. They recommend that funders consider the following strategies:

- Bring organizations together in one place and create shared goals and guidelines.

- Collaborate with other funders to create an effective environment that promotes exploration and avoids disincentives to merge because of a fear of losing funding potential.

- Create a "pool" of funding that supports Project ReDesign's efforts as an incentive to create capacity improvements in mission delivery. This would be a Phase II effort for Project ReDesign to add to the (currently) relatively small universe of knowledge about mergers, and to provide access to a valuable option.

- Consider structuring loans (or supporting agencies that provide nonprofit loans, critical junction financing, and/or program-related investments [PRIs]).

- Support Project ReDesign in presenting more educational opportunities to learn about strategic options.

5. Underestimating the complexity of the merger process

Careful planning cannot be overemphasized, and for a nonprofit merger to be successful, it is essential that leadership put a structured plan in place early in the process. This plan will include executive and name identification, due diligence, board and governance structure, integration of staff and systems, communication, analysis of organizational cultures, and legal and financial considerations. Most mergers, because they are complicated, confusing, and highly-technical, require the assistance of an outside expert, a consultant, who will help develop this plan. The consultant will facilitate each step and assist the organizations in avoiding the pitfalls, like those listed above, that threaten to derail the process and/or greatly increase the cost. A capable consultant will set the right tone from the beginning (what can be accomplished together) and right the balance between agencies of differing perceived and/or actual financial power. In addition, the external project management and facilitation that the consultant provides frees organizational leaders to focus on what is right for the social purpose of their nonprofit and lessens turf battles.

Project ReDesign's
merger model

Who makes the decisions about a merger?

The assessment, planning, and decision-making phases of the merger process require a carefully structured plan and professional guidance. Project ReDesign's experience in merger assessment and track record with the complex negotiations and decision-making that follow an agreement to explore merger has led to the development of a Project ReDesign model. The model that follows consists of two important pieces:

- Project ReDesign's *10-Step Merger Decision-Making Process*

- The *Merger Tool Kit*—specific tools and recommendations for completing the *10-Step Merger Decision-Making Process*

Project ReDesign's 10-Step Merger Decision-Making Process

MAP's plan outlines ten distinct steps to the merger process. These steps are linear and involve the development of a leadership team that drafts initial documents, a joint committee that reviews and approves those drafts, and legal reviews that result in an eventual recommendation for merger. At that point, work begins on drafting the actual Plan of Merger and seeing that Plan through to approval and legal filing.

This 10-step process developed by Project ReDesign combines the expertise of merger consultants with those who know the organizations best, their leadership.

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STEP 1

Initial assessment meeting with executive directors and/or board chairs

While partnerships may begin with conversation, they quickly require a more formal process in order to advance. An initial assessment meeting involving key leaders (executive directors and board chairs) from both nonprofits, along with Project ReDesign's expert merger team, is intended to move the discussion to a deeper level. Its purpose is to begin to articulate the likely advantages and challenges of a merger, and to determine its potential for success. At that meeting, participants look at their organizations' histories and their experience of working together. How strongly have they collaborated in the past? How successful have those collaborations been? Can they articulate a vision for a merger? Are they ready to provide leadership for the merger process?

STEP 2

Leadership team meets to develop initial drafts of "Common Understandings" and "Making the Case."

The leadership team members will include the executive directors and possibly the board chairs who took part in the initial assessment meeting with Project ReDesign's merger experts. This team will function as the workhorse. Its charge will be to draft a document MAP calls "Common Understandings," one of the key tools in the *Merger Tool Kit.*

> "Mergers are becoming a strategic option for dealing with the nonprofit management challenges of the 21st century."
>
> *Thomas McLaughlin, Adjunct Lecturer, The Heller School for Social Policy and Management, Brandeis University*

Common Understandings examines foundational issues, any one of which might be a deal breaker. For example:

- Which organization will survive?
- What will the newly-merged nonprofit be named?
- How will the newly-merged nonprofit be governed (board and membership)?
- How will executive leadership be determined?
- How will financial challenges be met (including the cost to implement the merger)?
- How will the success of the merger be measured?

In addition, the leadership team will begin "Making the Case" for merger, utilizing this document in the *Merger Tool Kit* as well. In drafting MAP's Making the Case document, the team will take up the details and hard questions that are intended to reveal the complexities, strengths, and possible pitfalls of a merged organization. With this draft, they will begin creating the framework for the merged organization. In order to do so, they will have to address questions such as:

- What will this new organization's vision and mission be?
- How will it promote excellence?
- What new markets and services might merger open up?
- How will economies of scale be realized?
- Why is this the right time to merge?
- How will the community benefit?
- How will funders benefit?
- How will the newly-merged organization benefit?
- How are these two organizations alike?
- In what ways are they different?

STEP 3

Each board of directors passes resolution to "intend to merge" and appoints members to a joint committee.

Board voting can take time, but the process is aided by the work the leadership team will have done in developing the first drafts of the "Common Understandings" and "Making the Case" documents. These documents will help board members understand the advantages and potential difficulties of merging, and they help pave the way toward understanding and a vote to further explore merger. Once this "intend to merge" vote is complete, the boards will assemble a joint committee. While the leadership team's job is to develop a plan, the joint committee serves as an oversight committee for the plan.

STEP 4

Joint committee meets as needed to review and approve "Common Understandings" and "Making the Case."

The joint committee is usually made up of the leadership team, plus two or three members from each organization's board of directors. This committee's job is to use the early drafts of the "Common Understandings" and "Making the Case" documents to work out the smallest details of a possible merger. The joint committee may send both documents back to the leadership team to refine as needed. Eventually, these documents must be finalized so that they can be presented to both boards of directors for those directors' formal vote on whether or not to recommend merger.

STEP 5

Legal review of both organizations is conducted.

The purpose of this step is to focus on potential legal issues that might shape the merger process and/or the merger itself. Merger is, by definition, a legal process whereby one organization is legally dissolved while the other survives. Occasionally, both organizations legally dissolve and form a new legal entity.

In order to further assist the governing boards of the merging organizations determine whether to recommend merger, due diligence reviews must be undertaken. One nonprofit merger attorney and author describes this step as a kind of "legal audit." Merging nonprofits begin conducting a comprehensive examination of the other party's legal status and risk—incorporation, contracts, claims or litigation, human resources, benefits, real estate, etc. A "Due Diligence Checklist for Minnesota" is included in MAP's *Merger Tool Kit.* It outlines the major areas for legal review. The completion of this checklist will ultimately require the professional services of an attorney experienced in nonprofit law.

STEP 6

Joint committee presents recommendation for merger, based on "Common Understandings" and "Making the Case," to boards of directors. Boards approve recommendation.

The joint committee's hard work culminates at this step, the point of decision, to formally recommend merger or not. Sometimes both boards meet simultaneously for this vote, although this is not always possible. One nationally known nonprofit merger consultant recommends that, in a situation where

one board might be more reluctant to proceed than the other, the reluctant board should meet first, to spare the other board the embarrassment of being "left at the altar." If both boards approve a merger recommendation, developing a Plan of Merger will be the next step in the process.

STEP 7
The Plan of Merger is drafted.

The "Plan of Merger" is a legal document that eventually will be submitted to the Secretary of State.

It outlines the terms and conditions of merger, addressing:

• When the merger takes effect

• Which organization survives

• What the new organization will be named and where it will be located

• How the new organization will be governed

It specifies how financial resources will be managed, such as:

• What will become part of the new organization's general operating funds

• What is restricted

• What happens to assets and liabilities

• How gifts and grants will be transferred to the new organization

"Even before the ink has dried on the merger documents, *celebrate!* Celebrate as boards, staffs, leaders, and a community. Celebrate and hail the good work of the organization and the people who brought to fruition a good and valuable effort"

Louise Dickmeyer, People Driven Performance

The Plan of Merger also sets forth new Articles of Incorporation and Bylaws. It may also contain other directives, such as specifications of initial directors and their terms of office.

STEP 8
Each board of directors approves the Plan of Merger.

The Plan of Merger is the formal legal document developed above. Ideally, both boards should approve the Plan within 45 days of its completion in order to prepare it for submission to the Secretary of State.

STEP 9
Membership approves the Plan of Merger.

In the case of an organization that has a voting membership in addition to a board of directors, its membership must also approve the Plan of Merger.

STEP 10
Submit legal filings.

The combined organization's attorney will handle all legal filings and the transfer of assets. Minnesota requires that, if both merging organizations are 501(c)(3) non-profits, the combined organization's Articles of Incorporation must be filed with the Secretary of State's office. If one of the merging organizations is not a 501(c)(3) nonprofit, an additional step must be taken: a notice of merger must be filed with the State Attorney General's office. (Articles of Incorporation are still filed with the Secretary of State.)

Project ReDesign's Merger Tool Kit

Mergers are not a new phenomenon. Many Minnesota nonprofits have merged throughout their histories, sometimes multiple times. MAP developed a list of Minnesota nonprofits that have merged in recent years and was interested to discover more than 50 mergers on the list. Clearly, mergers have been, and still are, part of the fabric of Minnesota nonprofits.

Mergers are complex undertakings with many points of challenge and potential failure. They are almost always time-consuming, both the length of time required to complete a merger, and the amount of time that board and staff must devote to the undertaking. In addition, they can be costly. Mergers entail many one-time costs, everything from legal fees and letterhead to the integration of multifaceted technology.

Individuals involved in merger planning frequently describe the process as a "roller coaster ride." One day everything looks smooth; the next day it seems to fall apart. Common struggles include agreeing on a new board structure, leadership, headquarters site, and even the merged organization's name. To minimize the ups and downs of the process, it is important to remember that mergers require a strategically structured process. As one expert stated, "They are not for do-it-yourselfers." In fact, this is a point on which most experts agree:

Largely through the efforts of Project ReDesign, MAP for Nonprofits has developed seven proven tools that accompany the *10-Step Merger Decision-Making Process.* These tools make up Project ReDesign's *Merger Tool Kit* and help guide the nonprofit merger process from initial dialogues through the approval of a merger plan and the filing of all legal documents required to complete the transaction in Minnesota.

Merger Tool Kit

Most successful mergers require a clear plan and the aid of competent outside assistance.

"Getting to and through mergers isn't easy. Institutional leaders have to give up some institutional pride and control to make them work."

Scott Russell, author of Putting Good Will to the Test, *MinnPost. com, June 23, 2008*

TOOL 1 Merger Best Practices

These guidelines help ensure that the merger process is conducted with the highest standards.

- Focus on mission and the best interest of those we serve.
- Create a clear vision that will guide the newly-merged organization.
- Involve people who will be affected in the process.
- Create a strong board and solid staff leadership.
- Deal with key issues early and directly (use "Common Understandings").
- Pay attention to organizational culture and integration issues.
- Involve outside consultants and attorneys who have experience in nonprofit mergers.
- Have a clear, organized decision-making process (a merger model).
- Develop a communications plan.
- Have a realistic funding plan.
- Have a recommended date for merger completion.
- Have measurements in place to determine merger success.

"Many nonprofit board and staff leaders are exploring merger in order to best meet the needs of their community, their organization and those they serve."

Ron Reed, Consultant, MAP for Nonprofits, Project ReDesign

TOOL 2 Common Understandings

"Common Understandings" are the most basic agreements that must be addressed early in the discussion/negotiation process. While every potential merger brings with it different circumstances and a variety of Common Understandings, certain questions are basic to all merger discussions. Upon these Common Understandings rest the eventual recommendations to the board and the future of the merger.

1. What is the vision for the merger?

This question does not ask what the vision of a merged organization will be. Instead, it asks what vision will guide the merger process. What will a merger mean to both organizations? How will it affect programs and service delivery? How will joining together benefit the community? How will it benefit funders?

For example, when a nonprofit family services agency merged with one that provided adoption services, the vision for the merger was that *"the enhanced excellence of a combined child and family serving agency will benefit the community and those we serve."*

2. Which organization will be the survivor and which will be dissolved?

In most nonprofit mergers, one organization is folded into another one. One is dissolved; the other survives. Occasionally, both individual nonprofits dissolve and become one new organization. In a third scenario, a parent-subsidiary relationship is formed whereby the parent organization controls the subsidiary through governance, but they do not formally merge into a single combined nonprofit organization. Project ReDesign's merger experts can evaluate each potential partnership situation and help the nonprofits determine which course of action is the best in their circumstances.

3. What will the new organization be named?

This deceptively simple question is often one of the most emotional. An organization's name, like a person's name, is an integral part of its history, reputation, and identity. While the issue of a name does not have to be definitively resolved as part of the Common Understandings, each organization must recognize at this early stage that the new post-merger board will immediately wrestle with this decision. Sometimes the surviving organization's name becomes the name for the new organization. Sometimes the newly-merged organization assumes a new name completely. Often the question of a name occupies the new board members for some period of time after the merger is finalized.

4. How will the new organization be governed?

The composition of the new board of directors must be determined early in the merger negotiation process. In many merger cases, the new board of directors is formed by joining the two boards into one. This is the optimal solution in most circumstances.

In other cases, an optimal board size is agreed upon, and the bylaws are amended to reflect this directive. (For example, there might be three board openings available to the directors of the dissolving organization.) Occasionally, organizations develop an advisory committee structure.

5. What will the membership criteria be for the new organization?

This step is a point at which both boards can review the effectiveness of their current membership policies and practices and decide how they will proceed in the future. Some organizations may find that having additional members may not be in their best interest.

6. How will the executive director be determined?

Determining an executive director is a critical first step in the merger negotiation process. In fact, it is one of the most important decisions to be made. In many cases, the executive director of the surviving organization becomes the leader of the newly-merged organization. Whatever the decision, it is extremely important that merger planners do not proceed very far until they have a process in place for determining executive leadership.

7. Where will the new organization's headquarters be located?

Location and other physical space issues must also be part of Common Understandings. Often, all staff will be combined in the offices of the surviving organization. In other circumstances, a new headquarters location will be required.

8. What will a merger cost?

The cost of a merger depends on the size of the organizations, the complexity of the realignment, the ability of staff and leadership to take on extra work, and many other factors. Project ReDesign can provide cost estimates on a case-by-case basis. Usually, because mergers can be costly, third party funding is required to see the process through to completion.

The number of staff hours required to take a merger from exploration to completion is often overlooked or not calculated when determining merger expenses. Mergers require not only the executive director's time, but also that of the management team, support staff and others.

Some of the areas that must be considered when determining potential merger costs are:

- Public Relations and Marketing
- Technology Integration
- Human Resources
- Accounting Integration
- Facilities Management
- Fundraising
- Program and Staff Administration
- Consulting Fees

9. What will the timeline for the merger process be?

A timeline is a crucial roadmap for the merger process. It is important that a timeline be realistic. While both organizations would like to see negotiation progress smoothly and swiftly, that rarely happens, even in the best of circumstances.

Among the decisions that dictate the merger timeline are the frequency of joint committee meetings, the merger communication plan, and the target merge date.

All the literature on nonprofit mergers and all the experts who have expressed an opinion on merger timelines agree: mergers almost always take longer than anticipated.

TOOL 3 Making the Case

This tool takes the organizations to a deeper level of thinking. It requires both organizations to articulate the vision for the merger, the reasons, and the internal and external benefits of merging. It also requires that both look closely at their similarities and differences. These extend beyond the obvious compatibilities such as programs and funding to their histories, their stewardship of community resources, their work ethics and their willingness to take risks.

The questions below are intended to guide potential merging partners through a deeper level of articulation. They examine the vision for the merger, established as part of Common Understandings and ask the question, "Why merge?"

1. Why merge?

The reasons for merging will differ from one nonprofit organization to another, but some common reasons for merger are:

- To promote excellence
  - Retain and attract talented staff
  - Increase the ability to support and recognize staff
  - Provide opportunities for networking and building expertise

- To align with an overall business strategy
  - Increase volume and/or capacity
  - Reach new markets (geographic, demographic, etc.)
  - Provide new services and programs
  - Increase the potential to raise financial support

- To achieve financial stability
  - Achieve economies of scale
  - Build infrastructure
  - Survive in a competitive funding environment

- To achieve positive outcomes
  - Increased effectiveness
  - Better service delivery
  - Expanded programs
  - Economies of scale
  - Sharing administrative functions and costs
  - Elimination of duplicate services
  - Greater visibility and influence
  - The opportunity to affect public policy
  - The potential to increase resources
  - The ability to engage in valuable partnerships
  - The ability to measure effects and merger success

2. Why merge now?

Timing may not be everything, but in merger, as in many other endeavors, it is extremely important. Some reasons for timing of a merger might be:

- Because the community needs span an organization's geographic boundaries.

- Because combining forces provides potential for stability and growth in meeting current and emerging needs.

- Because funders expect nonprofits to consider merger as a way to reduce duplication of services, provide economies of scale, deliver services more efficiently, and bring them the best possible return on their investment in the community.

- Because when the economy picks up, workforce issues will be a priority. A merged entity will be more attractive to potential employees and promote better retention.

3. Who benefits?

When two or more nonprofit organizations merge, the effects of that decision have both internal and external impacts. Internally, the management, culture and work environment may change. Externally, the community and funders will be impacted by nonprofit mergers. Possible benefits may include:

- Staff
  - Room to be creative
  - Enhanced career opportunities

- Community
  - Greater geographical accessibility and professional expertise
  - More partnerships with other agencies, employers, and government programs
  - Expanded public policy initiatives that support community needs
  - Stronger organization due to collaboration
- Funders
  - Combined, efficient fundraising effort
  - Expanded geographic and program reach of dollars contributed
  - Combined resources and expertise

4. How can organizational compatibility be assessed?

Organizations whose cultures are collaborative lend themselves to the most successful mergers. Compatibilities are relatively easy to assess. Some examples of characteristics that help indicate compatibility are:

- Parallel history with similar mission, values, and commitment to service
- Similarity in board structure and function
- Solid reputation as professional, responsibly-managed organizations
- Accountable, solid financial condition
- Investment in technology
- Similar funding streams
- Compatible programming
- Similar accreditation standards

5. What is organizational culture?

Culture is everything that surrounds the workplace—the values, attitudes, behaviors and artifacts define and significantly influence how an organization operates. Merger partners each have their own culture. The goal is to create a new one together.

Organizational culture is sometimes overshadowed by financial, legal, programmatic and staff issues when nonprofit merger exploration is undertaken, but its importance should not be underestimated. It has the potential to make or break the merger.

"A well-executed merger of two organizations with complementary missions, values and strengths can achieve economies, efficiencies and synergies that few organizations can achieve alone."

Ron Reed, Consultant, MAP for Nonprofits, Project ReDesign

TOOL 4 Due Diligence Checklist for Minnesota

Due diligence is a critical step that examines a potential merger partner's structure, policies, filings, and other legal matters that could derail the merger process.

Due diligence is a kind of "legal audit" that requires full disclosure, followed by an objective evaluation of any financial or legal risks of combining the two (or more) organizations. One nonprofit merger attorney who writes extensively about this subject says quite simply, "Due diligence offers protection." A key reason for a careful due diligence review is to avoid personal liability on the part of directors or others involved in negotiating a nonprofit merger. It requires the counsel of an attorney experienced in nonprofit mergers.

This checklist below is intended to cover most of the legal aspects of merger. It lists documents that must be filed with the State and Federal governments, points out internal and external issues that could affect either organization's ability to merge, and examines the financial situation of each (although it is not an audit).

1. **Review governing structure of the other organization.**

☐ Articles of incorporation
☐ Bylaws
☐ IRS Determination Letter
☐ 1023 Application Form

2. **Review internal policies of the other organization.**

☐ Personnel policies
☐ Operations/financial policies and procedures (identify organization's certified public accountant and other outside professionals)
☐ Insurance policies

3. **Research any outstanding liens, lawsuits, liabilities of the other organization, which could include:**

☐ Worker's Compensation Insurance
☐ Other employee claims (OSHA, EEO, unemployment, etc.)
☐ Directors and Officers Insurance (or lapse thereof)
☐ Outstanding lawsuits or possible lawsuits involving the organization

4. **Determine whether the other organization has completed the required filings and notifications to government regulators.**

☐ IRS 990 forms for three (3) previous years
☐ Annual renewals with Minnesota Secretary of State
☐ Annual Attorney General reports (if required)
☐ Program licensing
☐ Government grant reports

5. **Examine finances of the other organization.**

☐ Review funding sources
　☐ Government funding
　☐ Corporate and foundation support
　☐ Individual donors
☐ Grant requirements
☐ Common donors
☐ Review financial information
☐ Audits
☐ Current financial statistics
☐ Board financial policies

TOOL 5 Sample Confidentiality Agreement

This Sample Confidentiality Agreement between MAP and its merger clients protects information that must be kept private.

Confidentiality Agreement

It is understood and agreed to that the below identified discloser of confidential information may provide certain information that is and must be kept confidential. To ensure the protection of such information, and to preserve any confidentiality necessary under patent and/or trade secret laws, it is agreed that

1. The Confidential Information to be disclosed can be described as and includes:

Invention description(s), technical and business information relating to proprietary ideas and inventions, ideas, patentable ideas, trade secrets, drawings and/or illustrations, patent searches, existing and/or contemplated products and services, research and development, production, costs, profit and margin information, finances and financial projections, customers, clients, marketing, and current or future business plans and models, regardless of whether such information is designated as "Confidential Information" at the time of its disclosure.

2. MAP for Nonprofits shall limit disclosure of Confidential Information within its own organization to its directors, officers, partners, members, employees and/or independent contracts (collectively referred to as "affiliates") having a need to know. MAP for Nonprofits and affiliates will not disclose the confidential information obtained from the discloser unless required to do so by law.

3. This Agreement imposes no obligation upon MAP for Nonprofits with respect to any Confidential Information (a) that was in Recipient's possession before receipt from Discloser; (b) is or becomes a matter of public knowledge through no fault of MAP for Nonprofits; (c) is rightfully received by MAP for Nonprofits from a third party not owing a duty of confidentiality to the Discloser; (d) is disclosed without a duty of confidentiality to a third party by, or with the authorization of, Discloser; or (e) is independently derived by MAP for Nonprofits.

4. This Agreement states the entire agreement between the parties concerning the disclosure of Confidential Information. Any addition or modification to this Agreement must be made in writing and signed by the parties.

5. If any of the provisions of this Agreement are found to be unenforceable, the remainder shall be enforced as fully as possible and the unenforceable provision(s) shall be deemed modified to the limited extent required to permit enforcement of the Agreement as a whole.

WHEREFORE, the parties acknowledge that they have read and understand this Agreement and voluntarily accept the duties and obligations set forth herein.

On behalf of MAP for Nonprofits:

Name (Print or Type):

Signature:

Date:

Discloser of Confidential Information:

Name (Print of Type):

Signature:

Date:

TOOL 6 Plan of Merger

This tool provides a template for a Plan of Merger that must be completed in order to fulfill the legal requirements in the State of Minnesota.

Plan of Merger by and Between

_____ AND _____

This shall constitute the Plan of Merger by and between X Agency, a Minnesota nonprofit corporation, and Y Agency, a Minnesota nonprofit corporation (Y or sometimes referred to as the "Surviving Corporation"), pursuant to Minnesota Statutes, Chapter 317A.

Terms and Conditions of Merger

1. EFFECTIVE DATE.

    The merger will be effective at 12:01 a.m. on   (Date)

2. SURVIVING CORPORATION.

    Y Agency shall be the Surviving Corporation upon the accomplishment of this merger.

3. NAME.

    The name of the Surviving Corporation shall be "_____."

4. REGISTERED OFFICE/LOCATION OF CHARITABLE ACTIVITIES.

    The registered office of the Surviving Corporation will be _____, and the charitable activities of the Surviving Corporation will be conducted at _____, and at other locations designated by the Surviving Corporation.

5. GOVERNANCE.

    5.1. Board of Directors.

    The Surviving Corporation will be governed by a Board of Directors consisting of not less than ___ directors. The initial directors and their terms of office shall be as set forth on Exhibit A.

    5.2 Officers.

    The Surviving Corporation shall have the following officers: Chair, Vice-Chair, President, and Secretary/Treasurer. The initial slate of officers shall be as set forth on Exhibit B. Officers of the Surviving Corporation shall serve for a term of one year.

    5.3. Members.

    The Surviving Corporation shall have no members.

6. FINANCIAL RESOURCES AND MANAGEMENT.

    A. General Operating Funds.

    All financial resources of X Agency and Y Agency will be merged. All revenues from fees for service, donations, and grants, as well as interest from investment accounts and reserves will become part of the general operating funds of the Surviving Corporation, at the time of the merger and thereafter.

B. Restricted Funds.

Any restricted funds (those designated by the donor for a specific purpose) will remain so. Any funds restricted by the Board of Directors will be considered to be unrestricted assets to the extent provided under generally accepted accounting principles.

C. Assumption of Assets and Liabilities.

The Surviving Corporation will assume all of the assets and liabilities of X Agency and Y Agency, whether now known or hereafter determined.

D. Gifts and Grants.

All gifts or grants, including but not limited to any bequest or devise under any trust or Last Will and Testament, made before or after the effective date of this merger to either X Agency or Y Agency shall inure to the benefit of the Surviving Corporation.

7. ARTICLES OF INCORPORATION.

The Articles of Incorporation of the Surviving Corporation, including all amendments proposed as part of the merger, shall be as set forth in the Articles of Incorporation of Y Agency, attached hereto as Exhibit C.

8. BYLAWS.

The Bylaws of Y Agency, as set forth on the attached Exhibit D and hereby incorporated by reference, shall be the Bylaws of the Surviving Corporation.

9. APPROVALS.

This Plan of Merger is conditioned upon the approval of the Plan of Merger by a majority of the directors of X Agency and by a majority of the directors of Y Agency.

TOOL 7 Filing and Notification Requirements

Tool 7 is a checklist outlining the steps necessary to complete the legal filing for two common kinds of realignment options, asset transfer and merger. The Minnesota Secretary of State requires that specific documents be filed once both organizations' boards have agreed to merge.

Asset Transfer

☐ Merger plan approved by both boards

☐ Develop list of assets for joining organization

☐ Consider audit/books review of both organizations

☐ Decide whether joining organization will dissolve or go inactive

    ☐ If dissolution:

        Follow statutory dissolution process

        Publish notice of merger

    ☐ If inactive:

        Create internal protocols for maintaining inactive status, both 501(c)(3) and MN registration

        Discuss role/duties of board during inactivity

        Who will keep up annual filings/registrations?

    ☐ Transfer assets to surviving organization

Merger

☐ Plan of Merger approved by both boards. Elements include:

        Names of corporations merging

        Name of surviving corporation

        Terms/conditions of proposed merger

        Manner and basis of converting memberships into surviving corporation

        Amendments to Articles of surviving corporation

☐ If organizations are other than 501(c)(3), file notice of merger with MN Attorney General's office

☐ Publish notice of merger

☐ File Articles of Merger with MN Secretary of State. Elements include:

        Plan of Merger

        Statement that plan has been approved by boards of both organizations

        Statement that notice (if required) has been given to Attorney General

☐ File Articles of Merger with MN Secretary of State:

    ☐ Secretary of State returns Certificate of Merger

    ☐ Submit notice of merger to IRS

Merger
implementation

The goal is to build a new culture together.

It is often said that once two organizations have merged, the real work begins. This is true in many cases because integrating two organizations can often be more time-consuming than the merger negotiation process. It is essential, therefore, to develop a clear plan for the Implementation phase of merger. There are many questions to be answered. Who will make the decisions? How will staff at all levels be involved in the success of the merger? What systems must be integrated? How will communication be handled? How will funds be raised?

The Project ReDesign Team leverages the expertise of MAP staff to answer these kinds of questions. MAP can provide nonprofit legal consultation, governance training, leadership and organizational coaching, strategic business planning, marketing and communications, financial analysis and technology assistance. MAP can offer as much assistance in the merger implementation phase as an organization requests.

One of the crucial areas that can make or break the implementation of a merger is the melding of organizational cultures. Merger partners each have their own cultures, the values, beliefs, norms and ground rules that define how an organization operates. Cultural issues include:

- The heroes
- The business environment/strategy
- The kind of skills that are valued
- The ongoing rites and rituals
- The style of the staff
- How information is communicated and shared
- The structure: hierarchical or flat
- The core values
- Views of the future
- Decision making: formal/informal
- The management style

"Understanding the challenge to personnel in any integration is really important."

Emmett Carson, President and CEO, Silicon Valley Community Foundation

No two nonprofit mergers are alike, but there are some issues that commonly arise in merger implementation. Use the check-list below to determine what issues should be examined and what decisions will be required in order to implement a merger.

Implementation Planning

Transition Plan

☐ Create a Merger Transition Team to address merger implementation tasks. This Team will be responsible for developing an Implementation Plan and a timeline. It will be responsible to the newly-formed Board of Directors or, if there is an extended interim period, to the Joint Committee.

Long-term Plan

☐ During the first year following merger, the new Board of Directors should:

☐ Develop a strategic plan

☐ Create a fund development plan

☐ Undertake Board integration and Board development activities and training

Implementation Categories

Staff Integration

☐ Develop an integrated staff structure

☐ Develop job descriptions for new and changing positions

☐ Centralize personnel files

☐ Integrate pay scales and benefits

☐ Integrate personnel policies (evaluation and performance management, paid time off and vacation days)

☐ Develop a plan for new and shared office space

Finance and Operations Integration

☐ Determine transfer of assets

☐ Conduct final audit of merging organizations

☐ Integrate financial and accounting systems

☐ Integrate finance and operational policies

☐ Integrate technology systems (internal, website, databases)

☐ Integrate/update insurance policies (workers comp, directors and officers insurance)

☐ Integrate/update any licenses, registrations (e.g. lobbying)

Programming Integration

☐ Determine short- and long-term program priorities

☐ Develop joint operational budget

☐ Develop individual program budgets

☐ Create an internal structure to coordinate and integrate programming activities

Communications Plan

☐ Develop a post-merger (and interim, if necessary) communications plan for the following stakeholders:

☐ Grantors (foundations, corporations, government, etc.)

☐ Individual donors

☐ Employees

☐ Clients

☐ The public/the media

☐ Program partners and other stakeholders

☐ Develop a marketing plan for the newly-merged organization

☐ Branding, logo, letterhead

☐ Advertising

Merger
evaluation

How do we measure the success of mergers?

While for-profit mergers can be evaluated against a bottom line, nonprofit merger evaluation is difficult at best, and sometimes nearly impossible.

Nonprofits must ask, "Do we serve our consumers more effectively and as efficiently as possible?" The very nature of the mission of many nonprofits makes impact measurement difficult to quantify. People naturally assume that mergers will result in efficiencies, but much of the evidence supporting this notion is anecdotal. Gains from merger are significantly based on organizations' willingness to restructure the workforce. This is unpopular to do on the front end because it is so personal and can be demoralizing; as a result, nonprofit leadership may hesitate to bring up the subject, even in times of crisis.

In past decades, evaluation studies asked, "How do you know you are successful?" and the answers to that question were primarily financial reports and data on numbers of people served. But mergers of nonprofits make an impact beyond finances. They affect people, communities, and society. These effects are complex and difficult to quantify. There is no sector-wide metric tool in use, and scholars seem to be bypassing developing merger metrics. Old metric tools such as vector analysis and organizational climate scales that were popular in the 1970s have since been discredited. The model most in use today is outcomes-based evaluation (OBE), which looks at the effects/benefits/changes to your clients (as a result of a program or service) during and/or after they have received services. OBE can examine these changes in the short-term, intermediate term and long-term.

It is also important to remember that any attempt at merger evaluation is difficult in the first year. While organizations that merge are understandably eager to measure and understand the impact the merger has

on programs, services, staff and overhead, in reality, the actual results of the merger may not be known for several years. In addition, many of the costs of the merger will appear in the first 6-18 months, making an accurate financial picture likewise hard to determine for quite some time. Decades ago, when hospitals began merging, financial metrics indicated that during the first 18-24 months following merger, results were flat or down. However, beginning at 25 months post-merger, financial strength increased and even exceeded expectations.

Evaluation of the merger is a critical step.

A meaningful evaluation can be time-consuming and expensive, and nonprofits may feel they lack the resources to conduct an evaluation. In a seminal 1991 study of 18 nonprofit mergers, acquisitions and consolidations, (Singer & Yankey), not a single organization conducted a formal evaluation because it was not considered "a high priority." However, evaluation is critical for the future health of the organization and impacts funders' willingness to support the work of the merged organization.

Evaluation should encompass both internal and external factors, including staff retention, volunteers, geographic scope, service mix, visibility in the community, funding, and other factors for which data can be measured and compared. In order for an evaluation to have meaning, clear goals and objectives must be established early in the planning process, and these must be quantifiable.

Whatever method is used for measurement, the expectation should be around not losing ground as a result of the merger. Nonprofits are in constant peril, given their limited resources, staffing requirements, and continual need to prove credibility. If a newly-merged nonprofit retains resources, staff effectiveness, and credibility as a result of the merger, most organizations would call that a success.

"There are very real social benefits that a merger strategy can produce for people and communities. In the right hands, mergers may produce more results than nonprofit leaders can achieve by simply sharpening the pencil and doing the donor calls."

Jean Butzen,
Foundation, Mission
Plus Strategy

Vignettes of nonprofit mergers in Minnesota

Four recent mergers facilitated by Project ReDesign

When people hear the word merger, they usually imagine two organizations coming together to form a brand new organization. In some cases, this is true; but more typically, one organization is absorbed into the other. One organization survives (usually the larger one), and one does not.

However, these are not the only merger options from which organizations that wish to join may choose. The method of merger with the highest likelihood of success must be determined on a case-by-case basis, and Project ReDesign can assist nonprofits in identifying the best option for joining together. In the case of a very small organization

merging with a much larger one, sometimes a simple asset transfer accomplishes the goal in a way that is faster and cheaper than full merger. In other cases, two organizations might merge, and each will keep separate identities; but one of the organizations will legally govern the other. This is a parent/subsidiary relationship.

Project ReDesign has helped with assessment, planning and implementation of each of these kinds of mergers. The following vignettes give a quick snapshot of a few recent Twin Cities mergers, facilitated by Project ReDesign.

Two Charter Schools

With this full merger underway (approved by both school boards in December 2008) two nonprofit charter schools are currently in the process of fully integrating their administration, staff, curriculum, building and services.

The first merger between charter schools in Minnesota will become effective at the end of the 2008-2009 school year, in July 2009.

These two charter schools, each of which serves students with a particular kind of physical challenge, had something very important in their favor when they considered merging: a long history of successful collaboration. They also had parallel missions. School A's mission is to prepare their students to become successful and valued citizens of the world community. School B's purpose is to empower students to develop a sense of identity and pride, while providing them with the skills and knowledge to succeed as global citizens. School A serves children in kindergarten through 8th grade, and School

B educates them in 9th grade and beyond. For many families, their students begin school at School A and complete it at School B.

A merger has some real advantages. It allows for closer cooperation on curriculum and student development, lower transportation costs and a better strategic position to attract students in this special-needs community. Additionally, School B had been leasing space from a church in its community and was interested into moving into the newer facility that School A enjoys. That facility has space for a new gymnasium, something School B does not have. Construction of that gym will begin in April 2009, for completion in time for the 2009-2010 school year.

Project ReDesign worked with both schools to ensure a successful merger. The planning and decision-making process took more than one year; and the leadership of both schools are currently following a detailed Merger Implementation Plan.

Two Community Development Organizations

This merger illustrates a simple asset transfer, whereby the assets of one organization are transferred to a "surviving" organization. Usually, there are no legal or governance changes to the surviving organization. Asset transfers are most appropriate for smaller organizations (generally with very few staff) that are looking to merge into larger organizations, but that do not have any expectation of significant continuation in a governance capacity. Project ReDesign facilitated a merger of this kind in 2007, which allowed two similar organizations to position themselves for growth and enhanced regional community development opportunities.

In late 2007, a large Twin Cities community development organization in one geographic area merged with a very small one in a different geographic area to become a single organization serving both locations. These two nonprofits were each committed to expanding the wealth and resources of neighborhoods through housing and economic development initiatives. They shared a history of collaboration, including the provision of staff from the larger one to the smaller one, which had no paid staff. In fact, it was this sharing of staff that eventually led to discussion of a possible merger. In doing so, leadership of both organizations

developed a merger vision to create "a Twin City-wide community development organization that will better serve our members and their communities." In the course of planning the merger, the organizations identified expectations of positive outcomes, common understandings between the two nonprofits, and a realistic timeline for the merger.

Because their missions were so similar but their geographic areas were different, and because one was a small organization with no paid staff and few assets, the nonprofits opted to merge by simply transferring the assets of the smaller one to the larger one. The smaller organization then dissolved as a legal entity. The "new" organization expanded its mission and membership criteria to include the both geographic areas. Thus, in two relatively simple steps—the large organization amended its governing documents and the smaller one transferred its assets—the two organizations merged under a new name. That new entity, effectively merged in January 2008, is now comprised of 43 member organizations.

The Executive director of the "new" organization had this to say about the merger experience:

"Project ReDesign staff were extremely effective in helping our two organizations identify both the benefits and potential obstacles of a merger. With adept facilitating skills, they were able to move us through a process that insured an open and inclusive discussion that ultimately led to an agreement to merge. Left to our own devices, I doubt we could have reached the same outcome."

Two Nonprofits That Wished to Broaden Services

The type of merger in this example creates a parent-subsidiary relationship. It combines some of the merging organizations' administration and services, with the goal of increasing administrative efficiency and program quality. It creates a new organization, "the parent," that governs and oversees all aspects of the other organization, "the subsidiary." While the two organizations may still appear to be separate, they, in fact, function like a merged organization.

A recent merger of this kind took place between two organizations with different missions and only a partially overlapping service area. Nonprofit A, a large organization with a national reputation, was founded in 1971 to provide services to help persons with barriers to employment find jobs, locate affordable housing and achieve greater self-sufficiency. At the time of merger discussions, the organization operated 53 programs in 17 locations covering 13 counties. About half of its program participants had been diagnosed with mental illness. Nonprofit B was established in 1978 to bring coordinated and responsive mental health services to persons in the north metro area who dealt with the debilitating effects of serious mental illness. While significantly smaller than Nonprofit A, it offered a variety of therapy services that included individual, group, marital and family counseling. However, it lacked the critical size to maintain professional staff in the areas of accounting, finance, human services, development and public relations. While financially healthy, it constantly struggled to maintain its fiscal health. The decision was made to explore merger, and discussions began with Nonprofit A.

The organizations developed the following vision for their merger:

"By joining together, [Nonprofit A and B] can provide vocational training and job placement services, along with therapy services to people with mental disabilities. This type of integrated service has proven to be more effective for people with disabilities, and is a model increasingly embraced by the State of Minnesota. By joining, [these organizations] can position themselves as leaders in this area, assuring that services for people with mental health disabilities will be available to the community in the most efficient, least costly and easily accessible way."

Project ReDesign worked with these two agencies that provided different, but complementary, services to ensure a successful merger. In this 2008 partnering, Nonprofit A, the larger one, became the parent organization, and Nonprofit B became the subsidiary.

Two Organizations Providing Mental Health Services

In July 2008, the Minneapolis St. Paul Business Journal published a lengthy article about Project ReDesign. The article used the example of the merger between two agencies that served people with daily challenges relating to anxiety and mental health to illustrate Project ReDesign's success at merger facilitation.

In 1986, a small Twin Cities nonprofit was founded to help people with anxiety and panic disorders. Individuals with these kinds of challenges experience sudden episodes of extreme fear, along with physical symptoms that include chest pain, heart palpitations and shortness of breath. Nonprofit A offered an educational program that taught effective strategies in anxiety management, promoted a better understanding of anxiety and panic disorders, and gave encouragement and support in a caring and nonjudgmental environment. It held bi-weekly support groups, organized social activities and even had a lending library. Twenty years later, its founder/executive director was eyeing retirement but wanted the agency to continue its mission.

The solution was to merge with Nonprofit B, which provides help and resources to individuals with many kinds of mental illness. Nonprofit B is the Minnesota chapter of a large, national nonprofit, whose mission "recognizes that the key concepts of recovery, resiliency and support are essential to improving the wellness and quality of life of all persons affected by mental illness." Nonprofit B had the mission, financial stability, infrastructure and compatible programs and services to support the individuals that Nonprofit A had served for over two decades, so a merger between the two organizations felt like a good match.

In July 2008, the assets of Nonprofit A were transferred to Nonprofit B, at which point Nonprofit A dissolved and became part of Nonprofit B. In this case, the board of directors of Nonprofit A remained intact and became an advisory committee to Nonprofit B; and the retiring executive director of Nonprofit A was elected to the board of directors of Nonprofit B.

Appendices

APPENDIX 1   Experts Interviewed and Interview Questions

As part of a study conducted by Project ReDesign and funded by the Greater Twin Cities United Way, 11 national nonprofit merger experts were interviewed by telephone in January and February, 2009. Most of these experts have authored books and journal articles on the subject of nonprofit mergers. Many are independent consultants currently assisting nonprofits that wish to merge.

Rather than reporting on the expert interviews in a single section of this publication, we chose to incorporate the experts' comments throughout the entire text. In addition, quotations from these interviews may be found throughout the document.

Experts Interviewed

Emmett Carson   President and CEO, Silicon Valley Community Foundation

Louise Dickmeyer   CEO and Founder, Nonprofit Innovations, LLC

Peter Goldberg   President and CEO, Alliance for Children and Families

William Foster   Partner, The Bridgespan Group

Bob Harrington   Director, Strategic Restructuring Practice Area, La Piana Consulting

Jerald Jacobs   Attorney and Author, Pillsbury Law

Thomas McLaughlin   Adjunct Lecturer, The Heller School for Social Policy and Management, Brandeis University

Dan McCormick   CEO, The McCormick Group

David Renz   Director, Midwest Center for Nonprofit Leadership

Jodi Sandfort   Associate Professor, Hubert H. Humphrey Institute

John Yankey   Leonard W. Mayo Professor Emeritus of Family and Child Welfare, Mandel School of Applied Social Sciences, Case Western University

Interview Questions

Each of the experts was asked to respond to 14 interview questions:

1. Do mergers improve the cost-effectiveness for funders' investments in the community?

2. Following mergers, do nonprofits experience enhanced credibility and financial support? (Please share examples of how they do, or do not.)

3. Are there research materials or studies you would recommend to us? We are particularly interested in those that address any evidence that nonprofit mergers bring about economies of scale.

4. From your experience, where do you see economies of scale realized following a merger? For example, are economies of scale realized simply from the reduction of staffing (i.e. due to the retirement of one executive director)? Are there other areas where the organizations achieve improved economies of scale?

5. Is there a typical timeline for the merger process?

6. What expenses typically surprise the merging organizations?

7. What role should (or do) foundations play?

8. What are the most effective and useful supportive strategies that foundations can provide?

9. Are there incentives that should be provided to assist nonprofits in pursuing mergers?

10. Should foundations consider supporting mergers as part of their individual priorities, or should support for mergers result from the intentional partnership of the foundation community?

11. In successful mergers, what elements are critical for the internal leadership of the merging organizations during the process:

    a. Who should be the key leaders?

    b. What role should the board members play?

    c. What authority and expectations belong to the executive director(s)?

    d. What sort of staff engagement is effective?

    e. What design or model have you seen used effectively?

12. What external facilitation or consulting is necessary or is most useful?

13. Are there emerging national or international trends, issues or likely challenges for which we should prepare?

14. Do you have any additional thoughts or recommendations you would like to include?

APPENDIX 2   Literature Review

In order to better understand current nonprofit merger trends and to help nonprofit organizations and foundations view merger as a positive strategic alternative, Project ReDesign undertook a comprehensive literature review. With support from The Greater Twin Cities United Way and with research help from Library Strategies Consulting Group, the Literature Review was completed in January 2009. Many of the resources listed in the Full Bibliography are reviewed below.

Books, Monographs, and Longer Documents

Davis, John Emmeus. *Bridging the Organizational Divide: The Making of a Nonprofit Merger,* Burlington, VT: Burlington Associates in Community Development, LLP, 2002, 39 pp.

Download this free monograph at www.nw.org/network/pubs/studies/documents/makingOfNonprofitMerger.pdf

This detailed monograph relates the merger between two nonprofit housing development corporations in Nashua, New Hampshire. French Hill Neighborhood Housing Services and the Greater Nashua Housing and Development Foundation combined in 2000 to form Neighborhood Housing Services of Greater Nashua. It describes the community of Nashua and outlines the housing situation that led to the development of these nonprofit agencies and to the eventual decision to merge them. The section titled, "Assessing the Potential for Collaboration," examines pros, cons, concerns, hopeful signs and "things we must work on." Davis walks the reader through the entire merger process, from developing timelines through merging missions, services and programs, to forming a new board and working out staffing details. Budgets and legal considerations are also discussed. There were thorny legal questions, issues about staffing, and concerns about the location of the new organization's offices that delayed the merger process, and Davis spends a number of pages explaining how these were handled. Perhaps the most valuable section is a reflective one, "Learning from the Merger Process," that any agency considering merger will find of interest.

Dickmeyer, Louise C. *No Risk—No Reward: Mergers of Membership Associations and Nonprofits (A Handbook to Help You Prepare for the Complexity of the Process and Avoid the Inherent Pitfalls),* Andover, MN: Expert Publishing, Inc., 2009.

Despite a strong interest in mergers among nonprofits today, it has been quite a few years since a new book on the subject has been published. This soon-to-be-published handbook addresses the need for mergers among nonprofits and why they should be considered as an option to strengthen an organization. Ms. Dickmeyer looks at market factors and agrees with nationally-known merger consultant Thomas McLaughlin that mergers "should be mission and service driven…and not about the agency itself surviving, but about the survival of services to clients."

The author was president & CEO of the Minneapolis Regional Chamber of Commerce when it merged with the Bloomington (MN) Chamber of Commerce in late 2001. She uses this merger as a case study throughout the book, which provides the reader with a side-by-side comparison of the two organizations before the merger began, and tracks the progress of the merger over a period of about 15-18 months. The book never glosses over the difficulties and complexities of the process, but Dickmeyer describes it as "an effort worth undertaking." She counsels nonprofits considering merger to seek out resources (people, experts, publications, websites, and others) that can assist with this sometimes-overwhelming task.

Dickmeyer closely examines organizational cultures in several parts of the book, which she cautions organizations considering merger not to underestimate, calling culture a "deal breaker." While preparation is essential to a successful merger, cultural differences may be the most difficult to read and anticipate. It is the job of the paid executive, she says, with the help of volunteer leaders, to make the cultures mesh, and she has practical suggestions for how that can be accomplished.

An entire chapter is devoted to the critical nature of communication throughout the merger process. "An ineffective communications strategy, or one that is not comprehensive," says Dickmeyer, "may do more to destruct the process rather than propel it toward the ultimate goal." Rather than simply discussing the topic of communication, the author uses the case study of the merging Chambers of Commerce to illustrate all aspects of an effective communication plan: marketing, public relations, member communication, and internal communication. Importantly, she is also frank about the problem areas, such as a too-short time frame in which to communicate and staff confusion over the speed and intent of the merger.

Subsequent chapters take up the topics of finances, structure, governance, legal considerations, and post-merger integration. While not a "workbook," this book includes helpful appendices such as a recommended Transition Team structure, a breakdown of duties of the Transition Team, a merger timeline, and a sample Transition Team meeting agenda. There are also sample legal documents, merger ballots, meeting notices, and a sample letter notifying constituents of the completed merger.

Haidet, Mark E., Thomas J. Kelley and Paul D. Nelson. *A Legacy of Leadership and Service: A History of Family Service, Inc. (Rev. ed.),* **St. Paul, MN: Ramsey County Historical Society, 2004, 213 pp. (This review covers just the portion of the book that deals with Family Service's mergers of the 1990s, pp. 103-123.)**

In its first 97 years (1892-1989), Family Service (St. Paul, MN) had been involved in four mergers. During the brief period of 1989-1991, the organization completed five more mergers that brought about profound changes in the nonprofit. Each of the merged agencies approached Family Service to discuss merging, and each merger was carefully planned and executed. The process that Family Service followed in its mergers has now become a nationally recognized model.

In this agency history, Ron Reed, Family Service's executive director during the recent merger period, outlines six key points he learned from participating in the merger process:

- Focus on Mission—Similarity of agency missions was an important factor in the merger process.

- Lead with Vision—Developing a shared vision of what the combined agency would look like was critical.

- Involve People/Human Dynamics—The most important element in a merger is people.

- Develop a Win-Win Situation—It is important to develop an atmosphere of mutual respect, trust and openness when dealing with differences and to communicate openly and directly.

- Deal with Difficult Issues Early—Develop common understandings and a clear plan.

- Take Time To Do It Well—Recognize merger phases: pre-merger phase, planning phase, implementation phase, stabilization phase.

The author summarizes the agency's 1990s active merger time in these words:

"In the 1990s, Family Service honored its traditions and stayed true to its identity. Its mission, 'to help improve the quality of individual, family, and community life,' remained central. Hence, there were few changes in its programs, only additions, enhancements, and experiments...Two forces have carried Family Service from the 19th century to the 21st: leadership and mission."

La Piana, David. *Beyond Collaboration: Strategic Restructuring of Nonprofit Organizations,* San Francisco, CA: The James Irvine Foundation, 1997, 22 pp.

Download this free monograph at www.lapiana.org

In 1996, the James Irvine Foundation commissioned a study to help nonprofits integrate their organizations for greater efficiency and an increased chance of survival. Nonprofit collaboration expert David La Piana was hired to conduct the study, which investigated attitudes of nonprofit leaders, and developed and tested ideas for "strategic restructuring." This term extends beyond mergers and actually refers to a continuum of partnerships that also include consolidations and joint ventures.

The James Irvine Foundation study addressed five basic questions:

1. How can we best define and describe the options for nonprofit strategic restructuring?

2. Is the climate right for strategic restructuring?

3. What pressures lead nonprofits to consider mergers, consolidations and joint ventures, and what difficulties prevent them from bringing these efforts to fruition?

4. How can funders encourage nonprofits to undertake strategic restructuring without being perceived as applying pressure to do so?

5. What educational activities can funders promote to encourage strategic restructuring activities, such as mergers, consolidations and joint ventures?

Some of the findings include:

- While many nonprofits consider changing their organizational structure due to economic pressures, some strategic restructuring is natural as the nonprofit sector matures.

- Nonprofits attempting to restructure must overcome perceived threats to autonomy and board and staff members self-interests, as well as culture clashes.

- Because the concept of restructuring is still evolving, additional research is needed to analyze the factors that determine success/failure, establish best practice guidelines, and provide information for leadership.

- By sponsoring educational activities that raise overall awareness in the sector, funders can introduce nonprofits to strategic restructuring options without requiring them as part of a grant agreement.

- Funders can provide direct assistance to organizations engaged in restructuring by offering workshops, training consultants, or providing direct financial support.

While this monograph is now 10 years old, the questions asked are still the ones facing nonprofits today, and the findings of the study are still very relevant. It provides an excellent overview of the motivations and challenges that drive the move toward nonprofit restructuring and the role that funders can play in focusing attention on collaborative options.

La Piana, David. *The Nonprofit Mergers Workbook Part I: The Leader's Guide to Considering, Negotiating, and Executing a Merger* (Updated Edition), St. Paul: Fieldstone Alliance, 2000, 240 pp. $34.95

This book is available for purchase at Amazon.com and from Fieldstone Alliance at www.fieldstonealliance.org

This is a very user-friendly and graphically-rich book that starts at Square One: explaining the pros and cons of mergers and outlining the varied forms that mergers may take. In addition to an abundance of illustrations, tables and graphs, each chapter of the book contains case studies that illustrate examples of how the section topic was handled by "fictional composite" organizations in real situations. Each chapter concludes with a short summary of the information the chapter provided.

The author walks the reader through the process of organizational assessment: understanding the organization's motives for and expectations of the merger process, assessing board and management leadership, and looking at risk-taking and growth. He provides a helpful guide for organizations who are in "crisis" situations and assists the reader in identifying appropriate partner organizations and conducting assessments to find the best match. He also provides guidance on identifying the costs of merging and on exploring funding sources.

La Piana frankly addresses common problems such as autonomy, self-interest, and culture clashes, and he provides case studies that illustrate how they can be handled. There is a lengthy chapter on negotiating a merger, which breaks the complex process into four well-defined steps. The author provides details right down to minute-taking and rumor control, and he even includes a table listing "typical issues" in merger negotiations (governance issues, financial issues, human resource issues, etc.).

Once a merger is approved, implementation can be a huge challenge. La Piana addresses the basics and explains the relationship between implementation and "integration." This includes integrating boards, systems, management and staff, and handling culture conflicts that might arise. As in every section, helpful case studies are provided.

Appendices include:

- Sample final minutes from a completed negotiation

- A pre- and post- merger organizational profile to help illuminate outcomes

- A sample ad for a nonprofit seeking a partner

- A sample confidentiality agreement

- A sample implementation/integration plan

There is also a list of resources and helpful (reproducible) worksheets.

La Piana Associates. *The Nonprofit Mergers Workbook Part II: Unifying the Organization After a Merger,* St. Paul: Fieldstone Alliance, 2004, 230 pp. plus CD-ROM. $44.95

This book is available for purchase at Amazon.com and from Fieldstone Alliance at www.fieldstonealliance.org

This book is the sequel to La Piana's first Nonprofit Mergers Workbook. Like that text, it is very practical and hands-on. While Part I addresses the motivations, negotiations and processes of a merger, it does not delve deeply into the complex implementation issues that follow merger approval. This phase is his focus in Part II. Like the predecessor to this text (Part I), this book is filled with graphics, boxes and sidebars that make the book visually appealing and easy to use. It also contains chapter summaries.

La Piana says the challenging Implementation Phase requires a great deal of time and energy and directly or indirectly involves everyone in the merged organization. It has two components: legal execution of the merger, and integration. The first component creates a single organization on paper, but that organization isn't a reality until the second component, integration, has taken place. Key integration questions may be ignored or delayed in the busy-ness of the negotiation process, and once the "deal" is struck, organization leaders may return to catching up on daily matters. Consultants' contracts may end. The result is that implementing a merger often begins with only a vague idea of what lies ahead.

This book is divided into two main sections. The first, "Going the Distance," addresses effective change leadership, managing the integration process, helping people cope with change, and effective communication. Section two, "Creating an Integration Plan," helps users develop the content of a plan and integrate Boards, culture, management, staff and volunteers. The author tackles the complex subjects of integrating systems, programs, and communication/marketing. Each chapter in the section contains both summaries of the information and "Challenges and

Roadblocks" that might arise. For example, in the section on integrating staff and volunteers, possible challenges include resistance to change, rumors, and low morale. If people are laid off, they must be treated well, but a focus on individual concerns must be balanced with a focus on the organization's overall well-being.

Appendices (these are in both the book and on accompanying CD-ROM) include:

- A sample integration plan organized by activity area and target date

- A pre- and post- merger organizational profile (also in Part I)

- A sample human resources audit to reveal strengths/weaknesses in each nonprofit's HR system and identify issues needing resolution

- A sample technology audit that looks at hardware, software, training and support

McCormick, Dan H. *Nonprofit Mergers: The Power of Successful Partnerships,* Gaithersburg, MD: Aspen Publishers, 2001, 170 pp. $71.95

This book is available for purchase at Amazon.com and is also at the Minneapolis Public Library's Foundation Center, call #REF HD2769.M334.15 2002 SOC

McCormick is CEO of the McCormick Group, which facilitates organizational structure and provides services in foundation development, and he is also a leading consultant in nonprofit mergers in the U.S.

In this book, he rebuffs the notion that "merger" equals one company consuming another (that's a "takeover" or "acquisition"). Rather, mergers among nonprofits are opportunities for growth, better alignment of resources, and a demonstration of stewardship. He advises the reader to throw away the old notion that a merger means the death of an organization or the failure of

a mission. Instead, mergers, he says, are about "melding" missions of nonprofits, thereby allowing the combined entity to pursue a common purpose with greater stability. Mergers become "the rebirth of an organization rather than the death of a mission."

His chapters walk the reader through the merger process:

1. Deciding to merge—reasons, emotions, driving forces, strategic objectives, cost

2. Selecting a merging partner—connections, similarities/differences

3. Laying the groundwork with staff and volunteers—considering human elements, choosing a leader, building support, spreading the word

4. Negotiating and determining structure—governance, by laws, making the structure work

5. Dissolution vs. merger—control of assets, determining the surviving organization, fundraising

6. Technical and legal aspects—voting, electing a new Board, legal issues such as employee benefits

7. Working with consultants and attorneys—hiring a consultant, finding appropriate legal counsel, working with CPAs and other professionals

8. Transitioning to merge—employee unrest, volunteer relations

9. Evaluation and stewardship—looking at overall financial capacity, volunteers and members, increased efficiencies, redeployment of critical staff, financial/mission integrity

Appendices include case histories of the Windstar Foundation and the American Cancer Society, along with sample documents that can be adapted to individual merger situations.

McLaughlin, Thomas A. *Nonprofit Mergers and Alliances: A Strategic Planning Guide,* New York, NY: John Wiley & Sons, 1998, 256 pages. Price starts at $92.97 at amazon.com.

After more than a century of proliferation and growth, the nonprofit sector has reached a crossroads. The continued success of an organization's mission no longer depends on fresh, new programs and the extension of services, but on innovative management and a revitalized organizational structure. The time has come for all nonprofits to consider mergers and alliances in their strategic plans. For many, this may seem a distasteful alternative after decades of Wall Street mergers made at the expense of workers, communities and consumers—but it doesn't have to be that way.

In Nonprofit Mergers and Alliances, Thomas McLaughlin describes a context for nonprofit mergers and discusses the forces that shape their use. He demonstrates that nonprofit mergers are fundamentally different from corporate mergers, that they can be of immense benefit to the community as well as to the merging organizations, and that failure to merge can be disastrous for everyone. McLaughlin focuses on the concerns of the nonprofit sector: achieving the mission, retaining tax-exempt status, behaving responsibly in the community. He shows nonprofit managers and board members how to make their way through the merger process without repeating Wall Street misbehavior.

Using real world examples and case studies, Nonprofit Mergers and Alliances offers clear, practical step-by-step guidance through the merger process from preliminary considerations to actual implementation—pointing out pitfalls and offering insightful commentary along the way. This helpful volume provides:

1. A penetrating discussion of the reasons to collaborate
2. The C.O.R.E. Model, a merger/alliance analysis framework
3. Advice on partner selection
4. Structure choice analyses
5. Step-by-step guidance through merger and alliance processes
6. A disk with forms and worksheets that any nonprofit can customize for its own needs

Supplemented with easy-to-use checklists and analytical tables, Nonprofit Mergers and Alliances helps nonprofit board members and managers make the right decisions, monitor the entire process, anticipate problems and find solutions quickly. The information contained in this book will help any nonprofit organization ensure the successful continuation of its mission in the immediate future as well as for years to come.

Table of Contents:

Part I—Deciding to Merge

Part II—The C.O.R.E. of Nonprofit Collaboration

Part III—Structuring the Collaboration

Part IV—Seven Steps to a Successful Nonprofit Merger

Part V—Strategies for Developing Alliances

McLaughlin, Thomas A. *Seven Steps to a Successful Nonprofit Merger,* Washington, DC: National Center for Nonprofit Boards, 1996, 28 pp.

McLaughlin begins this small but very practical monograph with a statement that mergers are not a sign that a nonprofit has failed, but rather they are becoming "a strategic option for dealing with the nonprofit management challenges of the 21st century." Today, tightening government funding and an increased need for effective service delivery are heightening the need for consolidation, integration and efficiency. The goal of mergers is not

always cost savings. Other important outcomes are "achieving economic size" (the minimum possible size for a nonprofit to be able to provide services in its field without long-term damage to its financial base) and integrating services. Through mergers, nonprofits are putting an end to fragmented service delivery and inefficient use of economic resources.

The author's seven steps are:

1. Get to know your partner
   What are the motivations for merging? What are the organizations' cultures? How can trust be built?

2. Form a merger committee
   Be strategic. Solicit the help of a consultant or facilitator. Form necessary subcommittees. Establish basic ground rules.

3. Choose the chief executive and the organization's name
   Will the leader come from within the ranks or from an external search? Naming can be a contentious issue and one with legal ramifications.

4. Structure the new entity
   Design the board and governance structure. Balance interests. Expect a 6-9 month period leading up to formal merger.

5. Encourage acceptance through effective communications
   Most resistance will come from "Big Es"—ego and economics. An effective, strategic communications plan can help reduce internal and external resistance.

6. Write a merger agreement
   Check with your state oversight office to see if there are documentation requirements. Find an attorney knowledgeable about the corporate structures of nonprofit organizations.

   Don't forget the champagne!

7. Implement and evaluate the merger
   Evaluate all organizational functions and restructure as needed. Look at the internal and external results of the merger. Determine whether merger accomplished what was hoped for.

Wenger, Hilda Shirk. *Motives for Mergers Among Family and Child-Serving Agencies,* dissertation.com, 2000, 97 pp. $19.95

Available for purchase at Amazon.com and www.dissertation .com

Ms. Wenger's PhD Business dissertation for North Central University in Arizona looks at what motivates nonprofit social service agencies to merge, and whether the merger achieves what was intended. It also looks at unanticipated problems and changes to mission statements as a result of the merger. The study focuses on family and child-serving organizations that have merged with similar organizations between 1988-1999 through a mutually agreed-upon process. Ms. Wenger explains, "As traditional social service agencies look for ways to improve the quality of their service provision in light of increasing environmental and internal pressures, they need to know what mergers can and cannot do for them. There is much that can be learned from the experiences of those that have already responded to those pressures and restructured their organizations." The Alliance for Children and Families, a national membership organization servicing more than 365 nonprofit agencies that provide a wide range of services for children, families and communities, provides the context of this study.

Among the author's findings: There is a proactive reason for many mergers (e.g. agencies are merging to share resources and improve client services) in contrast to literature that suggests such mergers are largely a response to factors that threaten survival. Greatest gains from mergers were reported in improved client services, with lesser gains in administrative cost savings and organizational stability. This view of merger as an opportunity for growth—not a reaction to threat—gives an important perspective for agencies making decisions about the feasibility of strategic restructuring.

Yankey, John A. Barbara Wester Jacobus, and Kelly McNally Koney. *Merging Nonprofit Organizations: The Art and Science of the Deal.* Cleveland, OH: Mandel Center for Nonprofit Organizations, 2001, 69 pp.

Download this free document at http://case.edu/mandelcenter/publications/casestudies/MergingNonprofitOrgs.pdf

This publication is a product of the Strategic Alliance Project, an initiative of the Mandel Center for Nonprofit Organizations at Case Western University. The Center's mission is to enhance the effectiveness of nonprofit leaders and managers and the organizations they serve through education, research and community service.

Mergers, say the authors, are both science and art. They are somewhat systematic and predictable (science); but they are also often highly unpredictable—involving individuals and organizations with histories, personalities and cultures. The authors liken mergers to "artful dances" and this book is intended to guide nonprofit leaders through that dance. It is an engaging workbook structured around two nonprofits that are composites of several different organizations with which the authors are familiar. The organizations' experiences are presented through the eyes and perspectives of several individuals involved in the complex process. The individuals' "Lessons Learned" one year later are presented at the end of the study. Lessons included:

- An appreciation of establishing a shared vision
- The realization that it takes a great deal of time, energy and money to complete a merger
- The importance of involving an appropriate cross-section of stakeholders
- The necessity of building trust
- The importance of communication
- The value of merger in preserving the strength of an organization
- The value of a well-chosen "neutral" consultant in guiding the process

Journal Articles and Case Studies

MERGER BASICS

Bradley, Bill, Paul Jansen, and Les Silverman. "The Nonprofit Sector's $100 Billion Opportunity." *Harvard Business Review,* May 2003, Vol. 81, No. 5, pp. 94-103. (Electronic copy. Excerpted from an author's abstract.)

Imagine what $100 billion a year could do for philanthropic and other nonprofit institutions. According to a new study, the nonprofit sector could free that amount—maybe even more—by making five changes in the way it operates. The study asked two central questions: Does the sector's money flow from its source to its ultimate use as efficiently and effectively as possible? If not, where are the big opportunities to increase social benefit?

While this article does not directly address mergers, it examines the big picture of which mergers and other kinds of collaborations are a part. The authors believe that nonprofits could save $25 billion a year by changing the way they raise funds; and by distributing funds more quickly, they could put an additional $30 billion to work. Organizations could generate more than $60 billion a year by streamlining and restructuring the way they provide services. Part of streamlining and restructuring includes trimming administrative costs (which added up to $80 billion among nonprofits in 1999). The authors note that scale economies work against small nonprofits, which have higher administrative cost ratios than their larger peers. Sharing service arrangements and consolidating office functions can improve the bottom line. In the cases of the Alzheimer's Association, Girl Scouts and Planned Parenthood, consolidating under-performing chapters provided a partial solution.

Butzen, Jean. "Are Nonprofit Mergers an Ethical Way to Grow?" (Blog, November 26, 2007).

Read the blog at www.missionplusstrategy.com/ 2007/11/are-nonprofit-m.html

Jean Butzen is a former nonprofit CEO who now does consulting work on values-driven mergers, partnerships and management for nonprofits. The subject of her Nov. 26, 2007 blog is the October 2007 merger of The Points of Light Foundation and the Hands On Network. Both of these organizations were successful stand-alone nonprofits. Why merge? One reason is to "get to scale" to tackle large problems. How, she asks, does a nonprofit get to scale in this capital-starved environment? Good business practices and close attention to marketing and fundraising are essential; but a quicker and perhaps more efficient way is through mergers, consolidations and alliances. The author invites readers to share their thoughts and comments on the subject.

Chronicle of Philanthropy, Live Discussion, December 2, 2008. http://philanthropy.com/ live/2008/12/mergers_and_alliances/

This resource is the transcript of a live (and lively) online discussion that took place in early December 2008. Guests were William Foster, a partner at the Bridgespan Group, his Bridgestone colleague Alex Cortez, and Lois Savage, president of the Lodestar Foundation. The panelists took questions from people from a wide range of nonprofits and from some consultants as well. While some participants' questions were directed to their own specific circumstances, others were more general, such as how to begin discussions about mergers and collaborations, what the major differences are between nonprofit and for-profit mergers, and how foundations can encourage collaborations among their grantees. The questions are ones that many nonprofits ask and the answers are direct. In the course of the discussion, Savage explains her firm's Collaboration Prize, a $250,000 award to "the best collaboration between otherwise competitor nonprofit organizations." That prize was announced in spring 2008 and awarded in March 2009.

Dewey and Kaye. "Nonprofit Mergers: An Assessment of Nonprofits' Experiences with the Merger Process," *Tropman Reports,* The Forbes Funds (Tropman Fund for Nonprofit Research), November 2007.

www.forbesfunds.org/docs/Tropman2007/ Report2-DeweyKaye.pdf

Why do nonprofits explore merger? What do they expect to achieve? How long do they take? How much do they cost? What are the results? This report looks at 22 nonprofit organizations in Allegheny County, Pennsylvania, that explored, attempted or completed a merger. It seeks to answer the questions above and provide recommendations that nonprofits and funders can use to inform their conversations about the merger process.

This Tropman Report, one of a number of nonprofit studies that the Forbes Funds has supported, asks five questions:

1. How do merger opportunities typically emerge?

2. Why were merger explorations undertaken?

3. What were the roles of staff, board and outside assistance in the merger process?

4. How long did the merger process last?

5. What were the results of the process?

The tables of theme-based recommendations for nonprofits, such as a recommendation under "Culture" that "Experienced consultants can help a merged organization address cultural differences and reduce the time required for post-merger integration" and recommendations for funders such as "Mergers are driven by emotion. Focusing on mission instead of cost savings will bring more nonprofits to the table" are well worth exploring.

Dickey, Marilyn. "Making a Merger Go Smoothly for Nonprofit Workers." *Chronicle of Philanthropy,* June 10, 2002, p. 37.

Author Dickey focuses on a critical part of the implementation phase of any merger: people issues. People fear lay offs, salary/benefit reductions, changes in supervision, and restructured jobs. Constant communication and "rumor-control are essential. She cites the example of two Columbus, Ohio AIDS organizations that planned to merge. They moved into the same building together more than a year before their merger was finalized. Doing so gave employees time to become acquainted with their new colleagues and removed much of the "fear factor." Leaders of two merging organizations in San Jose, California, organized programs to help the staffs of the two groups become acquainted in informal settings and put changes into place that employees requested (like reduced paperwork). It reduced people's tendencies to become "territorial" and made them more willing to view change in a positive light.

Hackett, Kelly. "Essential Pre-Merger Reviews." *Association Management,* July 1997, vol. 49, No. 7 (Electronic copy)

With more associations looking for ways to streamline costs and increase efficiency while continuing to serve their members' needs, interest in mergers is increasing. When that happens, the board must perform a due diligence review of the other parties to the merger to determine whether this action would further the interests of the organization. The due diligence process helps ensure that the members of the board satisfy their fiduciary duties of care, loyalty and obedience.

Heathfield, Susan M. "Culture: Your Environment for People at Work." *About.com. Human Resources.*

http://humanresources.about.com/od/organizationalculture/a/culture.htm

Many of the published resources about merger stress the importance of merging organizations' "cultures." But what does this mean? Culture is something that cannot be seen, but it surrounds everyone in the workplace. It is comprised of the values, beliefs, underlying assumptions, attitudes, and behaviors shared by a group of people. It is, in short, the (generally unspoken) rules for working together. The author offers seven characteristics of culture:

• Culture = Behavior

• Culture is learned

• Culture is learned through interaction

• Sub-cultures form through rewards

• People shape the culture

• Culture is negotiated

• Culture is difficult to change

Hodgkin, Christopher. "What You Should Know About Nonprofit Mergers." *Nonprofit World,* July/August 1994, Vol. 12, No. 4 (Electronic copy)

This article looks at merger from a legal point of view. The author defines a "true merger" as one where "one organization survives and the other is legally dissolved, transferring its assets and programs to the surviving organization." He takes the reader through the complexities of the process—structural issues, legal issues, process issues, and cultural issues – and offers alternative suggestions to merger. One is a joint operating agreement (sharing administrative staff and offices but maintaining separate programs). Another is to establish a parent-subsidiary relationship. These alternatives allow organizations to work together for a period of time to see whether they are compatible merger partners. Hodgkin notes that a merger is "basically irreversible" and should not be entered into without comprehensive planning and thinking about many complex issues. He advises that "a merger will always take longer and cost more than you think it will." While some savings will occur as a result of the union, most savings will not show up for a year or two, and the merged organization must have a financial cushion to survive the process.

Jacobs, Jerald A. "Association Mergers and Consolidations: Strategic Considerations." *Association Management,* August 2004. Vol. 56, No. 8, pp. 17-18 (Electronic copy).

While, from a legal standpoint, mergers and consolidations are among the most complex legal endeavors that associations can undertake, associations with overlapping or complementary purposes, memberships, activities, or long-range plans may be able to serve their constituencies best by joining together to form one larger association.

Jacobs, an attorney, explains the differences between three options: consolidations, mergers and the less-common "dissolution and transfer of assets." He stresses the importance of due diligence reviews to protect the liability of individual board members in mergers and consolidations. These reviews affect full disclosure and objective evaluation of financial and legal risks of each combining association. The presence of adverse findings in such reviews is not necessarily cause for a board to reject the planned combination; however, it requires board members to create strategies for dealing with these realities.

Jacobs, Jerald A. "Mergers: Easier (and Harder) Than You Think." *Associations Now,* July 2008.

www.asaecenter.org/PublicationsResources/ANowDetail.cfm?ItemNumber=35070

Jacobs notes that nonprofit mergers are actually more difficult than business mergers. When business leaders consider merging, they look at revenue, profits, capitalization, cost cutting, and other economic factors. But nonprofit mergers, contrary to popular belief, are rarely driven purely by economic factors. They focus on the survival of programs, identification of leadership, and the "cultures" of the groups. The benefits of nonprofit mergers are often difficult to quantify because they may seem "personal" to those affiliated with the organizations and services. Jacobs explains the growing number of nonprofit mergers as a result of an increase in leadership professionalism

in the nonprofit world. Also, "mergers beget mergers." That is, nonprofits become inspired by mergers that they observe, and board members, usually talented business people, proselytize for the benefits of combining. The author goes on to discuss the "mechanics" of merging: inquiry and consideration, planning, approvals, and closing the deal.

Kohm, Amelia. "What Happens When Nonprofits Consolidate (Either Partially or All the Way)? *Nonprofit World,* May/June 2002, Vol. 20, No. 3, pp. 24-29 (Electronic copy).

This article reports the results of a survey conducted by the Chapin Hall Center for Children, a policy research center at the University of Chicago, and Strategic Solutions, a California-based project of La Piana Consulting, asking 192 U.S. nonprofits to share their strategic restructuring experiences. Researchers divided partnerships into two categories – Alliances (administrative consolidations, joint programs) and Integrations (mergers, joint ventures, management service organizations). Among the findings:

- Very young and very old organizations were less likely to be involved in strategic restructuring

- Integrations usually involved fewer organizations than alliances did

- Competition is a key factor in the decision to restructure

- Most respondents entered into restructuring to improve the quality of what they do rather than because of threats of closure or pressure from funders

- The most common benefits of restructuring were increased services, increased administrative capacity and quality, and increased market share

- Most common problems were conflicting organizational cultures, adjustment of staff to new roles, difficulty in building trust

- Factors most strongly contributing to success were a staff/board member who championed partnership, positive past experiences with partnering with others, board encouragement, organizational orientation toward risk-taking and growth

Kohm goes on to relate two case studies, the first a consolidation between Stage One, a children's theatre in Louisville, KY and the Kentucky Center for the Arts (KCA), a larger organization that could provide Stage One with office space, maintenance and security, accounting and phone systems, and technical support. In return, KCA deepened its mission of serving all Kentuckians because it now had a vehicle with which to reach children. A second describes a union between Talbert House and Core Behavioral Health Centers of Cincinnati, OH. Both had similar missions (offering services in mental health, community corrections, and substance abuse), but one (Talbert House) was much larger than the other. After rejecting a full merger because of the smaller organization's concerns about losing its community orientation and relationships with funders, the two groups settled on a parent-subsidiary relationship that established Core as a membership organization with Talbert House as its only member. The author concludes the article with a reflection on how the language of courtship and marriage can be appropriate in the world of strategic restructuring. "As the saying goes, 'Marriage is when two people become as one; the trouble starts when they try to decide which one.'"

La Piana, David. "Nonprofit Mergers: Is Your Organization Ready for the Road?" *The Grantsmanship Center Magazine,* Spring 2001.

www.tgci.com/magazine/01spring/road1.asp

Nationally-known merger expert David La Piana provides self-assessment questions for organizations wondering if merger is the right move for them. He probes motivations and expectations for merging (Is it because of finance, skill set or mission? Are there specific, measurable outcomes?). He addresses the issue of unification—of missions, strategic purposes, and leadership. In the case of organizations with chronic problems, he notes that

opportunities presented by potential merger can move those organizations away from acceptance of the problems and toward actions to resolve them. He urges leaders to consider the organization's history of risk-taking and growth. Finally, he advises anyone considering merger to look around their own nonprofit community for examples of success and share them with others in your organization. Pay attention to what the reactions to those stories tell you.

Light, Paul C. "The Risk of Too Much Charity Reform." Brookings, April 20, 2000.

www.brookings.edu/opinions/
2000/0420governance_light.aspx?p=1

Paul Light, Vice President and Director of Governmental Studies at the Brookings Institution, takes a wide angle look at the charities reform movement in this short opinion piece. How charities do their work is becoming almost as important to grant makers and charity clients as the goods and services the charitable organizations deliver. He argues that charities feel more pressure than ever before to improve their internal management, and they generally follow one of four philosophies: 1) Adopt a common set of best practices, 2) Measure results, 3) Merge, re-engineer and downsize, 4) Make more information available to the public. Light feels there is no one way to improve performance, and that nonprofits can learn from federal reform efforts, which have often "done more harm than good." In the case of alliances, nonprofits must think seriously about how much time and energy a successful alliance demands.

MacDonald, Jeffrey. "Nonprofit Organizations Seek Strength in Mergers." *Christian Science Monitor,* June 5, 2006

www.csmonitor.com/2006/0605/
p13s01-wmgn.html

This article quotes nonprofit merger expert Thomas McLaughlin extensively. Nonprofit mergers, once thought of as the 'm-word' are shedding their stigma to the point of becoming alluring. After successful consolidations for such well-known groups

as the Girl Scouts of America and the American Lung Association, nonprofits of all sizes are testing the waters. Funders play a key role in the "merger mania." Because federal dollars are shrinking and competition for grants is becoming increasingly intense, private and public benefactors are encouraging efficiencies and economies of scale. Observers of the nonprofit sector expect mergers to continue.

McCormick, Dan H. "Nonprofit Mergers: Laying the Groundwork with Volunteers and Staff." *The Grantsmanship Center Magazine,* Spring 2001.

http://tgci.com/magazine/01spring/ground1.asp

When a merger takes place, some staff and volunteers who are emotionally connected to the "old" organization's mission may have difficulty accepting the new one. This article by a national merger consultant addresses the topic of managing such discontent. Identifying new leadership early in the merger process is critical, says McCormick. Getting "volunteer leaders" to positively influence other volunteers or board members is also a good strategy. Taking time, involving staff and middle management in the merger process, and maintaining clear communications are also necessary. The author points out that "While mergers may start from the top and work down, they are only successful from the ground up." He concludes with a reminder that mergers can be opportunities to effect sweeping organizational change, providing fertile ground for initiatives such as zero-based budgeting, decommissioning programs of questionable value, opening/closing facilities, etc. with the final goal of unification of people, programs and priorities.

Patrick, Georgia and Gary McCoy. "Mind Your Merger." *Association Management,* June 2003, Vol. 55, No. 6. (Electronic copy)

The emphasis of this article is the vital role that communication plays in the merger process. One of leadership's most important roles is to champion the communication process, moving people as quickly as possible between two critical deadlines:

- The time between the deal's announcement and its close, and

- The first 100 days after the close

The longer the soon-to-be-merged organizations are in the period between the announcement and the close, the more consuming and the more complicated the communication becomes. Speeding things along, bringing closure with appropriate involvement from all who must sign off or buy-in, and forging social connections are critical requirements for the spokespeople. Several case studies of merging associations illustrate the authors' points.

Prokuski, Bronislaw. "Anatomy of a Merger." *Association Management,* February 2002, Vol. 54, No. 2. (Electronic copy)

A merger, says Prokuski, is like a marriage: "On the surface, it may make sense to a lot of people, but one needs to question whether the underlying conditions are right." This article provides an excellent walk-through of the merger process. While the author's experience comes largely from the merger of associations, not charities, the parallels are obvious. A merger offers the opportunity to think out of the box and has the greatest chance of success when both parties approach it from a mission and business opportunity point of view, rather than from crisis.

He offers advice to test your organization's compatibility with a possible merger candidate and discusses challenges presented when the merging organizations are not equals. Like other consultants cited in this Literature Review, Prokuski advises selecting a new leader very early on in the process. Pay attention to staff morale, he says, and communicate "up, down, and sideways." There are practical suggestions such as developing a basic fact sheet covering the reasons for merger, who made the decision, and expected benefits, and following this fact sheet with question-and-answer sessions with staff. Mergers can take years to complete and are rarely easy; merging associations (like merging charities) is often more difficult than merging for-profit corporations.

Singer, Mark I. and John A. Yankey. "Organizational Metamorphosis: A Study of Eighteen Nonprofit Mergers, Acquisitions, and Consolidations." *Nonprofit Leadership & Management,* Summer 1991, Vol. 1, No. 4, pp. 357-369.

This scholarly article stands out because it reflects a time (1980s) when mergers were frequently "last resort efforts to survive in response to environmental pressures rather than well-planned and well-executed growth strategies." The authors identified four phases of the merger process: making the decision, planning, implementing the plan, and reviewing/evaluating. They used these phases as an organizing framework to conduct a review of the literature on nonprofit mergers at the time and to study 18 nonprofit merger transactions. Using information from the Council on Agency Executives and United Way Services of Greater Cleveland, Singer and Yankey identified 39 agencies for inclusion in their study. They included family & children's services, multipurpose social service centers, health programs, vocational programs, substance abuse programs, residential care institutions, and "others." There were more mergers than other kinds of consolidations among the study group. The authors interviewed agencies' executive directors, board members, or both.

Interviewees indicated that 94% of transactions resulted from financial concerns. Lesser reasons for merger/acquisition/consolidation included compatibility of missions (72%), benefit to the community (39%), effect on employees (22%) and enhancement of services (17%). Study conclusions: financial forces were the major driving force, honest and clear communication was critical to a smooth transaction, and staff morale was affected.

Strom, Stephanie. "Charities Trying Mergers to Improve the Bottom Line." *New York Times,* November 11, 2007.

www.nytimes.com/2007/11/11us/
11merge.html?_r=1&adxnnl=1
&adxnnlx=1228766733-
9NH5CuoCByQPVMP2tsXsyg

Mergers are "a trend that is going to accelerate," said Walt Shill of Accenture, which recently took on its first nonprofit merger, helping to join the Hands On Network and the Points of Light Foundation. "Donors are becoming more like investors: they expect a greater return on their nonprofit investments." Another kind of merger is becoming more common: "partial mergers," whereby organizations might share fundraising activities, technology, accounting systems, mailing lists, and other aspects of their businesses. The Humane Society of the United States, the Doris Day Animal League and the Fund for Animals are partially merged. But mergers among nonprofits are not easy. Unlike corporate mergers, which involve a few people working quietly until details are determined, nonprofit mergers require any and all stakeholders to be involved, which makes them more likely to fall through. A merger of two California foundations, the Peninsula Community Foundation and Community Foundation Silicon Valley found itself on rocky ground; but Emmett D. Carson, CEO of the merged organization, advised critics to give the merger time.

TWIN CITIES CONNECTIONS

"Authoring the Book on Mergers: How Two St. Paul Agencies Successfully Joined Their Histories. *Alliance for Children and Families Magazine,* Fall 2003. Vol. 3, No. 4.

This article describes the 2003 merger process between two St. Paul nonprofits, Family Service, Inc. and Children's Home Society of Minnesota. The organizations had a combined history of over 200 years of child-and-family service. The merger was successful because it was methodically carried out; it focused on their newly-combined mission; and it established a good working relationship between management, staff and boards. Open communication was key to the success as well. The organizations also engaged consultants to "smooth the edges of the merger." Because the services offered by the two organizations were complementary, the "fit" was excellent, and

trust was high. "When we got stuck," said one of the organizations' CEO, "we focused on where we were going. In the depths of our hearts we believed that we were both good and going to get better."

Kirkpatrick, Kevin T. "Go Ahead—Pop the Question." *Stanford Social Innovation Review,* Summer 2007. (Electronic copy)

The marriage metaphor illustrates this author's belief that "marriages between nonprofits" (i.e. mergers) would be good for the sector as a whole. The unions would make the lives of nonprofit organizations easier by reducing the competition between them for financial support, legitimacy, and political power. Additionally, they could help nonprofits build public will and motivate sustainable change in both policy and behavior. According to Guidestar, the number of nonprofits focusing on children, youth and family issues (the author's area of work) grew more than 250% between 1999 and 2006. He says these nonprofits live "the single life" in the nonprofit world and consume vast resources operating often small operations.

A number of cases illustrate Kirkpatrick's points in this article, including recent efforts by the Minnesota Early Learning Design (MELD) to merge with complementary nonprofits. One of these, Parents as Teachers was an excellent fit. The article discusses this merger in detail, noting which local funders helped underwrite its costs.

Are mergers right for every nonprofit? "Of course not," says Kirkpatrick, but the proliferation of nonprofits everywhere makes sustainability a more pressing and widespread concern. He cautions against merging just to survive, and adds that mergers are not a "zero-sum" game of who should close so that others can prosper. Rather the focus should be on a more holistic approach to pressing problems, requiring visionary leadership that concentrates on creating positive, sustainable change and leaves behind the parochial interest of one organization or program model over another. If that's truly the goal of the merger, then go ahead and say, "I do."

Lucas, Carol and Ron Reed. "Keys to a Successful Nonprofit Merger." *Nonprofit World,* May/June 1992, Vol. 10, No. 3. (Electronic copy)

This case study deals with the 1987-89 merger of Family Service of Greater Saint Paul and East Communities Family Center. A successful merger is carefully planned, soberly decided, and requires close and continuous consultation with all who harbor reservations toward the union, said Ron Reed of Family Service of Greater Saint Paul. A well-executed merger of two nonprofit organizations with complementary missions, values and strengths can achieve economies, efficiencies and synergies that few organizations can achieve alone. There are six basic keys to strengthening the merger process:

1. Focus on mission

2. Create a clear vision of the new organization

3. Involve people who will be affected in the process

4. Strive for a win-win alliance

5. Deal with difficult issues early and directly

6. Take time to do it well

This detailed article takes the reader through the merger process, looking at organizational backgrounds, compatibilities and differences. It follows merger planning and negotiations month by month for approximately 15 months, from the boards' first conversations in November 1987 to the official union of the agencies in January 1989.

Russell, Scott. "Putting Good Will to the Test: Nonprofits Find Mergers Can Be a Messy Business at Times." *MinnPost.com,* June 23, 2008.

www.minnpost.com/stories/
2008/06/23/2307/putting_good_will_to_
the_test_nonprofits_find_mergers_can_
be_a_messy_business_at_times)

This article about the 2006 merger of the American Red Cross Twin Cities Chapter, as well as several other well-publicized local mergers, is offered as a "cautionary tale" with a moral: that mergers are harder and take longer than people think. Frank Forsberg, Greater Twin Cities United Way (GTCUW) Senior VP for Community Impact believes that mergers started increasing 10 years ago and accelerated slightly following the post-911 economic downturn. The GTCUW has supported approximately two dozen nonprofit mergers since 2003 through planning and/or implementation grants.

In the course of the American Red Cross merger, merging administrative systems and organizational cultures (the St. Paul chapter was smaller and had a "family" feel, the Minneapolis chapter was larger and operated out of a fairly new headquarters building) proved challenging. There were job cuts and losses of volunteers…but important lessons were learned. "Communication has to be five times what you consider normal," said Jan McDaniel, CEO of the merged organization.

Other mergers discussed in this article are Family Service, Inc. and the Children's Home Society, Loring-Nicollet-Bethlehem Community Centers and Project for Pride in Living, and the merger of five regional Girl Scout councils.

Minnesota Council on Foundations News Archives. "Minneapolis and St. Paul United Ways to Merge." February 27, 2001.

www.mcf.org/mcf/whatsnew/archives/
Feb2001/unitedway010227.htm

A volunteer task force comprised of representatives from the St. Paul and Minneapolis United Way boards of directors recommended the creation of a single, regional United Way organization. The idea was to create a new organization that will "provide a stronger voice and leadership for regional solutions to issues that affect local communities." The merged organization will have greater ability to leverage resources and provide innovative approaches to high-priority issues. Other benefits include more effective coordination of services in response to needs, a single set of reporting requirements for jointly-funded agency service providers, and a vehicle by which donors can support services in communities where they both live and work.

Weinmann, Karlee. "Guiding Nonprofits to Each Other." *Minneapolis/St. Paul Business Journal,* July 11, 2008. Vol. 26, No. 5.

http://twincities.bizjournals.com/twincities/
stories/2008/07/14/story4.html

MAP for Nonprofit's innovative "Project Redesign" is the focus of this one-page story in a Twin Cities business publication. The project, which was funded for three years, is headed by Ron Reed. It provides consulting assistance for local nonprofits that wish to merge. The interest in mergers stems from the visibility of other successful mergers, a realization that mergers can be opportunities for growth, and a reaction to a difficult economy. Those working with Project Redesign pay a fee of $2,500-10,000 (based on a number of factors), and the merger process generally takes 6-12 months. In its first year, the project exceeded its goals and is expected to continue doing so.

OTHER JOURNAL ARTICLES AND CASE STUDIES

Blum, Debra E. "All in the Family." *Chronicle of Philanthropy,* October 13, 2005, Vol. 17, No. 1 (Electronic copy)

In 2003 La Piana Consulting was hired to guide two California nonprofit domestic violence groups through a merger. The Center for Domestic Violence Prevention and Sor Juana Ines were both located in the same county, both ran crisis hotlines, and both offered counseling to people in abusive relationships. And when the financial crisis hit the Silicon Valley, both faced crushing revenue declines. By coincidence, their executive directors resigned almost simultaneously. City officials raised the question of merger, which had already been on others' minds. The groups merged to form Community Overcoming Relationship Abuse (CORA). But nothing was easy. The new organization's executive director likened the situation to "a second marriage in which teenage kids from previous marriages are thrown together in the same household."

From the start, leaders at the smaller organization were worried that it would be swallowed up by the larger one – that the partnership would be a "takeover," not a merger. In response, the larger organization committed itself to arranging the merger as "a union of equals." While the larger organization brought some financial stability and a mature infrastructure to the table, the smaller one brought expertise in dealing with the Latino population in a county with a Hispanic population of 22%. The La Piana consultant who facilitated the merger admits that it was a difficult one. It involved two organizations dedicated to a cause that involves urgency and trauma, and it faced a "cultural divide." The absence of executive directors from both organizations at the start of the merger process further added to the complexity. In fact, the consultant had to take an unusually hands-on role of acting as interim director to both organizations for a period of time.

A 2007 evaluation found the combined organization both wealthier and wiser. One of the reasons for the success was the "buy-in" from funders who recognized the value of the merger and committed themselves to maintaining their funding levels after the merger.

Burnett, Lee. "Doubling Up." *Chronicle of Philanthropy* Special Report, September 18, 2008. Volume 20, Number 23.

http://philanthropy.com/free/articles/v20/i23/23001401.html.

This informative Chronicle of Philanthropy article tells the story of two social services charities in the Portland, Maine area that merged. Youth Alternative (a child welfare charity) and Ingraham (a crisis counseling and mental health therapeutic facility) were both $12 million agencies that combined into YAI Youth Alternatives Ingraham, a $23 million organization. The new entity runs therapeutic boarding homes and offers telephone services for people in need of help, as well as offering child-rearing education, counseling and psychiatric services. It was able to complete the merger with only a slight reduction in staff and retention of all programs during a period of severe cuts in state financing. Since the merger, fundraising revenue has risen 1.5% despite a smaller development staff.

Cohen, Debra Nussbaum. Merger of Jewish Groups Fails to Meet Expectations, Report Finds. *Chronicle of Philanthropy,* February 17, 2005, Vol. 17, No, 9. (Electronic copy)

The full report is a 165-pg. book titled Predictability to Chaos?: How Jewish Leaders Reinvented Their National Communal System. It is available for purchase from the Jerusalem Center. Contact via e-mail at jcpa@netvision.net.il. It is also available from Amazon.com.

In 1999, three major and well-established Jewish organizations, the Council of Jewish Federations, United Israel Appeal, and United Jewish Appeal merged into a new organization, United Jewish Communities, that became the 20th century's largest nonprofit merger. A published report five years later reveals that the new organization has failed to live up to the goals it was established to achieve. The report offers helpful guidance about what makes a merger successful and where the potential pitfalls lie.

Foremost among those goals was to streamline fund raising and allow the 155 Jewish federations in the network to exert more influence over donations that they raise for Israeli causes. Monies raised by the federations support a wide range of social service programs in the US, Israel, and abroad. Another goal was to find new ways to capitalize on the "desire for innovation" among many Jewish philanthropists. According to the report this goal was not met because the system remained entrenched in "old ways" of doing things. The end result, according to the report was "a new organization that met few if anyone's expectations."

The report's authors say that one reason the merger failed is because United Jewish Communities, like many nonprofit groups, quickly adopted a top-down corporate model which permitted professional leadership to manage the agenda and removed opportunities for discourse and debate. In addition, the outside consultants hired to facilitate the merger did not adequately understand the cultures of the organizations. "Organizational cultures and styles were never adequately discussed," the report continues. "The major lesson learned is not to apply business principles in their totality to the not-for-profit world."

Gargulinski, Ryn. "Foundation Throws Local Charities a Financial Lifeline." *Tucson Citizen,* December 11, 2008.

www.tucsoncitizen.com/ss/
fromtopemails/104834.php

To help charities through these difficult economic times, the Community Foundation of Southern Arizona has created an Economic Relief and Stability Fund, with a goal of strengthening non-profits for long-term sustainability. It has seeded the fund with $300,000 and will match donations dollar for dollar, with a goal of $500,000 by the end of March 2009. The Foundation is encouraging nonprofits and their supporters to focus on charities' assets, missions, client bases, and services to identify areas of duplication. It is further urging partnerships and mergers among organizations. A problem with this approach, say some charities, is that partnerships are great goals in principle, but they are expensive. At present, it is not clear if some of the $300,000 in the relief fund could be used to help fund partnerships.

Harrington, Robert. "Arts and Culture Mergers: Trends, Challenges and Benefits." *CausePlanet,* November 13, 2006.

http://causeplanet.org/articles/article.
php?id=34

Mergers and other forms of nonprofit partnerships have been on the rise for the past decade, and particularly in the past five years, says Harrington. Some nonprofit sub-sectors have seen more mergers than others. Once largely confined to health and human service agencies, mergers are now part of the art and culture sub-sector as well. Factors underlying this trend include:

- Significant decline in government funding for the arts

- Decline in corporate funding due to mergers and acquisitions in the business sector

- Natural disasters (i.e. Hurricane Katrina) that draw funds that might have gone to the arts

- Economic challenges that cause some shifting away from arts to basic needs

- Increased pressure on schools to pass standardized tests, reducing schools' focus on the arts

- Aging of the population that forms the core audience for traditional arts programming

- Competition with other, often cheaper, forms of entertainment

- Public has increasingly less leisure time, but more ways to spend it

The author outlines the challenges for arts organizations that consider merging, and he recounts an example of a well-publicized nonprofit arts merger that was not a success: the merger of the Jewish Museum San Francisco and the Magnus Museum. Among the most successful arts mergers are those between advocacy organizations, which exist to raise visibility of the arts and to help the arts have a deeper impact on society (example cited: the merger of the Michigan Association of Community Arts Agencies and ArtServe Michigan). Other successes include arts organizations that have similar missions and serve similar stakeholders, but operate in different geographic areas, such as the 2004 merger of Young Audiences of San Jose & Silicon Valley with Young Audiences of the Bay Area to become Young Audiences of Northern California.

Tagami, Ty. "Two Nonprofits Team Up." *Atlanta Journal-Constitution,* November 27, 2008.

www.ajc.com/services/content/print edition/2008/11/27/evnonprofit.html.

This short article describes the merger between Senior Connections and Life Enrichment Services, two complementary Atlanta-area organizations that serve seniors. The former organization is absorbing the latter. This merger is largely a result of the challenging economic times. The

organizations reasoned that they served similar age groups, so why compete for resources and pay extra for overhead? The new, larger organization shares payroll, bookkeeping, and databases and is in a better position to market classes and other revenue-generating services to the largely middle-class clientele for those classes. The two organizations are also glad that they are no longer competing for donations. One of their funders agrees: "I think they may be on the leading edge of something that we will probably see more of in the next 18 to 24 months…Mergers make a lot of sense."

Wallace, Nicole. Joining Forces to Fight Poverty. *Chronicle of Philanthropy,* January 25, 2007, Vol. 19, No. 7. (Electronic copy)

Mercy Corps, an international aid and development organization in Portland, Oregon, has merged several times in its 28-year history. It recently merged again, this time with NetAid, a New York charity that engages young people as activists to raise awareness about global poverty and health concerns. This merger arose out of joint needs by both organizations: Mercy Corps realized that it needed to focus more on educating young people about the realities of life in the developing world. At the same time, NetAid was seeking a way to broaden its reach and began looking for organizations that would be able to help the group reach more young people without building a whole new network itself. The charities decided their goals were compatible, and the merger process began. NetAid's president led the merger process and saw it through to completion, then stepped down from her position to pursue consulting work.

The consultant who helped facilitate that partnership noted that more nonprofit organizations are showing an interest in mergers. Many, however, are doing it too late, when they are at a point of desperation, and the challenges are greater under those circumstances. By contrast, the merger noted above is an example of how merger can be a tool to help organizations expand their reach and impact.

WEB SURFING

MAP for Nonprofits
www.mapfornonprofits.org

MAP has worked with client organizations, the corporate community, foundations and nonprofit associations to build a strong Minnesota non-profit community. MAP for Nonprofits provides high-value management consulting and services, as well as board recruitment and training, to large, medium and small nonprofit organizations in the Twin Cities and beyond, helping nonprofit clients to achieve their missions more effectively. The website outlines the organization's management consulting and services, classes and workshops, volunteer and board service opportunities, and more.

La Piana Consulting
www.lapiana.org

La Piana Consulting is a nationally-known management consulting firm that helps nonprofits and foundations effectively address the strategic issues they face, and ultimately helps them become stronger and more effective. Their founder, David La Piana, is a leading expert on nonprofit management and governance and the author of monographs, reports, article, and two "workbooks" that assist nonprofits with the merger process. The firm's research reports may be downloaded free of charge from the website.

The Lodestar Foundation
www.lodestarfoundation.org

This innovative foundation's mission includes "encourag[ing] and support[ing] collaborations, consolidations, mergers and other long-term cooperative activities among nonprofits working in the same area, and [encouraging] other business practices, in order to increase efficiency and eliminate duplication of efforts." There are numerous opportunities for in-depth reading throughout the website. One example: the website's "Merger" link takes the reader to summaries of Representative Collaboration Grants and links for more detailed information on each.

In 2008, The Lodestar Foundation announced that it would offer a $250,000 Collaboration Prize for the most effective nonprofit collaboration. In March, 2008, the Foundation announced that the award would be presented to two groups. The Museum of Nature and Science (Dallas, TX) and the YMCA and JCC of Greater Toledo (Toledo, OH) each received checks for $125,000.

Mission + Strategy = Social Value
www.missionplusstrategy.com

This website is the blog for Jean Butzen, a former nonprofit CEO who, after 25 years of leadership, now offers consulting services on values-driven mergers, partnerships, and management for nonprofits. Her blogs provide lively, experienced commentary and advice on the merger process.

Forbes Funds & Tropman Reports
www.forbesfunds.org

Under this website, one can find reports and essays that are the results of Forbes-supported studies by the Tropman Fund for Nonprofit Research for the years 2002-2007. These are downloadable free of charge, and cover topics such as "Nonprofit Mergers: As Assessment of Nonprofits' Experiences with the Merger Process" (2007 Report #2) and "A Generous Gift: The Value of Nonprofit Organizations to Our Community" (2005 Special Essay)

Mandel Center for Nonprofit Organizations at Case Western University
www.case.edu/mandelcenter

The Mandel Center at Case Western offers one of the nation's most fully-developed programs in nonprofit management. It also publishes the journal Nonprofit Management & Leadership. One can search back issues of the journal and read abstracts of selected articles. Case studies are also downloadable free of charge.

APPENDIX 3   Full Bibliography

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