The M Word: A Board Member's Guide to Mergers

How, Why & Why Not to Merge Nonprofit Organizations

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About this booklet

Most likely, you've opened this booklet because you know a nonprofit organization that is, will be or perhaps should be exploring merging with another nonprofit. What are the benefits of a merger? The challenges and pitfalls? What does a nonprofit merger process involve? How does one determine if a merger is the right choice?

The idea of a nonprofit merger can be daunting. And because most mergers occur when one nonprofit is in financial difficulty, it's easy to feel – inaccurately so – that merging is an act of failure. We've titled this booklet *The M Word* because staff and board members are often reluctant to bring up the subject.

This booklet is designed as a practical guide to help nonprofit board members, executives and funders think through a merger. Over the next pages, you'll take a quick trip through a merger's terrain and get a rough guide to expectations, processes and obstacles often encountered in a merger experience. Think of it as an annotated map of the merger journey that will give you a sense of the adventure before you actually embark.

What this guide *won't* do is convince you that a merger is the right choice for your organization. Merging independent organizations into a single entity is a complex venture that does not always increase financial stability or enhance community benefit. Rather than encourage or discourage a merger, this booklet provides information to help you make that determination for your own situation.

The M Word will help you:

- Understand how and why nonprofits typically explore and undertake mergers;
- Consider the alternatives to mergers, including closure;
- Differentiate between the roles of board members, staff leaders and funders;
- Know what to expect and look out for as the merger process goes forward;
- Decide whether a merger exploration is a viable option for the nonprofit you have in mind.

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SECTION I

Merger
When, Why and Why Not?

We begin by looking at common scenarios that bring nonprofits to the merger table and the key benefits sought through a nonprofit merger. We'll then consider some alternatives to merging, including closing down operations.

When?
Common Scenarios For Nonprofits Exploring a Merger

The idea of a merger usually doesn't just arrive in the boardroom; something brings the idea to the board table. Since merging is such a daunting prospect, and because a merger is often seen as a last resort, most nonprofits undergo some serious thinking before contemplating a merger. The decision to undertake such a large degree of change can be precipitated by a variety of factors:

- **A financial crisis or the belief that a crisis is nearing;**
- **The departure of an executive director;**
- **A proactive move to reduce competition;**
- **A growth strategy arising from a strategic plan;**
- **A struggle to recruit or retain staff or board talent;**
- **The suggestion of a funder interested in consolidation in the field;**
- **A request to merge from another organization.**

Regardless of how the question of a merger does arise, the main question to address is always the same: *Will a merger result in greater community impact and increased organizational stability?*

For an organization seeking a merger partner, there are several common scenarios:

An organization in financial trouble seeks a merger partner: Organization A's core program is an afterschool tutoring program, but over time it has added in-school programs and published its own guide to tutoring. It's been struggling financially for some time, and the board has lost confidence in its executive director. Under pressure, the executive director resigns, and the board decides that it may be easier and more feasible in the long-term to merge rather than find a "miracle worker" to hire. Board members contact several other organizations with afterschool programs and ultimately decide to hold serious negotiations with Organization B, which they hope will take over the afterschool program and the tutoring guide.

Organizations find themselves in competition: Organizations C and D bring different philosophies and solutions to addressing breast cancer. Organization C has a self-help and support approach, and holds support groups, health fairs and educational workshops at neighborhood centers. In contrast, Organization D brings an activist voice to the issue by arguing for better breast cancer treatment in HMOs and for attention to environmental factors that may contribute to cancer rates. Although the two organizations do different work, they find themselves increasingly in competition: donors get them mixed up, they end up asking the same people to join their boards and foundations are reluctant to fund both organizations. Despite their differences in philosophy, the two organizations decide they should think about merging.

An executive director's departure leads the board to question the organization's future: The founding executive director of Organization E has become too ill to continue working. Board members – a small group of her friends – have supported her work over the years, but aren't sure they are up to finding a new leader. The staff of three is worried about the future, as they don't see how anyone else could raise the funds and run the program the way the founder has. The board members get together and wonder if the organization is just too small and too dependent on the founder to continue. They decide

to see if there is another organization that would be willing to take over the program.

Affiliates consider combining: Organizations F and G are affiliates/chapters of the same national organization, and both have gone through rough times lately. Their national organization is encouraging affiliates to merge. Staff and board members in each city are worried though that a merger would result in fewer services in their own cities. Still, they agree to explore the idea to see whether they could reduce costs by combining into one affiliate chapter.

A funder brings organizations to the table: The head of the city Human Services Department has never understood why there are two senior nutrition organizations on the east side of town. And now one of them is in financial trouble again. He brings the executive directors and the board presidents to a meeting and puts it to them: "It costs too much to contract with both of you and maintain two contracts. Why don't you consider merging?"

Recently the term **"strategic restructuring"** has entered the nonprofit vocabulary, reflecting a term coined by consultant David LaPiana to include mergers, partnerships and collaborations in a continuum of relationships. This booklet, however, focuses on mergers – a strategy qualitatively different from other forms of partnerships.

These and other situations reflect the fact that the nonprofit sector is no stranger to mergers. A recent research study[1] found that almost a quarter of the nonprofits studied reported experience with some type of strategic restructuring, such as a merger.

Merging may be appropriate for the nonprofit organization you have in mind, regardless of its budget size, maturity or focus area. **The framework for understanding whether a merger is a good choice is to look at the motivations of the various partners, to test the hypotheses about merger benefits, and to think as creatively and carefully as possible within the time permitted.**

Why? Benefits Sought Through a Merger

This section looks at some of the benefits nonprofits commonly seek through a merger and points the way to questions the board should consider for each desired benefit. Some of the following potential benefits may be more relevant to either the initiating or to the responding organization.

Continuance of a program or a location

EXAMPLE: Organization H is facing closure but is hoping to merge into a larger organization and, in effect, become a department of that organization. They may enter merger talks with Organization I to maintain their programs or to keep their office location open.

COMMENT: While the smaller organization may want to ensure that its core programs will be maintained or that its site will continue to operate, the new, merged organization needs the freedom to choose its own programs and locations over time. Be careful not to judge a merger's "success" by a program or location staying the same. In one example of two affiliates of the same national organization merging, Affiliate A was operating six clinics in County A and Affiliate B was operating four clinics in County B. A year after the merger, the organization closed three clinics in County A to reflect low usage and cost inefficiencies. Community opinion was divided. Some of the former

[1] David LaPiana and Amelia Kohn, "In Search of Strategic Solutions: A Funders Briefing on Nonprofit Strategic Restructuring," January 2003, Grantmakers for Effective Organizations, Washington, DC.

Focus on ends, not on means

In the face of financial difficulties, both the board and staff often get caught up trying to survive – raising enough money for the next payroll or to meet the rent. Stepping back from the firing line to consider a merger means thinking about how the organization's programs, if not the organization itself, will survive and perhaps even thrive.

As one example, the board of a small girls' sports organization in financial difficulty, exhausted from fundraising, realized that their program could probably do better as a department of a larger, comprehensive youth organization. They would lose their platform to advocate strongly for girls' sports in such an organization, but the program would be able to keep going. They decided to approach the YWCA, the YMCA and the Boys and Girls Club as possible merger partners.

Affiliate A board members felt betrayed with the clinic closings, while others felt that without the merger, there would not be any clinics at all in County A.

THINK ABOUT:

- *Do we want the Merger Agreement to state that our program will continue for a certain length of time? Or that an office in our county will be maintained? What might be the impacts of these requests?*
- *Are there any non-negotiables for us in terms of program or location?*

Heightened programmatic impact by integrating complementary programs

EXAMPLE: Community Training and Development (CTD) was a San Francisco nonprofit offering workshops and seminars for nonprofits, and had recently begun offering consulting services as well. The San Francisco based Support Center had a significant consulting program for nonprofits and a small workshop program. The two organizations merged to achieve an integrated training and consulting practice in a faster and stronger way than either could do separately. [The merged organization later changed its name to the Support Center for Nonprofit Management and eventually went on to become CompassPoint Nonprofit Services.]

COMMENT: Program integration is difficult to plan but easier to plan than to execute. There are often processes, styles and cultures that make it harder for program staff to work together than expected. Helping clients understand new systems will also take place over an extended time. For several months after the merger, allow time for the program teams to talk things out, clash, experiment and talk things out some more.

THINK ABOUT:

- *How many of our constituents currently work with both organizations? What do they value about each organization?*
- *If we merge, will we serve the same people in different ways, new people in new ways? Through surveys, interviews, focus groups or simply listening, can we find out how best to meet the needs and desires of our constituents?*

Reduced total administrative costs

EXAMPLE: When three mental health organizations in the same city merged, everyone expected savings in administrative costs. But it didn't happen. For example, although they now had only one executive director (instead of three), they found they needed a deputy director to manage the new size (100+ staff), and much time was needed to coordinate among sites that had been unnecessary when there was only one site per organization. They were also now required to meet labor compliance regulations applicable to companies with 50+ employees and had to hire new HR staff to develop policies where informal understandings had been previously adequate. But, three years later when the organization was severely hit by government cuts, they were able to close one site, and sharply curtail both programmatic and administrative costs. Due to the merged organization, the executive director stated, they were able to realize cost savings that none of the three pre-merger organizations could have managed alone.

COMMENT: Most community-based nonprofits have under-developed infrastructures and a merger may often result in a rise in administrative costs. An organization may be getting by without an HR Director, for example, because the Finance Director is able to manage that area – although she doesn't have time to do it really well. It may get by without a receptionist because staff take turns answering the phone. The newly merged organization however, because it's typically larger, may have to professionalize systems that could just "get by" before.

THINK ABOUT:

- *What accounting systems, human resources systems, computers, networks and other systems will the new merged organization need?*
- *Will new positions be necessary, such as Deputy Director, Development Director, CFO, Supervising Clinician, Receptionist or others?*
- *What specific costs will there be (e.g. severance pay or bringing health and other benefits into line)?*

- *What financial reserves will the organization need after the merger to give it some slack as management discovers how best to organize the work?*
- *Overall, are reduced total administrative costs a realistic benefit to achieve through a merger?*

Stronger strategic positioning with clients, funders, competitors and policymakers

EXAMPLE: Organization J and Organization K were similar volunteer mobilization organizations based respectively in San Francisco and Mountain View (40 miles apart). Both were respected, had strong executive directors and were growing financially. Some corporate funders, though, were frustrated by having to work with two separate organizations for their SF and Silicon Valley employee volunteer programs. In addition, both nonprofits were beginning to offer services in the East Bay. These two strong organizations decided to merge to help develop and integrate Bay Area-wide services, and to gain a higher platform for speaking out on the importance of volunteerism.

COMMENT: Achieving stronger strategic positioning often requires significant financial and time investments to explore whether clients, funders, competitors and policymakers will respond in the desired manner. On one hand, a Sacramento child advocacy program merged with one in Los Angeles – and immediately gained credibility as a statewide advocate. But on the flip side, two local ethnic dance organizations found that their volunteer participation dropped as people found the larger, more professionalized organization less like something that belonged to them.

THINK ABOUT:

- *How will funders, collaborators and partners react to hearing about the merger?*
- *What funders do the organizations have in common and will they continue to fund at the same level?*
- *Are there new opportunities for funding or partnership that the merged organization could pursue?*

Stronger board of directors and better positioning for future board recruitment

EXAMPLE: When Organization L approached Organization M about a possible merger, M's first reaction was surprise. They knew that L was financially stable with a strong board and many major donors. Organization M was excited about the caliber of L's board members and what a merger could bring in terms of fundraising and community connections.

COMMENT: It's often more difficult for boards to merge than anyone anticipates as assumptions from their different backgrounds may unexpectedly create conflict. A board with many corporate members may expect strong leadership from the board chair, while another board, comprised of academics, may expect a chair that nurtures consensus without expressing an opinion.

Board members often find it useful to meet inter-organizationally in informal, small groups without staff present for candid conversations about what their individual commitments will be after the merger, the strengths and weaknesses of their current board members and board practices, and their work with their respective executive directors. If strengthening the board is an important opportunity through the merger, board members should work hard to bring in strong new members at the time of the merger. We even know two boards in merger talks that "fired themselves" and recruited a strong, high profile board with only a few carry-over members to lead the new, merged organization.

THINK ABOUT:

- *In what ways will the merged organization be better positioned to attract board members?*
- *Are there current board members who will be reluctant to serve on the new board?*
- *Which individuals, or types of people, will the merged organization need?*
- *Are there individuals who should be recruited to the new board immediately following the merger?*

Stronger management staff and better positioning for future executive recruitment

EXAMPLE: Two years ago when Organization N was looking for a new executive director, several board members commented, "Oh, if only we could hire the executive director of Organization O!" When it came time for Organization N to again look for a new executive, the board decided to act on their desire for O's executive leadership and explore whether a merger with O would make sense.

COMMENT: For the board of the organization whose executive director will not become the executive of the merged organization, the merger has an element of "hiring" the other organization's executive.

THINK ABOUT:

- *Will the merged organization be able to attract strong management team members?*
- *Will the merged organization be well positioned to attract strong candidates for executive director when that is necessary?*
- *In what ways, if any, will the organization be less attractive to management candidates?*

Job retention for current staff

EXAMPLE: Deeply concerned about the future employment of its current staff, Organization P, which employed five staff, approached Organization Q, which had eleven staff, to discuss a merger. After back-and-forth discussions, both nonprofits agreed that Organization P's executive director would become the deputy director of Organization Q. Two other P staff would have secure jobs for one year, and the other two, if layoffs proved necessary, would be given three weeks of severance pay.

COMMENT: The newly merged organization will inevitably have different staffing needs than either of its pre-merger structures; it may need to lay off certain staff, as well as create new positions.

THINK ABOUT:

- *Will all the staff of both organizations be needed in the new organization?*
- *Which layoff and promised employment decisions should be part of the Merger Agreement, and which decisions should be made by the new management and board?*

Why Not? Alternatives to a Merger

In dating, someone who once looked like a possible life partner may turn out to be a friend who fills a special place in your life. Similarly, while organizations may question whether a merger is right for them, there are other partnership options that could fulfill the courting parties' respective needs. Sometimes choices other than merging allow nonprofits to meet the concerns that first brought them to the merger table.

Contract for administration: A nonprofit seeking lower administrative costs can contract with another to receive administrative functions such as accounting, contract management, human resources and oversight.

Parent-subsidy: To continue a program or location, a small nonprofit can dissolve and become a subsidiary of another organization. This allows the subsidiary to maintain an advisory board that advises on the program, which is ultimately under the parent organization's governing authority.

Continuing as independent organizations, partnering on specific projects and programs: Organizations can collaborate on complementary projects that enhance their strategic positioning with clients, funders, competitors and policymakers.

Closing: With some planning, a nonprofit can go out of business in a way that transfers its constituents or programs to others, and lets staff go in as fair a way as possible. Sometimes though, a nonprofit in financial trouble may be unable to find another nonprofit willing to merge or take over any programs, and needs to dissolve.

Following are two excerpts from another CompassPoint publication, *The Best of the Board Cafe*, to provide more food for thought on the subject of nonprofit closure.

Thinking About Closing Down[2]

It's very hard to break the ice on a board and open a discussion about closing down. The nonprofit board of directors is responsible for the organization's future – whether to grow, change, downsize, merge, evolve or close. And although nonprofit board members don't have personal financial stakes in the organization, they have invested their time, their energy, their financial contributions and their hearts. At the same time, few nonprofits are destined to thrive for centuries…there may be a time for closing and for turning to new ventures.

For many nonprofit boards, this is the unthinkable: closing down or going out of business. There may be a crisis, serious warning signs or simply a lack of energy in the organization. In other cases, conditions may have changed and the organization is no longer viable, at least in its current form. Whatever the long-term causes may be, a board may find itself wondering whether to go out of business, what the implications will be, whether the organization can still be saved, whether the organization should choose bankruptcy or dissolution, and if so, in what ways to go about closing down.

In most cases the board finds itself facing an obvious crossroads. Perhaps the organization has lost all its funding or a substantial funding source, perhaps key staff have departed, or perhaps the organization has lost a valuable facility or donated service. Other indicators may be a sudden awareness of significant debt or unpaid payroll, a scandal or seriously damaged reputation, or a serious legal challenge.

By the time the board arrives at this crossroads, there's usually a history of less-than-successful efforts to turn things around. For example, in the previous year the organization may have laid off staff, cut costs or undertaken a new fundraising drive. As a result, board members often enter the discussion tired or resentful. It's not easy for such a board to find the strength to consider all the strategic options objectively, to pursue possible mergers or to manage a bankruptcy process well.

One important step is for the board to describe or "declare" the situation a crisis or emergency, or at least an "urgent and unusual situation." Such a declaration has the effect on board and staff members of making it feel appropriate to hold extra or unusual meetings, to take unusual measures to cut costs, and to ask for financial or political help. Declaring a crisis also gives the board a chance to see if there are supporters who will step forward to help. Perhaps most importantly, declaring a special situation gives people permission to talk more openly about the problems facing the organization and to think more creatively about what options exist.

Some organizations create a special options task force of a few board members or a board-staff team that is charged with developing strategic options. The task force can talk with key creditors, key funders, sister organizations and staff. The task force may consider these actions among others:

1. **Buy time to consider options at a more deliberate pace.** **EXAMPLES:** A job-training program may be able to obtain a delay on loan payments or ask a government funder to renegotiate contracts to allow the organization to keep funds although services were not delivered. In a few cases, a funder may be willing to make an "emergency grant" to keep operations going while the board investigates its choices.

2. **Restructure services and operations in a way that will permit long-term viability.** **EXAMPLES:** An under-enrolled childcare center may be able to combine classes, reduce staff and eliminate part-time care options in order to operate on a break-even basis. A membership organization may dramatically reduce member services and refocus attention on advocacy, anticipating lower membership income but lower costs as well. A homeless shelter may spin off a money-losing job-training program to an employment organization that can run it more cost-effectively. A nonprofit art gallery may close the gallery but set up arrangements with two coffeehouses that will provide free exhibit space.

3. **Find a merger or acquisition partner who will take over services, staff, location and other matters.** **EXAMPLE:** An afterschool tutoring organization might become a program or department of a nearby community center or church.

4. **Close down.** **EXAMPLE:** A neighborhood newspaper may find it is simply running out of steam. The board decides to cease publication and give the copyrights and name rights to a neighborhood association.

Whatever choices are made, the board will need to find ways to involve staff, funders, clients, patrons and others appropriately in the decision-making. Clear communication is also crucial to ensuring that the decisions are implemented successfully.

[2] Excerpted from "The Best of the Board Cafe" by Jan Masaoka, a CompassPoint-Wilder Book. Available at www.compasspoint.org/bookstore, www.wilder.org/pubs/index.html or www.amazon.com.

The Right Way to Go Out of Business

When a nonprofit board has to shut down ("dissolve") the organization, they often find themselves swimming in a sea of unpaid bills, demanding creditors, frustrated and anxious staff, and desperate clients. Going broke – like other things in life – can be done poorly or well. Managing insolvency well can mean that client or patron services are not disrupted, that staff are given assistance in their job transitions, or that creditors receive some satisfaction. Here are some steps for boards considering dissolution:

1. **Identify your legal and contractual obligations.** Consult a lawyer to help you plan and implement the dissolution (there may be one willing to help on a free – pro bono – basis). Are there government contracts that must be fulfilled? Are there building or equipment leases in place? Are there any restricted monies or assets that must be returned to the funder rather than liquidated to pay creditors? Are there any pending lawsuits? In particular, are there any unpaid taxes, such as payroll or sales taxes that pose personal liability for board members or staff? Negotiate any outstanding contract, payment or restricted fund obligations. You may not leave everyone happy, but at least you will leave with a reputation for doing the best you could to meet obligations.

2. **Be frank and direct with the staff about the organization's future.** Enlist their help in the closure. With proper planning, you may be able to pay staff through the closedown.

3. **Identify clients who will be hurt by the closure and explore ways to minimize the disruption to them.** For example, there may be nearby childcare centers that can take a few additional children or a local agency may be able to take over administration of the support groups operated by your program. There may also be a community foundation or other donor who could donate funds to ensure that client transitions are as smooth as possible.

4. **Review the organization's own rules for dissolution as stated in the bylaws and articles of incorporation.** For example, some bylaws may require a 2/3 vote of the board or a vote of the membership for dissolution. Take care to hold the appropriate meetings and votes, and to record the actions taken. Choose one person who will store the documents for a few years in case there are questions. Certain nonprofits, such as those in the health or counseling fields, may have a legal obligation to maintain client records; if you are in this situation, determine another organization to take on this responsibility for you.

5. **Check your state laws.** State laws vary on the steps required for nonprofit dissolutions. In some cases a petition must be filed with a court, which then appoints a trustee to oversee the distribution of any remaining assets. Ask an attorney for help or contact your state Attorney General for information. If the nonprofit has significant assets (such as real estate), it may be necessary to go through a formal bankruptcy process.

6. **If you are able to pay off all debts, make a list of any remaining assets and decide on other nonprofits to receive them.** Government regulations require that nonprofit assets be given to other nonprofits, not (for example) distributed among board or staff. In addition to cash or receivables, assets may include copyrights, historical photos, the organization's name and its Internet domain name. A nonprofit can donate its equipment to a nonprofit halfway house, give its publications inventory to a nonprofit bookstore and its domain name to a sister organization.

7. **Be proactive about publicity.** If an established charity has failed, journalists may see a scandal story. Write up some key points about the organization's successes, its reasons for closing, and the steps taken on behalf of clients. Choose one or two people who will speak for the organization to the press.

8. **If you can, find a way to celebrate the organization's successes and legacy.** Staff and board might invite former staff, board and volunteers to a closing dinner at someone's home. An open letter to the public might be sent to a local newspaper. A community has been created around the nonprofit, and it is appropriate and fitting for that community to draw together to mark its transition.

SECTION II

The Road to a Merger

This section continues down the road to a merger and discusses the merger relationship, the different roles played by board members and others, and the merger process itself.

A merger is often discussed as similar to dating and getting married. In dating, you meet someone, get an idea about what he or she is like, and if there is mutual interest in becoming better acquainted, you continue to develop the relationship.

A merger follows a similar process. Organizations get to know each other, see if there's some compatibility amongst their respective motivations and goals for merging, and if so, continue to explore developing a relationship. Initial courtship may take the form of meetings between board chairs and executives examining potential benefits of merging, reviewing projections about what consolidated items might look like and discussing potential obstacles.

Merger parties must consider how the partnership rounds out each organization and supports the realization of each other's goals – are they a good match?

Merger parties must consider how the partnership rounds out each organization and supports the realization of each other's goals – are they a good match?

As the courtship continues, both sides will discover new things about the other and find the need to compromise. As in an engagement, help from a professional – a counselor for a couple and a consultant for organizations – may help the relationship get over some of the bumps. And no matter how much preparation has been done, after the engagement there will be surprises – some wonderful and some less-than-wonderful. The merger "wedding" may even be called off, then back on, and back off again! But hopefully, over time, disagreements will feel less like *negotiations* and more like *joint decisions*.

Similar to a personal relationship, there are likely to be strongly held opinions about the courtship from "relatives" on both sides. The merged organization will need to reach out to these relatives to help them understand and support the union.

While dating can be compared to discussing mergers, the resulting partnership may not be similar to a marriage. In a healthy marriage, two unique individuals commit to the relationship but still maintain their unique identities. Ideally, a merger results in an enhanced nonprofit that absorbs the previously unique "identities" so that the new organization operates as a single entity.

How are for-profit mergers different from nonprofit mergers?

Two of the most important, most frequent reasons for for-profit mergers are ❶ an increased ability to acquire debt and ❷ an ability to reduce administrative costs. Neither is typically relevant for nonprofit merger. Few nonprofits use debt other than a line of credit, and the market barriers to debt capital are typically not affected by organizational size. As for administrative costs, most nonprofits are seriously understaffed in administration. Many nonprofit mergers bring attention to under-developed internal structures, and result in stronger – albeit more expensive – administrations.

A third reason for for-profit merger – to combine product lines – is more applicable to nonprofits. For nonprofits, though, the reason to combine product lines is typically to serve patrons or clients better, rather than to achieve market dominance. Two examples: the merger of a women's mental health counseling program with a domestic violence shelter, and the merger of a freshwater wetlands conservation group with a river preservation organization—both resulted in organizations with more comprehensive programming.

What is My Role in the Merger Process?

Like baseball, a merger is a team sport with different people playing different roles. This booklet looks at the roles played by board members and the executive director(s), and comments on the special role of funders.

Board members and the board

The board's governance responsibilities come to full height during a merger as the board of directors makes the final determination of whether a merger is appropriate. Unlike some mergers in the for-profit sector, hostile takeovers are not possible in the nonprofit sector. Each board has full independent authority to make its choice.

In addition to the board's role in decision-making, board *members* play a role in initiating the idea of a merger, in approaching other organizations, and in testing assumptions about the benefits of a merger by reviewing finances, as well as interviewing funders and community members.

Once a merger process has begun, every board member will need to seriously consider the recommendations of the merger committee and express his or her concerns. It is crucial that each organization's board exercises effective and open communication to allow the merger committees to properly reflect the boards' position.

As a board member, you will also need to consider your own future on the merged board. Can you make a commitment to the new organization? Will board meetings be at a different time that makes it impossible for you to attend? Are your skills and contacts the ones the new organization will need or should you make way for others?

Executive directors

Executives often initiate merger discussions as they are most likely to be aware of prospective merger partners. In most cases the executive director will be on his or her organization's merger team. Ultimately it is the board's responsibility to pursue or decline merger possibilities - but each board will pay careful attention to the executive's views on the matter.

Executive directors often take the lead in conducting merger feasibility activities and in thinking through the programmatic, administrative and fundraising plans for the "what if" merged organization. Each executive director will also need to communicate with the staff – a task often made difficult due to the confidential and uncertain nature of the process. Each executive will also need to think about his or her own future: what position is desired, if any, in the merged organization? What positions would be acceptable?

Funders

Funders – foundation, corporate, government and individual funders – can play positive roles with particular merger situations as well as in the community at large. They can also, of course, unintentionally create difficulties for nonprofits.

Key opportunities include:

Breaking the ice: A program officer or foundation CEO is frequently the icebreaker on merger exploration by speaking informally with an executive director or a board member. In some cases, a funder or a group of funders will host a meeting between two or more organizations to introduce the idea of merger. Given the power dynamics of the funder-nonprofit relationship, funders should tread lightly lest their suggestion be taken as an unwelcome mandate.

Funding merger explorations: Small grants of $5,000 to $10,000 help grantees pay for initial consulting, accounting or legal costs, and can help focus the organization's attention on a careful exploration.

Funding the merger: As outlined in the upcoming section, mergers cost money. For many organizations, the decision may hinge on whether the direct and indirect merger costs can be funded.

Funding post-merger integration: A merger is the end of one challenging era and the beginning of another challenging era. One organization described its merger with a smaller organization in another county as "taking over a run-down hotel with a run-down reputation." That organization will need long-term, substantial support to refurbish the hotel and rebuild its reputation. Another organization was distressed to discover that two major corporate funders that had funded both pre-merger bodies chose to make grants of far less than the combined total of the two previous grants. Had the corporations agreed to "keep the grants whole" for two years, the organization could have begun its new journey without immediate financial worries.

Supporting a decision not to merge: If two or more organizations decide, after a thoughtful process, not to merge after all, funders will need to decide whether and how to support each of them. Certainly it's worth a conversation with each group to understand how they came to their respective decisions not to merge and how they see their organizations moving forward.

Distributing merger information: Many nonprofit staff and board members are curious about or interested in mergers but struggle with finding information. Funders can:

- *Distribute this booklet to grantees and others;*
- *Distribute other print and online merger materials (see Recommended Additional Resources);*
- *Hold or fund forums and briefings with experts and nonprofits with a variety of merger experiences.*

The Merger Process

While the path that every merger takes is unique, there are six typical steps:

- A. Initiation
- B. Merger exploration and negotiation
- C. The Merger Agreement
- D. Legal enactment
- E. Launch
- F. Organizational integration

In real life, of course, these stages overlap and may fall in a different order.

A. Initiation

An organization interested in finding a merger partner can begin the search by thinking about what other services are used or desired by the people who already access its own services. For example, an organization that brings quality live music to nursing homes might approach an organization that brings painting classes to similar establishments. Another way to find suitable partners is to look at your organization's competition – for grants, donations, members, clients, patrons and so forth. In some cases, competitors may have similar activities, similar missions and similar or overlapping constituencies – factors that increase compatibility for a merger.

Board members often make the initial calls to prospective merger partners – to the executive director, the board chair, or an acquaintance on the other board. Informal conversations can lead to an opportunity for further discussions.

B. Merger exploration and the intent-to-merge resolution

Typically each organization forms a merger committee to identify possible merger partners, meet with the other organization's merger committee and see whether there is agreement to go forward. The committee serves as the scout for the board as well as its negotiating team.

The separate merger committees explore the implications for a merger and attempt to find agreement on merger terms. The committees will perform some of this work individually (e.g. to conduct financial analysis of the other organization) and work together as a joint inter-organizational committee to explore certain areas (e.g. to test the client and funding market for a merged organization).

To express a serious intent to explore a merger in good faith, and to ensure that the whole board is aware of these serious discussions, the merger committees may recommend that the board pass an "intent-to-merge" resolution.[3] When both organizations pass such resolutions, it gives an important signal that the talks will be taken seriously.

Sometimes an intent-to-merge resolution is passed before the merger committees begin exploration and negotiation. But in other cases, the negotiations may need to be well under way before the boards feel comfortable passing such a resolution.

An intent-to-merge resolution is not a legal document – it is a document of good will between the organizations – and is not a necessary step for every merger. In some cases, two groups may trust each other enough to proceed without one and can work out all the arrangements relatively easily. Some organizations may also be more comfortable with verbal agreements rather than

Who should serve on the merger committee?

A typical merger committee involves the board chair, the executive director and another respected board member, perhaps one whose views are not always in line with those of the chair. This will help bring a diversity of opinion and an ensuing credibility to recommendations from the merger group. It is usually best to have a board member (perhaps the board chair) lead the team and represent the organization to the other board.

[3] Our thanks to David LaPiana for two important ideas, the intent-to-merge resolution, and gradual building of the Merger Agreement through the series of meetings between the two organizations. These ideas build on conventional practice and articulate particular techniques for ensuring board oversight and involvement.

Merger Exploration Worksheet

QUESTION	EXPLORATION PROCESS
Would a merger result in better, more efficient or better-rounded services? In what ways? To what degree do the programs of the organizations overlap in whom is served and in services provided?	• Analysis of constituencies served, including an analysis of clients who received services from one or more of the merger partners, if possible within confidentiality guidelines • Focus groups of constituents of each organization to determine what services they would like to see • Interviews or focus groups with line staff about the provision of multiple services to the same target audience
In what ways would the programs of each agency be able to draw upon the expertise, location, clients, reputation and other resources of the other organization?	• Group and individual interviews with staff • Interviews with community leaders and heads of collegial organizations
In what ways are the philosophies, cultures and styles of the two organizations similar and different?	• Interviews with staff and clients of partner agencies and community members • Review of printed, video and other materials to identify similarities and differences in approaches
Will a merged organization be more competitive for funding, contracts or other resources than the pre-merger organizations are now?	• Interviews with local, regional and national foundations, corporate and government funders • Interviews with development professionals
In the event of a merger, what short term costs and savings can be anticipated related to administration? Long-term costs and savings?	• Analysis of staff costs for overlapping positions (such as Executive Director, Receptionist) • Interviews with local benefits providers and analysts • Identification of existing or emerging infrastructure gaps (such as Human Resources Manager) • Analysis of costs directly related to the merger, such as filing fees and debt assumption

Sample Intent-To-Merge Resolution

The Board of Directors of Organization A agrees to the following Memorandum of Understanding (MOU) between Organization A and Organization B:

1. Each organization will explore and propose negotiated terms of a merger in good faith.
2. Each organization may inform its constituents that this exploration is underway.
3. Neither organization will pursue a merger with any other organization during this exploration and negotiation period through February X, 200X.
4. Both organizations will cooperate in raising funds to support the costs associated with this process.
5. We authorize the individuals below to represent our organization in exploring the advantages, risks and feasibility of a merger with Organization B, and if appropriate, to negotiate a draft set of terms for such a merger.

The merger team for our organization will be:

- JK, Chair, Board of Directors
- SL, Acting Executive Director
- TA, Board member
- JM, Board member

We will receive a report from this team at each board meeting.

with written ones – the key is to proceed with the process that works best to promote trust between the organizations at the table.

C. The Merger Agreement

As the merger teams meet, they may find it helpful to begin with an outline of the points to resolve and fill in the blanks as they agree on one issue after another.

Key points to resolve in merger negotiations

Timeline: Which matters have to be decided before the merger decision? When does what happen? For instance, if the merged organization will adopt a new name, does it need to be agreed upon prior to the legal enactment of the merger?

Mission and vision: Which mission and vision will the merged organization follow? Will new mission and vision statements be created? Who will participate in their creation and their adoption?

Board of Directors: Who will be the board chair? Who will be on the board? Will new bylaws need to be created or will the merged nonprofit adopt the bylaws of one of the existing organizations?

Executive leadership: Who will be the lead staff person? Will the other ED remain with the merged organization and if so, in what capacity and for how long?

Budget: Which programs will the merged organization maintain? Which personnel are necessary to conduct those programs and ensure the smooth operation of the nonprofit? What revenue can the merged organization expect to retain and attract?

Organization name: Which name will the merged organization use? Will a new name be selected?

Corporate structure: Will the two (or more) corporations merge? Will one dissolve and transfer its assets to the other? If so, which will dissolve?

Programs: Are there any agreements about program maintenance or closure that need to be decided prior to the merger?

Location: Where will headquarters be housed? Will more than one location remain open under the merged organization?

In addition, due diligence requires that the committees also examine key elements of the current organizations' past and current situations to gain a fuller understanding of what the merged organization will "inherit":

Debt: Will the merger require the absorption and management of a significant level of debt?

Pending or anticipated legal matters: Does either organization have a pending or anticipated lawsuit?

Labor unions: Does one of the pre-merger organizations hold a union contract? If so, how will the contract be interpreted for the new organization?

Membership: If one of the original organizations is a membership organization, is a membership vote required to enact the merger? How will the merged organization keep or change membership benefits?

Bequests and endowments: What is necessary to ensure that the merged organization is eligible to receive bequests that were made to one or both of the original nonprofits? Is there an endowment restricted by donors that must be accommodated to honor those restrictions?

Grants and contracts: Are there funds received or committed from foundations, or contracts with government or other entities, that will need to be transferred to the newly merged organization?

During the exploration and negotiation process, minutes should be kept detailing the language agreed upon by the committees as they resolves each issue. This running record becomes the Merger Agreement/ term sheet that lays the foundation for the governance, programs, finance, personnel, and overall structure and vision for the merged organization.

How can merger consultants be helpful?

A skilled merger consultant does not drive a merger process to a Merger Agreement. Instead, he or she will switch hats from neutral facilitator to content expert to coach. At different points during a merger negotiation process, each of these skills and approaches will be necessary:

- As the **facilitator**, the consultant can be instrumental in keeping the process on track by capturing the intent and agreements of the negotiations on a meeting-by-meeting basis, reminding people about scheduled meetings, surfacing concerns and finding ways to discuss them productively, and proposing new directions when the group gets stuck.
- As a content **expert**, the consultant's previous experience with mergers will provide valuable insight into what has worked for other organizations, typical problems that arise and so forth.
- He or she will also **coach** various individuals as the process moves forward: a board chair might ask whether to invite the other board chair out for lunch, or an executive might want help preparing for a board meeting.

The merger consultant takes on the responsibility of ensuring that each organization's concerns are fully addressed and is alert to the many ways, in addition to merging, that these concerns might be appropriately met.

Documents to exchange during due diligence

Corporate documents

- Incorporation papers
- Federal and state tax exemption letters
- Bylaws
- Rosters of board members
- Most recent Forms 990 and state filing forms

Financial

- Most recent audited statements
- Most recent internal financial statements and budget
- Lists of significant assets (e.g. property, major equipment and major intangible assets such as copyrights)
- Lists of insurance coverage
- Statement regarding any current or anticipated debt
- Statement regarding pending, anticipated or threatened lawsuits

Fundraising

- Lists of foundation and corporate funders with amounts, restrictions and expiration dates
- Lists of government grants and contracts with amounts, restrictions and expiration dates
- Description of individual donor gifts with names omitted

Personnel

- Lists of employees, titles and pay rates
- Personnel policies
- Union contracts, if relevant
- Schedule of employee benefits, costs and utilization rates

Due to board members' work schedules, it is not uncommon for each organization to hold meetings on evenings or Saturdays. Between committee meetings, each organization's board and staff may engage in completing homework assigned by the committee to assist their decision-making. The necessity of limiting meeting time for board members often results in a longer exploration and negotiation process than might be expected. Merger negotiation processes typically take four months to a year from the first joint merger committee meeting to the first meeting of the newly merged board.

As the Merger Committees continue to meet together, they will bring agreements to their respective boards. These agreements taken in total form the Merger Agreement.

Upon receipt of an amenable Merger Agreement, each respective board will then pass a resolution to approve it – a significant moment for the boards and the organizations. Boards do well to make sure that the staff is fully informed of the key agreements and that their voices have been heard. It's helpful to take the time to celebrate the work of the Merger Committee, and to celebrate and honor the achievements of the organization as it steps over the threshold into a new era.

As both boards approve the Merger Agreement, they will also take steps to inform their constituencies, in some cases jointly and in other cases separately. Clients, patrons, funders, volunteers, members and others will want to be informed of this important news.

Side-by-side Analysis and Agreement Worksheet for a Fictitious Merger

BASICS			
ORGANIZATIONAL ISSUE	**ORGANIZATION A**	**ORGANIZATION B**	**MERGED ORGANIZATION**
Address	123 Main Street, San Francisco	321 First Street, Oakland	321 First Street, Oakland
Web Address	www.orga.org	www.orgb.org	www.mergedorg.org
Executive Director	Jane Green	Vacant	Jane Green
Board Chair	Jim Black	Joe Orange	Joe Orange
Other board officers	Jane White, Bill Blue, etc.	Jackie Pink, Larry Purple, etc.	To be determined
# of board members	14	9	16: each organization to choose 8
# staff	6 full time, 5 part time	6 full time	No staff positions will be eliminated as part of the merger.
FINANCES			
Annual budget	$600,000	$400,000	$900,000 anticipated
Fiscal year end	June 30	June 30	June 30
Key foundation funders	SF Foundation, Ford Foundation, etc.	East Bay Community Foundation, Y & H Soda Foundation, etc.	Pending – currently in discussion
Key corporate funders	McKesson, Bank of America, etc.	Target, Clorox, etc	Pending – currently in discussion
% government funding as percentage of budget	10%	40%	TBD
FUNDRAISING			
Events	Annual dinner with tickets about $125	No fundraising events	Annual dinner with tickets at $125 and some scholarship tables
BOARD MATTERS			
Board recruitment	Continuous	1 “class” per year in the spring	1 class per year, although initially 2x
Applications from prospective board members	Application/LOI submitted by candidate	No application	Application
Expectation for personal financial contribution	$1,000/year given or raised	“At a level that is meaningful to you”	“At a level that is meaningful to you”
Board committees	Finance, HR, Fundraising	Program, Fundraising	Finance, HR, Fundraising
Terms	2 year terms with maximum of 3 continuous terms	3 year terms with maximum of 2 continuous terms	3 year terms with maximum of 2 continuous terms

D. Legal Enactment

Upon approval of the Merger Agreement – a layman's agreement – the boards must enlist joint legal counsel to "translate" the agreement and prepare the legal documents. An attorney will prepare the documents appropriate for the organizations' respective state regulations, ensure that the formal votes are taken and file the documents with the appropriate government agencies.

In the case of a technical merger, each organization votes to merge, dissolves their corporations and incorporates a new organization. More common though is the dissolve-and-combine situation: one organization's board votes to dissolve its corporation and transfer its assets to the other. The surviving organization's board votes to accept the assets and elects the designated board members to its board. While a new organization is not technically incorporated, a dissolve-and-combine process can still internally and externally be described as a merger.

E. Launch

The merger launch can be a very exciting community event where both organizations showcase all the benefits that will come from the union. It is also a significant fundraising opportunity that should be planned in conjunction with other events. At other times, a board may decide that it is in their best interest not to draw attention to a merger, keeping it a non-event, due to the specifics surrounding their particular situation.

F. Organizational Integration

Merger integration happens at various levels. For staff, there are systems that need to be integrated, cultural habits that need to be taken into consideration and cross training issues to resolve. For board members, integration translates into the ability of the merging boards to create a team from the fusion of the pre-merger boards.

CASE STUDY

After years of flirting with the "M" word, two small green groups take the plunge

Green Center A (GCA)	Green Center B (GCB)
Staff: 5	Staff: 2
Budget: $450,000	Budget: $375,000

As peers in their local nonprofit community, Green Center A and Green Center B had been collaborators for a long time; they participated in joint community projects, joined hands to put on community events and advocated for policy changes to promote conservation in their region.

One evening at a birthday party for a supporter of Green Center B, its Executive Director, a GCA staff person and a GCB board member began to chat. GCB's ED commented that the two nonprofits might be much stronger and more focused on their mutual work if they were one organization. The three ended up talking about ways to appropriately raise these ideas with their respective boards. The following Monday morning, GCB's ED was on the phone with the executive at GCA.

At the outset, the two groups decided to hold a series of meetings that included board members and the few staff members they each had. They met four times at various board members' houses and, after the fourth meeting, jointly realized that they needed someone with a neutral, objective and informed perspective. They contacted a local technical assistance provider and engaged an experienced merger consultant to facilitate their merger process.

Due to the small sizes of each organization's board and staff, rather than form separate merger committees, the group engaged select participants (board and staff) and formed one inter-organizational merger negotiations team. This team explored all the potential issues that could come their way as a result of a merger, negotiated all such issues satisfactorily, and wrote up what came to be known as the Merger Agreement. The facilitator was key in helping them move forward at a steady pace and, after six meetings, a written agreement was completed.

The two nonprofits then formed an ad-hoc committee consisting of attorneys, CPAs and a banker to review each organization's financial documents, legal paperwork and other areas that potentially contained concerns or liabilities. This committee reviewed the appropriate documents and then held a four-hour meeting to draft a report of what they found through this process. Fortunately, there were no "red flags" in either organization's documentation.

After both GCA and GCB "passed" this due diligence with high marks, the appropriate members of the merger negotiation team presented their respective boards with the final Merger Agreement, the due diligence report and various other supporting documents in the form of an addendum to the Merger Agreement.

Exactly six months after the birthday party that began the merger exploration, the two boards voted to merge their organizations and directed their executives to retain legal counsel to conduct appropriate filing of documentation with the Attorney General's office.

Today, a year and a half after the merger's execution and amidst one of California's worst economic downturns, the merged entity stands strong as a leader in local conservation advocacy and service.

Don't underestimate the power of casual conversation, especially when it relates to bringing entire organizations and their communities together as one!

SECTION III

Special Merger Topics

This section debunks myths about nonprofit mergers, provides an overview of merger costs, discusses how to walk away from the merger table should that prove necessary and features a case study of a merger between three affiliates of a national organization.

Myths About Nonprofit Mergers

❶ Mergers save money by reducing administrative costs.

Many board members familiar with for-profit mergers will expect to see cost savings by Year Three post-merger. Because most nonprofits run very lean (often too lean) in administration, there are rarely cost savings due to a merger. Nonprofits seldom have bloated accounting or marketing departments that can be cut back. Instead, a merged organization may require higher-skilled accounting staff, an A-133 audit or other items that make its administrative costs higher than the sum of the administrative costs in the former organizations.

❷ There are too many nonprofits.

Actually, there are not enough *good* nonprofits. On the surface, it might appear that two childcare centers are duplicating services. But as most parents know, there are important philosophical, cultural, stylistic and practical differences that may make one center much better suited to the family than the other. These same differences – which we value as providing choices to families – are also those that may make it unwise for the two centers to consider merging.

❸ A merger combines two equal parties.

In fact, it is rare that merger partners have equal resources, skills, reputation and experience. And they may not be able to agree on how that power imbalance is tilted. One organization may feel that its programs are exceptionally strong, while the other may regard those same programs as outdated or weak. A board chair might secretly think that the other board has stronger, more powerful board members, but is hesitant to imply that his or her fellow board members are not as strong.

What's important is to deal constructively (if not always completely in the open) with the issues of power in the merger discussions. Often, the fact that organizations have different competencies and powers is what allows them to join forces in such a way that the whole is greater than the sum of the parts.

❹ The Merger Agreement must resolve all the questions.

On one hand, the Merger Agreement should reflect decisions about major issues so that neither side will feel surprised or ambushed after the merger has taken place. But on the other hand, many details are best worked out after the merger is finalized. For example, it may be best to determine job positions and titles for the new organization's staff pre-merger. But it may be better to wait until after the final merger vote to develop detailed job descriptions or to decide where each person will sit.

Remember too, that the new organization can't stand still – it will need to change and grow. It will make decisions that may be implicitly or explicitly different from what is in the Merger Agreement. Each organization must see itself as becoming part of a new organization, rather than seeing the new organization as one that must maintain its promises to the past forever.

❺ The merged organization will be stronger than the sum of the two pre-merger organizations.

Not every merger results in a strong organization. Sometimes, as is often the case in the for-profit sector, the new organization emerges in a weak state built on struggling programs. Rather than assume that the merged organization will be stronger, take the time to test this hypothesis as objectively as possible to be sure the board is making the right decision.

An Overview of the Costs Associated with Mergers

Like an engagement and a wedding, there are certain financial costs associated with a merger – some are one-time costs while others become regular expenses in the merged organization's annual budget.

The most significant costs are often the hardest to anticipate or quantify:

Opportunity costs: For most organizations, the attention and time of senior management staff and board members is a very scarce, precious resource. Board members and executives must carefully balance their time in a merger negotiation with their regular responsibilities to mitigate the opportunity cost that could arise from a prolonged or failed negotiation process.

Infrastructure needs: While the Merger Agreement may provide provisions for the staffing levels of the new nonprofit, management may find, post-merger, that the available systems are not sufficient to cover the needs of the new, larger organization. More sophisticated systems, different facilities (for staff and clients) and advanced equipment may require investments that can only be concretely quantified once the merger enters the organizational integration phase.

Salary adjustments: After a merger, the organization may feel pressured to increase some salary levels in order to level the overall pay scale. It is common for one of the pre-merger organizations' employees to have been compensated at levels either significantly higher or lower than the employees of the other merger partner(s). Or the employees of a merged organization may feel that they all should receive higher levels of compensation now that they work for an organization with more programs and a larger organizational budget.

Sample Overview of a Merger's Cost

TASK	ONE-TIME COST (funded by pre-merger organizations, as agreed)	ONGOING COSTS (funded by the post-merger organization)
Merger exploration and negotiation	• Consultant fees • Opportunity costs of executives' and board members' time & attention • Executive staff time	
Legal enactment	• Attorney fees, including specialists in nonprofit incorporation, human resources/ labor, copyrights and so forth • Filing fees • Audit of one corporation prior to its close • Executive staff time	
Launch	• Design and production of stationary, website and other materials • Announcement mailings • Celebration event(s) • Fundraising and executive staff time	
Organizational integration: Personnel	• Consultant and attorney fees (e.g. employment law specialists) • Severance pay • Career consulting or other assistance to departing staff	• Consultant and attorney fees (e.g. employment law specialists) • Employee compensation increases to establish internal equity • Health & insurance benefits increases to bring benefits into alignment • New positions, such as an HR Director position
Organizational integration: Technology	• Hardware & software purchases • Cross-site network • Staff training	• Hardware & software purchases • Staff training
Organizational integration: Facilities	• Professional movers, space planners, and new furniture and equipment • Lease buy-out • Telephone costs	
Organizational integration: Program	• Consultant and attorney fees (e.g. copyright specialists) • Research with clients and funders • Meetings to discuss how to integrate	• Design & production of program materials
Organizational integration: Board of Directors	• Consultant for board development	

Walking Away from the Table: Deciding Not to Merge

CASE STUDY

Organizations with similar missions may hold deep differences

Domestic Violence Organization	Rape Organization
Staff: 19	Staff: 11
Budget: $856,000/year	Budget: $650,000/year

Two domestic violence organizations in a suburban area decided to pursue a merger. One focused almost exclusively on rape-related services while the other offered shelter, counseling and education services. In most instances, when one agency did not have the type of service required by its clients, they would refer to the other. Since they were the only two providers of such services in their county, it was thought that a merger would strengthen their services, grow their infrastructure and eliminate competition and fragmentation of services.

The two executives engaged in informal conversation about a merger's potential for a few months. At one point, they decided to bring this conversation to their respective boards to gauge interest. After each board discussed the possibility, both unanimously expressed interest and authorized their executives to pursue funding to retain an experienced merger consultant and begin the merger process. Two months later these nonprofits, through their merger committees, were formally engaged in the process of merger exploration and negotiation.

At the first joint meeting of the merger committees, the facilitator led a brainstorm to extract all the potential benefits of a merger. This produced a list of twelve potential benefits that was posted up on the wall during every subsequent meeting to reference the benefits sought through merging. At the same initial meeting, the team brainstormed on all the potential issues that could prevent the merger from moving forward. This exercise generated forty-three potential issues of which the team prioritized nine as potential deal breakers – the issues that would have to be resolved before those who raised them could move forward.

During the second meeting, the team discussed and negotiated language that addressed four of the potential nine deal breakers. These included:

1) the executive of the merged organization;

2) the new entity's name;

3) compensation packages for similar job descriptions;

4) the alignment of each nonprofit's current strategic plans.

One issue unearthed in the discussion of each organization's strategic plan was the language of their respective mission statements: one group used the term "feminism" in its mission and the other one did not. Both organizations had approaches to service that were very much in line with the empowerment of women. However, there was more to this issue than met the eye.

At the third joint meeting of the merger committees, and after a two and a half hour discussion on the language of their respective mission statements, the teams reached an impasse. The organization whose mission statement included the term feminism felt that they could not go through a merger whose resulting entity would exclude the term from its mission statement. The organization whose mission did not include the term estimated that several of their major donors would not continue to support the organization if the merged entity's mission statement language included the word "feminism".

At the conclusion of this meeting, and after significant deliberation by both teams jointly and separately, a decision to end the merger exploration process was made. The facilitator coached the team on how to draft a positive public relations message to express that they had engaged in the merger process, found it to be positive and collaborative, but that they would not proceed with a merger exploration at this time.

Today, the organizations continue to refer clients to each other when appropriate and to collaborate on other community awareness and education opportunities.

At first glance, same-service area organizations might appear to be perfect partners but upon closer scrutiny, their internal cultures and that of their supporters may be a recipe for a match "not made in heaven."

Again, as in life and dating, while marriage may not be the result of a promising relationship, much is gained. While merger committees may ultimately make the decision to recommend a "no-go" to their board, or if the board exercises their stewardship by deciding that a veto of the committee's recommendation is in the community's best interest, neither organization should feel that the merger exploration process was an unfruitful venture.

A merger exploration alone produces several benefits, including:

Deepening the organization's understanding of itself: undertaking merger exploration and negotiation allows each participating organization to internalize a wealth of information regarding its functionality, how it views itself, its place and uniqueness within the larger nonprofit community and how outsiders view it, for example;

Surfacing other partnership opportunities: while a full merger may not prove to be a viable option, the organizations may utilize one of the alternatives to a merger to meet the mission-related needs that originally brought them to the merger table;

Expanding the organization's network: just as organizations will gain a deeper understanding of themselves through the merger exploration and negotiation process, they will also learn more about the organization(s) their merger committee engaged with – an understanding that not only provides the platform for other types of collaboration but bolsters each organization's ability to connect their community to the services available through its nonprofit sector.

CASE STUDY

Planned Parenthood Golden Gate Case Study

Eight years ago, Dian Harrison served as the executive director of Planned Parenthood San Mateo County, a multi-million dollar nonprofit committed to primary and reproductive health care, and the protection of a woman's right to decide whether and when to have children.

Dian recalls, "I got a call from Cindy Rambo who was running Planned Parenthood San Francisco. She said she was thinking of leaving and wanted to explore whether this might be a good time to talk about a merger."

Dian, Cindy and their respective board chairs began discussing a merger; the conversation soon included another affiliate, Planned Parenthood of Marin, that was seeking to join ranks with a larger affiliate in the national Planned Parenthood network. Just nine months after Cindy's phone call to Dian, the San Mateo, San Francisco and Marin county affiliates of Planned Parenthood merged to form Planned Parenthood Golden Gate, a multi-county organization under the direction of Dian, the President and CEO.

What made this merger plausible?

CEO departure: With one CEO leaving and another (Marin) seeking a merger with a larger Planned Parenthood affiliate, the prospective merger partners did not have to face competition for the CEO spot in the merged organization. Just as crucially, one CEO (Dian Harrison) was well regarded by the staff in all three of the organizations. The San Mateo board championed her, and as the other boards got to know her, they felt increasingly confident about the potential of a merged organization under her leadership.

Close alignment of mission and programs: Each affiliate had differences in emphasis, in approaches to racial and economic disparities, in organizational structure and in management style. But as affiliates of the same national organization, the three Planned Parenthood affiliates began their merger discussion with a large degree of agreement on mission and services.

General financial health: While one of the three merger partners was experiencing financial difficulty, there was neither debt nor intractable financial problems to present potential deal-breakers for the other two affiliates.

Strong and focused board leadership: Each board consisted of experienced community leaders who kept their eyes on the right prize - a bigger, stronger organization that would be more able to compete in the increasingly difficult healthcare environment and to prevail in the hostile political climate. Board members took the initiative to reach out to the other boards, were forthright about terms and stayed committed through the numerous exploration and negotiation meetings.

Experienced facilitation from a subsidized consultant: Planned Parenthood's regional office provided a facilitator to the three groups. While some people resented the undisguised desire of the regional office for a merger, others were grateful for an experienced consultant to help bridge the awkwardness over sensitive issues.

Was this merger successful?

Today, Planned Parenthood Golden Gate operates eight health centers in five counties and has an annual budget of $17 million. Each year, more than 65,000 women, men and teens visit one of these centers, and another 30,000 students benefit from their sex education programs in the schools. In late 2004, Dian Harrison was recognized by The California Wellness Foundation as one of six exemplary healthcare leaders in the state of California.

SECTION IV

Recommended Additional Resources

This booklet's overview of the merger journey may have led you to decide that a merger exploration *would* be a strategic venture for the organization you had in mind. Now that you've reached this point of the journey, the following section will provide additional resources that can further inform you on how to begin a merger exploration and deepen your understanding of a nonprofit merger.

Books

Strategic Partnerships in the AIDS Service Community
by Mike Allison, Cristina Chan, Steve Lew and Timothy Murray (CompassPoint Nonprofit Services)
Northern California Grantmakers, 2001
A report from a three-year capacity building initiative for community-based AIDS service providers focused on supporting exploration and development of strategic partnerships that could eliminate potential duplication, achieve administrative efficiencies and create more cost-effective services.

The report is available for free download through the Capacity Building Initiatives & Partnerships – Foundation Supported area at www.CompassPoint.org/consulting. Contact Barbara Camacho of CompassPoint at (415) 541-9000 or BarbaraC@CompassPoint.org for more information on how to obtain a hard copy of this report.

Nonprofit Mergers Workbook: The Leader's Guide to Considering, Negotiating and Executing a Merger
By David LaPiana
Amherst H. Wilder Foundation, 2000
Merger case studies, decision trees, worksheets, checklists, tips and an extensive resource section provide useful samples and guidance.

The Nonprofit Mergers Workbook, Part II: Unifying the Organization after a Merger
By LaPiana Associates, Inc.
Amherst H. Wilder Foundation, 2004
A useful volume focused on developing an integration plan with an emphasis on internal and external communications.

Nonprofit Mergers and Alliances — A Strategic Planning Guide
By Thomas A. McLaughlin
John Wiley and Sons, 1996
A thoughtful guide to the complete merger process.

Seven Steps to a Successful Nonprofit Merger
By Thomas A. McLaughlin
BoardSource, 1996
A short but succinct pamphlet.

Websites

www.boardcafe.org
Articles for members of nonprofit boards, including, "Deciding Whether to Close Down," "How to Close Down the Right Way," "Should Your Nonprofit Be Considering a Merger?" and dozens of others. Also visit the site to subscribe to *Board Cafe*, a free monthly electronic newsletter for nonprofit board members with over 37,000 subscribers.

www.guidestar.org
Information about nearly all registered US nonprofits. Learn more about the finances and programs of organizations in your geographic area or field.

www.lapiana.org/SR
"SR" stands for "Strategic Restructuring," and this useful site from consultant David LaPiana includes case studies, briefing documents, FAQs and order forms for their books, including those noted above.

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About CompassPoint Nonprofit Services and the Authors

CompassPoint Nonprofit Services
Founded in 1975, CompassPoint Nonprofit Services is a national consulting, training and research firm focused exclusively on the nonprofit sector. With offices in San Francisco and Silicon Valley, CompassPoint strives to increase nonprofits' effectiveness by providing the management tools and concepts vital for nonprofits to solve pressing social problems by affecting the social change to which they and their investors aspire.

A nonprofit itself, CompassPoint works with organizations in areas including boards of directors, executive leadership, fundraising, strategic planning, organizational change, nonprofit finance and technology. Every year, more than 4,000 nonprofit staff and volunteers utilize the workshop and conference series, and 300+ nonprofits choose them as their consultants. CompassPoint is a university for nonprofit staff, an affordable consulting partner to the sector, a research institution and think tank, and a community organizer.

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