

## **NONPROFIT MERGERS: A NEW PATH TO SUCCESS?**

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### **ABSTRACT**

This paper analyzes the rationales and success factors for mergers in nonprofits by synthesizing a long list of existing literature as well as conducting interviews with industry practitioners. Mergers and acquisitions are relatively new in the nonprofit sector. With the general decline in funding levels, nonprofits are now facing a more competitive environment as a growing number of organizations are competing for a pool of funding that has stagnated globally. Funders and board members also have increasingly been calling for nonprofits to become more collaborative and efficient. As in the corporate world, such mergers may not always yield the desired synergies and efficiencies. However, in the nonprofit world, unsuccessful mergers can have dire consequences for the organization's indigent clients who often have few other alternatives to obtain the support they may be receiving. Because of this potential outcome, it is important that nonprofits understand reasons for merging, have realistic expectations for outcomes and, above all, contemplate a merger as part of a strategy to expand or augment their mission. This paper argues that although most mergers are conceived in the middle of a cash crisis, successful mergers need to be part of a long-term strategy that is designed to strengthen or expand the organization's mission. Similar to its corporate counterpart, a nonprofit merger should be considered as an opportunity for the organization to better serve its constituencies and as a solution to a broader organizational strategy.

*Keywords:* Mergers & Acquisitions, nonprofits, organization strategy

### **INTRODUCTION**

Mergers and acquisitions are common activities in the corporate world, but they are still relatively rare in the nonprofit world. However, nonprofits are now facing a more competitive environment, as a growing number of organizations are competing for a pool of funding that has stagnated. At the international level, organizations in countries such as Canada and The Netherlands relied extensively on stipends from their governments, and these stipends are now being cut significantly or eliminated entirely. Under such environment, the opportunity for organizations to merge services and gain administrative efficiencies can be attractive. Increasingly, funders and board members have also been calling for nonprofits to become more collaborative and efficient, which has resulted in more nonprofits considering and engaging in mergers (Soder, 2011).

However, mergers may not always yield the anticipated synergies and efficiencies. In the nonprofit world, unsuccessful mergers can result in cuts to "the beneficiaries of services who have few, if

any, alternatives to obtain the support they may be receiving” (Soloman, 2009, n.p.). Because of this potentially dire outcome, it is important that nonprofits understand the main reasons for merging, have realistic expectations for desirable outcomes and, above all, contemplate a merger as part of a strategy to expand or augment their mission. This study synthesizes the extensive literature in this area and conducts a number of interviews with practitioners to gain additional insights of the practice of nonprofit mergers in the real world. We seek to review the growth of mergers in the nonprofit sector, highlight why an organization should merge, identify issues to consider when merging, and outline key factors of successful mergers. Our analysis demonstrates that although typically mergers for nonprofits are contemplated in the middle of a cash crisis, for the merger to be successful it needs to be part of a long-term strategy that is designed to strengthen and/or expand the nonprofit’s mission. Otherwise, the merger will likely become a failure, similar to the merger experience exhibited in the commercial sector.

### **THE INDUSTRY**

In the United States, there are approximately 1.6 million nonprofit organizations registered with the IRS (Roeger, Blackwood, & Pettijohn, 2012). In 2011, these organizations had total revenues of \$1.59 trillion (ibid.), including \$298.4 billion in donations (“Has America’s Charitable Giving...”, 2012). Out of these 1.6 million nonprofit organizations, only 40 percent had to file annual tax returns, indicating that the remaining 60 percent had receipts of less than \$50,000, the threshold at which the IRS exempts nonprofits from filing the standard form 990 (Roeger et al., 2012). While the public may think of nonprofits as being the Red Cross or the Metropolitan Museum of Art, in fact only 4 percent of all nonprofits have revenue of over \$10M annually. On average, 22 percent of funds that nonprofits receive come through charitable donations from individuals, corporations and foundations, and this giving has fallen by 10% between 2005 and 2011 when adjusted for inflation (“Has America’s Charitable Giving...”, 2012). This is exacerbated by the fact that the nonprofit sector has been expanding rapidly, increased by 23.6 percent between 2001 and 2011, surpassing the growth rate of both government and corporate sectors (Roeger et al., 2012). In other words, the number of nonprofits is increasing while available funds are decreasing.

The bulk of revenue for nonprofits (72 percent) comes from revenue for program service fees, which includes government contracts, fee-for-service programs and memberships (Roeger et al., 2012), and this means that many nonprofits compete with for-profit service providers (Brinckerhoff, 2000; Toepler, Seitchek, & Cameron, 2004). While program service fees are good in that they diversify an organization’s revenue base, they are also a challenge, particularly those that are tied to government contracts that may be cut. In addition, nonprofit hospitals, fitness centers and childcare organizations compete directly with their for-profit counterparts, many of whom have enjoyed the economies of scale and increased market share that come from merging (Giffords & Dina, 2003). As a result, nonprofit organizations now exist in an environment that “might have a bit of a Darwinian effect, with stronger nonprofits surviving to better support their constituents as well as a drive for mergers between smaller organizations” (Kibbe, 2009, p. 19).

In the nonprofit world, where the concept of collaboration is valued, there are few who use the term “acquisition” (Kibbe, 2009). That leaves us with the option of mergers, which is defined as “the results of a decision by two or more organizations to combine their operations in a permanent

relationship” (Golensky & DeRuiter, 1999, p. 138) or “fusing their boards, management, and legal entities to form a single organization” (La Piana, 2010, p. 28). In general, a merger of nonprofit organizations is either an “absorption merger” in which one organization dissolves and is assimilated within another or a “merger of equals” in which two or more entities dissolve to form a new structure that integrates the full programs of the organizations (Pietroburgo & Wernet, 2010, p. 24). This “absorption,” which others term “acquisition” or “consolidation,” does not typically involve big buyouts, (Campbell, 2009; Toepler et al., 2004) and no financial incentives drive deals (Cortez, Foster, & Smith Milway, 2009; Kibbe, 2009). Finally, there is a parent/subsidiary relationship, a legal arrangement in which one organization governs a previously autonomous organization (Campbell, 2009).

There are many reasons why a nonprofit may want to merge. Institutional and individual donors often believe that because the nonprofit sector has grown so quickly, there must be duplication of services and operational inefficiencies, particularly among smaller organizations (La Piana, 2010). Managers of nonprofit organizations cite other reasons for mergers, including expanding market share or eliminating competition for programs or services, increasing their asset base or borrowing power, and increasing efficiencies (Golensky & DeRuiter, 1999; Sargeant & Jay, 2002). Taking a page from its corporate counterparts, nonprofits are also interested in merging as a growth strategy, to diversify program or service offerings, to enter new markets, and even to share the risk in particularly innovative projects (Pietroburgo & Wernet, 2010). Nonprofits may also be driven by external events (Benton & Austin, 2010), such as changes in the demographics of the communities they serve, an influx of new immigrant groups, an aging marketplace that calls for an increase in services to the elderly, or a loss of constituents who leave because of a poor economy or closed factories (Cowin & Moore, 1996).

Fundamentally, the driver for merger may simply come down to money. Increasingly, funders want nonprofits to focus on “economizing and streamlining service delivery and preventing struggles for available funds” (Toepler et al., 2004, p. 103). Nonprofits are willing to merge because they need to get out of a crisis – “Donations are down, endowments are down and government grants are harder to get, but the need for services in many cases has increased” (Soder, 2011, p. 13). In fact, for nonprofits in a financial crisis, a merger may be the only way for them to save a hallmark program or service by integrating it into a larger, more stable organization’s suite of services (La Piana, 2010). Foundations and individual donors who often want organizations to share resources exacerbate this increased competition for funds. One of the first surveys of nonprofit organizations in the United States that had merged indicated that 38 percent were driven to merge because of pressure from funders (Sargeant & Jay, 2002). Funders have historically pushed nonprofits to collaborate, and mergers are perhaps the next natural step, particularly for increasingly “weary donors” (Cowin & Moore, 1996).

## **History**

Mergers in the nonprofit sector first appeared in the 1980s and became a more significant activity in the 1990s primarily in the hospital industry. Nonprofit hospitals, like their for-profit counterparts, rely heavily on fees and earned income, so it is not surprising that consolidation gained momentum in this industry (Toepler et al., 2004). In the nonprofit world, estimates point to a merger rate of 1.5 percent in the sector in 2008, with “1 in 10 nonprofits believed to be

considering a merger option” (Pietroburgo & Wernet, 2010, p. 24). This may seem low, but the comparable rate in the for-profit world is 1.7 percent, due mainly to the fact that in both sectors, mergers tend to be between smaller entities (Cortez et al., 2009). Cortez et al. (2009) also point out that the real difference in merger rates between for-profits and nonprofits can be seen among large nonprofits. In this venue, the rate of mergers for nonprofits is a tenth of what it is for similarly-scaled for-profit entities. When mergers first began in the 1980s, they were typically “a last resort for survival in the intense face of competition for resources” (Golensky & DeRuiter, 1999, p. 138). They were primarily motivated by a “resource dependence” theory, which suggests that, “the principal purpose for which organizations come together is the need for resources” (Campbell, 2009, p. 370). Now, more organizations are considering mergers as a “proactive strategic restructuring that could make the resulting nonprofit a more effective social change agent” (Corritore, 2009, p. 1).

It is interesting to note that although the rate of mergers has increased by 28 percent over the past four years, the sector still has an over-all merger rate of merely 1.5 percent due to the continued rapid growth of new nonprofits entering the marketplace (K. Smith Milway, personal communication, September 27, 2013). Whereas mergers used to take place primarily between smaller nonprofits, mergers are now more acquisitional in nature, with bigger organizations “rolling up” smaller entities into their existing program and services (ibid.). Over the past two decades, mergers in the nonprofit sector seem to have moved from being a last-resort attempt to preserve an organization to a way for organizations to strategically work together to better fulfill their mission.

### **Deal Structure**

Most mergers in the industry tend to be between one nonprofit and another because IRS law dictates that if a nonprofit dissolves, its assets must be transferred to another nonprofit with a related mission (K. Wu, personal communication, September 16, 2013). However, laws change, and there has been at least one recent case that involved “nunc pro tunc” approval for a sale of substantially all of the assets of a nonprofit to a for-profit, followed by a dissolution of the nonprofit (ibid.). This was specific to a recent change in a particular area of healthcare law, but there is now precedence for what is essentially a nonprofit acquisition by a for-profit entity.

On the flip side, there are also examples of nonprofit organizations launching bids to acquire for-profit entities. In 2005, The Musculoskeletal Transplant Foundation (MTF) made a \$108 million hostile bid for Osteotech Inc., a corporation that process bone and tissue in preparation for transplant (Cecil, 2005). MTF, the world’s largest tissue bank, was both a customer and competitor of Osteotech. Previously, MTF had also successfully integrated the \$60 million acquisition of The American Red Cross’ tissue services division (Cecil, 2005, p. 2). These examples simply point out that the M&A game in the nonprofit world is changing, and laws may become more flexible to allow more cross-over activity between sectors.

From a functional standpoint, mergers are similar in the for-profit and nonprofit world and can be horizontal, vertical, concentric, or conglomerates (Cowin & Moore, 1996; Toepfer et al., 2004). In the nonprofit world, horizontal mergers are those that occur between organizations that provide the same core services and are or could be competitors. In 2005, the American Bowling Congress,

Women’s International Bowling Congress, and the Youth American Bowling Congress, all membership leagues focused on bowling, completed a horizontal merger to form a combined 2.8 million-member organization (Pietroburgo & Wernet, 2010). Vertical mergers take place between nonprofits that operate in different parts of a similar service delivery system or those who have a customer/supplier relationship (Cowin & Moore, 1996). An example would be when El Barrio, a small organization in Cleveland, OH that focused on helping people of Hispanic descent find jobs, merged with West Side Ecumenical Ministry, a larger, comprehensive social service agency that provided housing, food and educational services to the poor and now expanded to provide job services to this same community (Soder, 2011). Concentric mergers occur between organizations that are not competitors but share a common technology or marketing platform or operate in a related field (Cowin & Moore, 1996; Golensky & DeRuiter, 2002), such as a children’s hospital merging with a rehabilitation center for seniors. Finally, conglomerate mergers bring together organizations that are in different fields, such as a homeless shelter partnering with a drug treatment center (Toepler et al., 2004).

Table 1. Comparison of For-Profit and Nonprofit Mergers

Step	For-Profit	Nonprofit
1	Search for partners	There are few “matchmakers” in the nonprofit world, which makes this process more difficult. As a result, the search for partners may be limited to consider one or two possible options.
2	Due Diligence	Pre-strategy in which history and mission of merging organizations are evaluated for compatibility.
3	Negotiation and Bidding	Board members or designated team of members from both organizations design the merger strategy. Cooperative and collaborative rather than combative.
4	Dealing with law and regulations	Few law and legal issues to abide by, other than updating state and Federal filings.
5	Deal Design	Execution phase, including dissolution of agency and distribution of assets. There are rarely buyouts involved, and there are no stock transactions.
6	Post-merger integration	Official establishment of new agency.

Table 1 above compares the steps in a for-profit merger with those of a nonprofit merger. Tactically, mergers in the non-profit world take a slightly different path than those in the for-profit world. In addition to taking longer to consummate (Pietroburgo & Wernet, 2010), they also tend to lack extensive negotiation, mainly because buy-outs and stock transactions are not involved. In general, there is a pre-strategy in which the history and mission of the merging organizations are evaluated. This is followed by a strategy design, in which board members or the designees outline the specifics of the actual merger, including distribution or dissolution of assets, timeline and an over-all budget. The execution phase is next and includes the dissolution of the old agency or

agencies, distribution of assets, cancellation of services and contracts and the official establishment of the new organization (Ricke-Kiely, Parker & Barnet, 2013).

### **ISSUES WITH NONPROFIT MERGERS**

Because nonprofit mergers are still a relatively new phenomenon, there are several legal, organizational, and systemic issues that must be addressed. First, anti-trust law is now being applied to nonprofit merger situations. This issue is specific to entities that depend on program fees and revenue from clients in a way that is similar to their for-profit counterparts, such as hospitals. Anti-trust law becomes an issue if a nonprofit merger that results in increasing the market share of an organization then tries to increase its prices or establish a monopoly in that particular service or geographic area (Richman, 2007). To date, the nonprofit's market power has perhaps been under-estimated, and most rulings have indicated that judges fundamentally believe that nonprofits operate "for good" and are therefore not going to engage in monopolistic pricing behavior. This precedence was set in one of the first rulings that applied anti-trust law to a nonprofit hospital merger - *FTC vs. Freeman Hospital*, 1995. The judge believed that the nonprofit hospital would not increase its prices simply because it was a nonprofit. In the ruling, the judge stated, "If a nonprofit organization is controlled by the very people who depend on it for service, there is no rational economic incentive for such an organization to raise its prices to the monopoly level even if it has the power to do so" (Richman, 2007, p. 130, quoting the case).

However, a survey conducted in 1997 of hospital mergers in the United States showed that there is cause for concern about nonprofit hospitals merging and gaining market share. The data indicated that while nonprofits still price their services lower than for-profits, merged nonprofit hospitals increase their pricing by \$4 per bed-day while for-profit hospitals that merge increase their pricing by \$7.35 per bed-day (Danger, 1997). Hospitals that pursue horizontal mergers and essentially expand the market share of existing services are the ones most likely to increase pricing (*ibid.*).

Nonprofits considering a merger also need to be aware of the impact of a consolidation on restricted income funds or endowments. Because these funds are restricted for designated purposes by the donors or board of directors, they need consent to transfer, and this process, which typically involves seeking approval from a judge, can be expensive and time consuming (Sargeant & Jay, 2002). Other legal issues can emerge when a nonprofit seeks to acquire a for-profit entity, including the question of whether or not the acquirer can retain its non-profit tax status post-merger (Cecil, 2005).

### **DIFFERENCES BETWEEN NON-PROFIT AND FOR-PROFIT MERGERS**

While the merger process may be similar between nonprofits and for-profits in many aspects, there are some major differences. First, nonprofits must communicate with a variety of stakeholders, including staff, board members, donors and volunteers (Pietroburgo & Wernet, 2010). While businesses also have different stakeholders involved, nonprofits rely on the full engagement of each of their stakeholder groups post-merger in order to successfully implement the programs and services of the new entity. Fundamentally, it can be difficult for stakeholders of a nonprofit organization to see, a priori, the benefit of a merger. Unlike in for-profit mergers, there is no

increase in shareholder wealth and no buyouts. This underscores the importance of selling the merger concept to an organization's stakeholders, and this process begins with the donors. While a business may need to convince shareholders of the importance of merging, unlike a nonprofit they do not have to convince legacy donors – those who have pledged a gift to a nonprofit organization upon their death – that the planned bequest should be fulfilled with a new organization that has a new name (Sargeant & Jay, 2002). It is these elderly donors, in particular, who may be confused by the concept of a merger and who may not want to support an organization that has a different name or logo from the one they have been used to supporting (ibid.).

Volunteers are another key stakeholder group for nonprofit organizations. In a merged organization, volunteers may feel a loss of identity or believe that “their” organization has fundamentally changed because they are so emotionally tied to the former organization's brand and mission (La Piana & Hayes, 2005; Sargeant & Jay, 2002). For example, a small nonprofit based in Amsterdam is facing significant cuts in its government subsidies, and when volunteers were informed of the possibility of the organization needing to join forces with another entity simply to survive, volunteers stated they would rather see the organization fail than “lose” it to a partnering organization (R. Bottenbley, personal communication, October 18, 2013). This concept is confirmed by research completed by Sargeant & Jay (2002), which points to the fact that when an organization merges, they lose an average of 5-10 percent of their volunteer base because these individuals feel that “their” organization has died (ibid., p. 964). Again, because many nonprofits rely on volunteers to deliver program services, their acceptance of the merger is essential.

Nonprofit mergers also need to obtain the support and buy-in of their staff, who are “the most crucial stakeholder group in merger negotiations” (Toepler et al., 2004, p. 104). Unlike for-profit mergers, nonprofit mergers typically do not entail financial incentives for staff, including the CEOs or executive directors. This issue is complicated by the fact that many employees of nonprofit organizations are driven by the mission of their organization, and if they believe that the mission or purpose of the organization is fundamentally changing, they will be less motivated to stay in their current position (Chen & Krauskopf, 2013). One survey of 18 organizations that had recently merged revealed that two-thirds suffered a loss of productivity both before and after the merger due to low employee morale (Singer & Yankey, 1991). The same issues that a for-profit merger encounters with combining two different cultures are amplified in a nonprofit merger when one factor is a decrease in financial incentive and an increase in personal ownership of the previous organization (P. Clements, personal communication, October 1, 2013). While “people are the bottom line in the nonprofit merger,” (“Keys to a Successful Nonprofit Merger”, 1992, p. 18), it can be difficult to keep them focused on the potential benefit of the merger.

In the for-profit world, “adversarial negotiations” are the norm, but in the non-profit world, donors and other investors want to see organizations focused on the mission and working together to see a merger through to consummation (La Piana & Hayes, 2005, p. 12). This also plays out in the legal counsel that is used. Nonprofits have historically focused on collaboration and stakeholders such that merger transactions need to be handled harmoniously. While the entities involved in for-profit mergers bring teams of attorneys to the table, it is not unusual for the organizations in a nonprofit merger to jointly hire a consultant to assist with the process and then jointly hire a single attorney to complete the related paperwork once the merger terms have been agreed (La Piana & Hayes, 2005).

Finally, the failure of a nonprofit merger perhaps has more risk to society than failure in the corporate world. In for-profit mergers, the rationale for a merger is increasing shareholders' value, while in a nonprofit merger, the driving force is the mission (La Piana & Hayes, 2005). If a nonprofit merger is all about the mission, then a merger should allow the combined entities to better fulfill their now shared mission by serving more, serving better, or doing more with less. However, if the merger fails, it is the organization's mission and its beneficiaries that lose. While there is not enough quantifiable data to determine the average number of mergers in the nonprofit world that fail, Soloman (2009) brings this up as a critical issue given that the failure rate of mergers in the for-profit world is 50-80 percent. As Soloman (2009) summarizes,

In the for-profit world, shareholders risk their own money for the potential of personal gain. But at nonprofit organizations, where board members steward society's charitable dollars, the risk is squarely assumed by society. It is neither strategic nor prudent to gamble society's scant resources when the odds of a merger's succeeding are less than those of a flip of a coin. (para. 7)

### **BENEFITS**

When nonprofits merge, it is anticipated that synergies will include cost efficiencies, increased or improved services, expanded market share and even increased funding. The question, then, is whether or not merged organizations are experiencing these synergies. To date, the answer is somewhat discouraging. In a 2012 survey of 104 nonprofit executive directors whose organizations had merged, shared back-office functions or collaborated with another nonprofit in Fairfield County, only 14 percent indicated that they had seen cost savings as a result of their mergers or merger-related activities (Gallagher, 2013).

The reason why merged organizations do not often see cost savings is the reality that the new entity is larger and more complex and requires more management (Giffords & Dina, 2003). La Piana (2010) expands on this concept by noting,

It is simplistic to think that two organizations that do similar work could gain efficiencies by merging together. When there is more than one organization in the same geographic area doing similar work, it often means that there should be more – not less – doing the work. It is not the duplication of services that is the issues, it is the duplication of service provider infrastructure. (p. 30)

Another expectation of mergers is that they will result in decreased competition for funding, which, in turn, could result in increased funding for the merged entity. However, several studies (Sargeant & Jay, 2002; Singer & Yankey, 1991) indicate that on average, a merged entity will see donations fall just before and then after the merger or will struggle with decreased funding for a period of time after the merger. Much of this is due to the overlap of donors between the two organizations. When an institutional or individual donor previously gave to both "old" organizations, they typically give less in total to the merged organization (Sargeant & Jay, 2002).

## SUCCESS FACTORS

If merged organizations are not seeing cost savings or increased donations, what synergies are they experiencing? Primarily, merged organizations are seeing an increase in the quality of services provided. Two-thirds of those surveyed in the 2012 Fairfield County study indicated that their services increased in scope or quality as a result of the merger (Gallagher, 2013). An important aspect of achieving increased program scope or quality is by focusing on merging as a way to strategically grow an organization. In a 2009 study of twelve merged organizations, each organization listed the need for financial resources as a reason for contemplating a merger. However, of the mergers that were consummated, those that were successful focused on restructuring as a growth strategy (Campbell, 2009). Similar to the for-profit sector, growth in nonprofits can be gained by increasing scale, such as serving more people with the same programming space or acquiring additional programming space or through scope, and by providing expanded programming to an existing client base (La Piana & Hayes, 2005), all of which can be accomplished through a merger. While the pursuit of growth may seem like a small detail, it is important because it points to successful mergers being strategic and driven by mission rather than being a last-resort attempt to pool a failing base of resources.

While the perception may still be that nonprofits are motivated to merge because of pressure from funders or by lack of resources, those that merge successfully begin and end with a strong strategic and organizational fit (Cowin & Moore, 1996). In a study of mergers in the U.K., it was determined that “mergers were most successful when there was a shared vision of how the merger could benefit both partners. The evidence suggests that where there was a conviction that greater good could be achieved together, the merger was a success” (Cowin & Moore, 1996, p. 81).

Another key factor in successful mergers is the creation of a new organizational culture. Giffords and Dina (2003) go as far as saying that “culture fit” can make or break a merger (p. 74). Fundamentally, each nonprofit is established by someone who has a passion to make a difference and feels that they are the only person who can develop an organization to provide the specific program or service that is outlined in their mission. Because of this, nonprofits, often more than for-profits, have a strong culture. This strong culture is “invisible” and “unconscious” and “exacerbates the challenges for leaders in merger situations” (Hiland, 2003, p. 13).

While culture is also an issue in for-profit mergers, it is a more extreme issue in non-profit mergers because it is the mission, not the golden parachute or bonuses for staying that motivate employees, and it can be difficult to preserve the cultures of the old organizations and establish a new culture that is a fit for the merged entity (Pietroburgo & Wernet, 2010). As Hiland (2003) summarizes, “because nonprofit organizations are mission-focused (versus bottom line-driven), they attract board members and staff who are motivated by a passion for the organization’s cause. This passion, more than reason, can be a powerful motivator and can influence thinking and behavior throughout a merger process” (p. 12). Singer and Yankey (1991) remind us that, “although specific organizations and programs come to an end, their pasts survive in the minds, attitudes, and behaviors of former employees. This historical artifact is likely to continue well past the implementation phase of a merger, acquisition, or consolidation” (p. 366). Because of this, Benton & Austin (2010) suggest that organizations should undergo a “cultural due diligence” to ensure that both organizations fully understand the cultures they are seeking to integrate (p. 468).

Communication is often a critical component of creating a new and shared culture in a nonprofit merger. In a survey of 18 merged organizations, 52 percent indicated that communication was the most important part of the merger process (Singer & Yankey, 1991). Communicating openly with everyone from staff and board members to clients and community members critical to the over-all success of a merger (Sargeant & Jay, 2002). Giffords and Dina (2003) call communication the “sine qua non” that helps employees adapt and create support for the merger (p. 75). It may seem inconceivable to someone familiar with M&A in the corporate sector that one would speak openly about a planned merger with one’s staff let alone with clients. However, it is important to remember that if the mission is the primary driving force for a nonprofit, then the extent to which an organization can effectively communicate its vision for change and demonstrate how the merger will positively affect its clients, funders and supporters will largely determine the success it will have in retaining these same stakeholders post merge (Benton & Austin, 2010).

Increasingly, successful mergers are based on prior collaborations. This is not surprising, because funders have been encouraging collaboration between similar organizations for years (Sargeant & Jay, 2002). In a recent survey of 104 executive directors of nonprofits in Fairfield County, only 8 percent merged with another organization, but 10 percent shared back office functions with another organization, and a full 57 percent collaborated on programming and services with at least one other organization (Gallagher, 2013). Collaboration requires less effort and less integration and can be a “trial” for two organizations (La Piana, 2010). In addition, while straight mergers may not result in cost savings, 60 percent of organizations surveyed in Fairfield County who shared back office functions reported cost savings (Gallagher, 2013). More formal types of collaboration can include strategic alliances or joint programming, which unite services of two organizations without legally combining the entities, or administrative consolidation, which can help reduce costs by combining back office functions (La Piana, 2010). These collaborations also allow organizations to retain their existing identities and autonomy in varying degrees, unlike a merger that ultimately requires a loss of control and full integration of programs and staff (Benton & Austin, 2010). This ties back to the concept that if successful mergers result in the strengthening of services or expansion of mission, then the consideration of a merger needs to be proactive and strategic.

## **OPPORTUNITIES**

In the nonprofit world there is a need to draw more attention to the concept of mergers and other restructuring opportunities such as joint ventures. In a 2002 survey of nonprofit leaders, nearly two-thirds indicated that they were not very familiar with the concepts of strategic restructuring (Connolly & York, 2002). In addition, Connolly and York (2002) point to the fact that because nonprofit restructuring is still relatively new, there is a significant amount of confusion on the part of funders, board members and other stakeholders as to their roles and responsibilities in the merger process. Although we can presume that awareness of mergers in the nonprofit sector has increased over the past decade, nonprofits need to have the concept of merging in their toolkit of possible strategies for achieving their mission.

Second, although the majority of nonprofits consider merging because of a funding issue, mergers may not be right path for organizations that are already in financial distress (La Piana, 2010). Instead of merging, nonprofits in a financial crisis should consider pursuing a partnership option

before seeking to merge (Gallagher, 2013; Giffords & Dina, 2003; La Piana, 2010; Sargeant & Jay, 2002). The establishment of a collaboration can help nonprofits provide better client services (Giffords & Dina, 2003), and if successful, organizations can later consider a more formal partnership or merger.

Third, the pursuit of a merger should be a result of a strategic priority to strengthen the organization's mission in some way. As Cortez et al. (2009) highlight, "The question facing a nonprofit should not be, 'Do we or do we not pursue M&A?' but rather 'How do we best fulfill our organization's mission and strategy to be effective, and is M&A a better option than other alternatives?'" (p. 5). In this process, it is important for nonprofits to remember that it is their mission and the individuals they serve who will suffer in the case of a bad or failed merger. Soloman (2009) summarizes, "In the case of charities, the losers are not corporate shareholders – they are generally the beneficiaries of services who have few, if any, alternatives to obtain the support they may be receiving. Therefore, reactionary nonprofit mergers lack strategic merit". A merger should always be part of a broader strategic plan and the desire to strengthen or expand a program's mission.

Fourth, nonprofit boards, staff, volunteers and funders need to be clear on the expected synergies of a merger and to focus on the compatibility of the merging organizations' missions. This process often requires a strong, visionary leader. As outlined earlier, mergers do not necessarily result in cost savings or increased donations. What a merger can provide is increased market share or expanded programming if the missions of the merging organizations are compatible and the new organization has a clear vision. As Benton & Austin (2010) note, "organizations can create a solid foundation from which to work toward their goals if they begin with a clear, shared definition of merger to specify the driving forces behind the merger and the potential challenges that need to be addressed throughout the merger process" (p. 460). The leader of this process needs to be a change agent or a catalyst who can move all parties forward to achieve the desired future of the new organization (Pietroburgo & Wernet, 2010).

Finally, there is the opportunity for future research on the success and failure of nonprofit mergers. To date, this area has not been studied extensively, and measures of success have not been clearly defined. While it is easier to define a successful for-profit merger as resulting in an increase in shareholder value, there are fewer benchmarks of success in non-profit mergers versus their for-profit counterparts. There should, however, be a standardized evaluation template that can help nonprofits plan achievable goals to gauge their success before, during, and after a merger.

## CONCLUSION

While mergers in the nonprofit world may not have become a widely popular trend, as organizations continue to increasingly adopt for-profit business principles, the concept of mergers is likely to also spread (Jones, 2013). However, it is important to remember that nonprofit mergers revolve around the mission. A merger in the private sector "is typically viewed as a diversification strategy creating opportunity for future growth" (Norris-Tirrell, 2001, p. 315), but in the nonprofit world, the key factor driving a decision to merge is the belief that the merged entity will be able to advance the mission (La Piana & Hayes, 2005, p. 12). However, while the pursuit of the mission is critical to the success of a nonprofit merger, the fact remains that most mergers are contemplated

and consummated as a result of a financial crisis. This lack of “strategic rationale” (Cortez et al., 2009, p. 4) sets the stakeholder of merging organizations up for a mismatch of expectations.

Instead of being “the death of an organization or the failure of a mission,” (McCormick, 2001, p. 1), a merger should be an opportunity for an organization to better serve its beneficiaries (Benton & Austin, 2010; Norris-Tirrell, 2001). Because of this, mergers should not be contemplated as a response to financial pressures but instead should be viewed as a solution to a broader organizational strategy. Mergers can create value in the nonprofit sector, but such value can be maximized if a merger is being contemplated proactively to strategically produce a strong organization.

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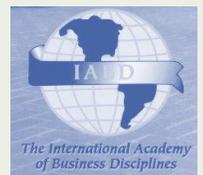
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