Nonprofit Mergers:
Is Your Organization Ready for the Road?

By David La Piana

In a time of shrinking resources and increased competition, many nonprofits look to merger as a way of ensuring survival and improving services. But before embarking on any plan to form a partnership with another organization, the nonprofit leader is wise to undertake a thorough assessment of his or her own organization's readiness to be a partner. This assessment should be made in as objective a manner as possible, since readiness inevitably correlates with success in the actual merger effort.

Jumping into merger negotiations without first considering your own organization's strengths, weaknesses, and peculiarities is like walking along the edge of a cliff wearing a blindfold: it is dangerous, it can only complicate matters unnecessarily, and quite possibly it will make an already difficult situation much worse.

An organization will make a better candidate for a merger partner and will be more likely to carry such an endeavor to fruition when it:

- Knows what it wants to accomplish
- Is clear on its mission
- Understands and agrees upon its strategic challenges
- Is able, after full discussion and honest debate, to speak with one voice
- Has a strong, positive board/management relationship
- Is not in crisis
- Has a history of successful risk-taking
- Is growth-oriented

So before moving ahead with any plans for merger, consider the following 11 questions:

What is Motivating Your Desire to Merge?

It is necessary to recognize and make explicit your reasons for interest in a possible merger, both in general and with a specific partner, if you have selected one. The earlier this occurs the better. Sometimes merger processes can take on a life of their own, so it is important to put in writing for later reference why you are starting on this path. The motivations may be mission-

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related, economic, political, historical, or social, and are probably at least a little bit of each.

Motivations for merger often come down to one or more of three overarching factors: finances, skill set, and mission. The elements of this mix have been distilled from the experiences of organizations in almost every sphere of nonprofit activity, representing dozens of actual mergers.

To improve finances: A nonprofit may desire to merge in order to forestall imminent financial collapse, to improve an uneven cash flow, to gain access to another group's investment capital, to fend off a real or projected competitive threat in the marketplace, or in an attempt to grow to a point that it achieves a leadership role in the marketplace and thus becomes the competitive threat itself. A smaller nonprofit with a solid program and a good but modest record of achievement may seek a merger with a larger organization that is cash-rich but program-poor in the area of the smaller nonprofit's specific expertise.

To gain access to a larger skill set: Through a particular partnership a nonprofit may seek specific opportunities for pooling resources and strengths: garnering media attention, expanding geographic limits, obtaining outstanding or specialized staff who are with another organization, expanding programming so that it is more comprehensive, creating a stronger board of directors, gaining access to donors and decision-makers, and so forth. A nonprofit known for outstanding programming may seek a merger with another known for outstanding fundraising. The former group brings programmatic know-how to the table, while the latter can use the enhanced programming in its case statement to raise more money from donors.

To enhance the organization's pursuit of mission: A nonprofit may wish to reduce service confusion and fragmentation by creating a single entity capable of providing much more to its community than either of the predecessor organizations could provide alone. This is sometimes expressed as "creating a one-stop shop" or "bringing people together." Two nonprofits serving an underrepresented population may experience name and mission confusion in the eyes of donors, public funders, and even their own clients. Merging makes the confusion of identities work for the organization.

Often nonprofits face internal hurdles to self-assessment. It may be that the organization is badly divided, that the leadership is ignoring unpleasant financial news or simply feels overwhelmed by the press of other business.

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Whatever the reason, if the organization is unable to undertake a self-assessment, this is a strong indication that it will have difficulty coping with the issues raised by discussion of a merger.

What Do You Expect From a Merger?

Before you get into the thick of negotiations, specify what you hope to achieve from the effort. This exercise is best undertaken by a group of board leaders and senior managers. The more specific the anticipated outcomes, the easier it will be later on, during merger negotiations, to assess whether the structure you intend to create can reasonably be expected to produce those outcomes. It will also be easier to measure the outcomes after the merger has been consummated.

Outcomes are best stated in measurable terms. For example:

• "We hope to achieve a 30 percent increase in overall revenues."

• "We expect to serve an additional 500 people each year."

• "The merger will make us the largest provider of homeless services in the county."

Can You Keep a Focus on Mission?

Many significant issues will arise in the course of negotiating and implementing a merger. Some will touch on areas where organizational leaders and other constituents have a great deal of emotional investment. In practice, the only way to move the organization forward through these myriad and often difficult issues is to keep everyone's eyes focused on the organization's social mission: the improvements in society that the organization was created to advance.

Ask most nonprofit leaders to state what their organization's mission is and they tell you instead what the organization does. For example:

• The director of a mental health center is likely to say: "Our mission is to provide counseling services to low- income children."

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• The executive of a homeless shelter is likely to say: “Our mission is to provide housing for as many people in need as we can. “

• The managing director of a theater company is likely to say: “We exist to provide a venue for the greatest contemporary works of theater.”

• The founder of a local environmental advocacy group is likely to say: “Our mission is to stop the polluters from dumping toxic waste into our river.”

None of these is truly a mission statement. Rather, each is a statement of how the organization happens to be pursuing its mission today. If an organization stays in touch with the needs of its constituents, what it does may change over time. Mission encompasses the social ends that these organizations and their programs strive to produce: healthy children and families; hope among the hopeless; an enlightened public; a sustainable future for the environment.

This is an important consideration because a merger often entails the creation of new programs, and perhaps most difficult, consolidation and change within existing programs. To the extent that your organization understands that its programs and services are not the same as its mission, and that the needs of the mission may in fact dictate changes in services, it will be better able to negotiate a partnership that retains what is most important to its success (advancement of the mission), and helps the rest of the organization to adapt.

Do You Have a Unity of Strategic Purpose?

Do the people in your organization share a sense of the critical issues that need to be addressed and, equally important, what must be done about them?

Does the board think that the most significant issue facing the nonprofit is competition from a for-profit chain coming into town, while the executive director thinks it is the board’s inability to raise money and position the nonprofit in the public limelight, while many of the staff think it is the negative programmatic impact of too much change too fast? Are the strategies each group would suggest to address these conflicting priorities also in conflict?

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In many organizations the conflict surrounding strategy and direction is not so neatly defined as in the examples just given. Rather than board vs. executive or executive vs. staff, there may be different camps within each group, and they may array themselves differently on different issues. Regardless of whether the conflict is between or within these groups (board, executive, and staff), if it is serious, it is probably based on value conflicts, different perceptions of what the constituency needs, or varying individual interests.

If the people in your nonprofit cannot agree on a coherent strategy to address opportunities and threats, chances are they will not be able to agree on the issues involved in merging with another nonprofit, let alone how to resolve these issues. Remember, strategy serves to advance mission, and there is usually no stronger force in a well-functioning nonprofit than people's emotional attachment to the mission. Merger is all about strategy: where to move next, how to move, and in what company. Therefore, strategic differences are bound to play out in merger negotiations.

These differences may already be impeding the advance of the organization. If they haven't yet had that effect, they likely will in the future. So whether you move forward with merger talks or decide to postpone them, it is vitally important to your organization's future that these differences get aired, understood, and ultimately resolved.

Can Your Leaders Speak With One Voice?

In order for a nonprofit organization to negotiate with another entity, it is essential that its leaders have the ability to speak and act in unison. This may seem obvious, but occasionally one subgroup of a nonprofit's board, management, or staff finds itself pursuing merger negotiations while another faction is either actively arguing against it or subtly working to sabotage it. In either case the result is rarely pretty, and it can be embarrassing or damaging to the organization (and to its hapless partner).

To avoid this situation, organizational leaders must decide as a group whether to pursue the possibility of partnership. These discussions should be frank and open, clearing the air on all related issues. Of course, if underlying differences on organizational goals, strategy, and direction are present, any effort to "speak with one voice" about the partnership issue may bring them

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to the fore. These larger issues must be addressed before undertaking any move toward a merger.

Forthright disagreement and attempts to persuade others of one's viewpoint are entirely appropriate and even healthy during the discussion stage. Once a decision is made to move forward, however, members of the organization who may be personally opposed to the decision, whether they be board or staff, are faced with the choice of either supporting the effort or resigning. The nonprofit board member's duty of loyalty precludes the right to express any "minority opinion" outside the boardroom. If the dissension is coming from executive or management staff, clear direction from the board, executive director, or both should suffice to present any dissidents with a similar choice between loyalty to the organization's position or resignation.

The democratic process involves free and open discussion at all points leading up to a decision by majority vote. Minority rights are important to the nonprofit sector, but should not extend to a point where the minority is working publicly against the majority's position.

Input from board, staff, and key volunteers should be sought early on. If the process moves forward, it may be appropriate to use town hall meetings, focus groups, surveys, and interviews to gauge the reaction of clients, constituents, and other interested parties. However, it bears repeating: Once the board makes the decision to move forward, staff and board members are not allowed to use any negative feelings about the merger that surface through efforts to gauge community opinion as a platform (or an excuse) to air their own negative views in public. (That this "rule" is often broken goes without saying, and also accounts for much conflict during merger negotiations.)

How Solid Are Board-Management Relationships?

One key to a successfully functioning nonprofit organization is the presence of a smooth working relationship between the board of directors and staff, especially between the board and management, and most particularly between the board president and the executive director.

It is not good enough for both the board and staff to have competent leaders. These leaders must also respect one another, offer mutual support, share a passion for the nonprofit's mission, and find ways both large and small to

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collaborate for the greater good of the organization. In the context of merger discussions, any differences, dislikes, or rough edges in this relationship can become exacerbated and, ultimately, undermine the entire process.

Worse still, long submerged differences and dislikes that are brought to the surface inadvertently through the merger process can tear the organization apart. This is one of the ways in which merger talks can lead to a questioning of the central beliefs and unspoken agreements of the organizations involved. Remember that submerged internal differences can come to the fore at any point in the process. Tread carefully here, and do not hesitate to seek expert help in sorting through and working out any major conflicts, preferably before they get out of hand.

In most cases, serious suppressed conflict will eventually erupt, sometimes with catastrophic consequences. Rather than trying to wait out the conflict ("the executive director will retire soon" or "his term as president is almost up") it is far better to recognize differences or animosities, and to work forthrightly to resolve them. If that proves impossible, it is usually still better to part company before a blowup that can tear the organization apart, leaving the executive director with a negative mark on his or her employment record, the board in factions, and the nonprofit in tatters.

Are You Currently in a Crisis?

Organizations are composed of people, and people have limited energy and attention. If your organization is struggling with an acute cash shortage, coping with rapid growth, recovering from a recent public relations fiasco, or engaged in a major internal power struggle, it may not have the energy to focus on a new challenge such as a potential merger. It might be better to wait until the crisis is resolved before embarking on anything so draining and time-consuming.

On the other hand, many nonprofits are in chronic crisis: cash is always scarce, there have been negative press stories over the years, or there has been internal conflict for as long as anyone can remember. In the best of all possible worlds, such a nonprofit would attempt to set its house in order before trying to ally with another organization. Otherwise, the organization's weakened position and lack of focused attention are only going to put it in the role of the weaker party in a merger that sees one player (the other party) calling all the shots.

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But the wait for such an organization to emerge from its perpetual crises could be very long indeed. In the meantime, many plum opportunities related to possible mergers—new program growth, recruitment of a prized executive director, the addition of a well-connected board member—may be missed. Sometimes an organization must simply seize a good opportunity, even if it knows that it cannot currently put its best foot forward. But have no illusions about your position in this situation or about how difficult the execution of the partnership may be.

If you find yourself in this unhappy situation, try to use it to your advantage. Chronic problems have a way of becoming comfortable; everyone gets used to them since they seem impossible to solve anyway. The opportunities presented by a potential merger may be enough to shake the organization out of its acceptance of the chronic problem and into action to resolve it, one way or another. For example, the ongoing sniping of the board and executive director, which can be an embarrassment in merger negotiations with another organization, may finally be addressed through a conscious effort to resolve the differences openly. Similarly, the cash flow difficulties that threaten to derail a very interesting merger possibility may finally bring to a head the issue of getting expenses in line with revenues.

Do You Have a History of Risk-Taking?

Nonprofit managers often develop reputations within their community, their profession, and their field. These reputations, while reflecting on the executive director's organization, usually derive from personality styles or quirks.
For better or for worse, these styles and reputations have an impact on the organization's behavior. Some organizations, following the lead of a conservative manager, become so risk-averse as to be hidebound, while others, with an intrepid cowboy (or cowgirl) in the saddle, are continually taking great risks.

If your organization has a reputation for succeeding at well-calculated risks, this is an indication that you will be able to handle the stress and risk of a merger. While it by no means guarantees success, and the lack of such a history does not preclude such undertakings, a tradition of successful risk-taking can be reassuring.

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A merger is, if nothing else, a risk. The time devoted to negotiations and due diligence may in the end have been wasted; the organization you thought would make a great partner may turn out to be an albatross; the savings you have been counting on may not materialize; or the "temporary" tensions between the merging groups may never really subside. Great risks often accompany great potential rewards, and sometimes the difference between those who reap the rewards and those who do not is the ability to stay on track while handling the risks, the downsides, and the setbacks.

Are You Growth Oriented?

A merger almost always involves a growth-friendly strategy. Whether it is an effort to build a bigger and more diverse organization, to position the nonprofit to receive increased donations (which will in turn allow its programs to grow), or to build a new facility, growth will probably be somewhere in the mix of strategic motivations for the merger. Moreover, growth-friendly leaders tend to be open to new relationships and new ways of doing things. This flexibility is essential in merger situations.

In fact, some nonprofits have consciously decided that merger not only entails growth, but is in itself a strategy for growth. When it is difficult to obtain appropriate facilities, trained staff, and ongoing funding, merging with an organization that has these assets may be wise. It is often more reasonable, efficient, and feasible to "merge one's way" into a new field of service than to design and start up a program of one's own.

Tempering the growth aspirations of some nonprofit leaders is the need to consider ideal size and scope for a community, a type of service, or a field. A child-care center serving 1,000 pre-schoolers in one location is probably too big to offer the personalized care each child needs. On the other hand, a child-care organization with 20 separate centers, each serving a maximum of 50 children, may be ideal, offering adequate size to allow for efficient administration and economies of scale, while preserving a small programmatic scale. Thus, overall organizational growth does not necessarily equate with individual program growth.

It is also important to recognize the difference between growth for the sake of growth and growth that is appropriate and strategic. The latter kind of growth can be extremely beneficial to an organization, and may indeed be necessary for long-term survival. On the other hand, nonprofits that make it

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their practice to grow without thinking through the implications for things like service quality and financial stability are inviting trouble.

While something may indeed be lost by the growth of a small organization into a large one (in particular the "family feel" and the sense of everyone knowing everyone else that can make working in a nonprofit so satisfying), these concerns must be weighed against the economic necessities that impel nonprofits toward growth. It is also important, here as elsewhere in the process, to examine the organization's mission and to position the nonprofit to best advance the cause for which it exists. There is no formula for determining the ideal size for a particular nonprofit; it is far too complex to reduce to an equation. However, you should be aware that any merger is probably going to entail growth, becoming part of a larger organization, and perhaps a period of years before you feel (if indeed you ever do) that things have gotten back to "normal."

Is Either Executive Position Vacant?

One of the toughest problems a merger lays at the doorstep of negotiators is the choice of an executive to lead the combined organization. This problem will be easier to resolve if one or both organizations have a vacancy in the executive position, if one of the incumbents has plans to retire or leave in the near future, or if one would be happy with the number-two position.

While the selection of the executive director is ultimately a decision for the board of the merged entity, this decision has such far-reaching consequences that it is wise to take into account the needs and interests of the current executives, managers, staff, clients, and the community. Selection of a new executive director is arguably the single most important act a board will be asked to carry out. Attempting to do so during a merger negotiation process is even more delicate, and potentially more difficult. While the actual consideration of this topic may wait until later in the process, it is wise to think through your position now. Sometimes, after all other issues have been addressed, merger negotiations falter when the organizations discover irreconcilable differences over the selection of the next chief executive.

Do you or your potential partner have a vacancy in the executive position? If one executive director is successful and committed to staying, while the partner organization is currently without a leader, you will likely be able to join forces more easily. This is particularly true if the incumbent executive is

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respected by the other organization. In fact, more than a few mergers are at least partially driven by the desire of one group to gain the other's executive director as its own leader.

If the selection of an executive director will be a necessary part of your merger, you will need to undertake a specific process to determine who will lead the organization. There are several ways to go about this. The board of the newly combined organization may choose either of the current executive directors to lead the new enterprise, or it may select another person to face that challenge. It can name the successful candidate right away, or it can embark on a search process. If it chooses to conduct a search for a new executive director, it can choose to invite the current executives to apply for the position, or it can discourage them from doing so. It can pursue any of these options on its own, or it can retain a consultant or search firm to help it. The one thing boards should never do is dodge the problem by creating co-directors, a solution that rarely works for long.

Whatever the board decides, the most significant factor in the selection of the executive is the ability of the boards to work together in a spirit of mutual trust toward a mutual goal.

Do You Know of Other Successful Mergers?

One way to gauge your organization's readiness to proceed is to determine its reaction to success stories from similar organizations.

Record or identify stories of successful nonprofit mergers in your community or within your field. Then share them with others in your organization. Does your group respond positively or negatively to these stories? Do they motivate greater openness to risk-taking? Are they viewed as inspirational or reassuring, or are they dismissed as either atypical or propaganda?

The answers to these questions—like the answers to other questions posed in this self-assessment exercise—can be uncomfortable, or even downright painful. Nonetheless, the process of completing this organizational assessment will not only make you more aware of your strong and weak points, it will lead to the common understandings that are necessary for your team to successfully complete a merger, or anything else for that matter.

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David La Piana is founder of La Piana Associates, a consulting firm that specializes in nonprofit mergers and other forms of strategic restructuring. This article is excerpted from The Nonprofit Mergers Workbook: The Leader's Guide to Considering, Negotiating, and Executing a Merger. Copyright © 2000, Amherst H. Wilder Foundation. Reprinted by permission of the publisher, Amherst H. Wilder Foundation. The Nonprofit Mergers Workbook, a hands-on guide that includes worksheets and step-by-step forms, is available for $28 (plus $4 S&H) from Amherst H. Wilder Publishing Center, 919 Lafond Ave., St. Paul, MN 55104; Tel. (800) 274-6024, fax (651) 642-2061. Or visit the Amherst H. Wilder Foundation Web site at http://www.wilder.org. Additional resources on nonprofit mergers can be found at http://www.lapiana.org.

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