NONPROFIT *Fiscal Fitness*

your newsletter about issues in the nonprofit business world

Blackbaud.

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Editor's Note

To improve services and ensure survival, nonprofits are increasingly considering alliance options, including mergers. But, before going down this path, it's important to assess your organization's readiness and suitability as a potential partner.

In this issue of *Nonprofit Fiscal Fitness,* we discuss 11 key questions your organization should ask when doing an objective assessment on whether a merger makes sense. The article by Becky Andrews, Marketing Manager, Fieldstone Alliance is based of information excerpted from chapter 2 of a book by David La Piana.

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table of contents

» Editor's Note
» Blackbaud Learn
» Are You a Good Candidate for a Merger?
» Latest and Greatest

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back to top

Are You a Good Candidate for a Merger?

Eleven Key Questions

1. What is motivating your desire to merge?

It's important to recognize and make explicit your reasons for interest in a possible merger. The earlier in the process this occurs, the better.

Motivations often come down to one or more of three overarching factors:

- To improve finances
- To gain access to a larger skill set
- To enhance the organization's pursuit of mission

Note that motivators are more general in nature than the specific outcomes you desire from the merger.

2. What do you expect from a merger?

This question is best answered by a group of board leaders and senior managers. The more specific the outcomes, the easier it will be later on, during merger negotiations, to assess whether the structure you intend to create can reasonably be expected to produce those outcomes.

> Example:
>
> *Our highest priority outcomes for the merger are:*
> To develop a full continuum of services for our clients within two years, including child care, job training, employment counseling and placement, and a clothes closet, in addition to our current mental health counseling and substance abuse treatment programs.
>
> *How will we measure accomplishment of this outcome?*
> Through client satisfaction surveys, we will ensure that by the end of 2011 we are offering satisfactory (at least!) service in each of the above areas.

3. Can you keep a focus on mission?

A merger often entails consolidation and change for existing programs. To the extent that your organization understands that its programs and services are not the same as its mission, and that the needs of the mission may in fact dictate changes in services, it will be better able to negotiate a partnership that retains what is most important to its success (advancement of the mission) and helps the rest of the organization to adapt.
To answer this question, boil down your mission statement to its essence: a statement of what the organization is trying to accomplish. This restatement of your mission is what should be carried into discussions with a potential partner.

> Example:
>
> *Original statement (it's ok to look it up if no one can remember):*
> The mission of the Sunny Times Children's Center is to provide intensive psychiatric day treatment services for seriously emotionally disturbed children by developing and sustaining an environment that promotes their growing maturity, family functioning, and the ability to someday return to regular school.
>
> *First rewrite; deleting all references to services, programs, or how the mission is accomplished:*
> The mission of Sunny Times Children's Center is…seriously emotionally disturbed children… growing maturity, family functioning, and the ability to someday return to regular school.
>
> *Final statement; contains no references to services or programs:*
> The mission of Sunny Times Children's Center is to promote growing maturity, healthy family functioning, and a return to regular school for seriously emotionally disturbed children.

4. Do you have a unity of strategic purpose?

Do the people in your nonprofit agree on a strategy to address opportunities and threats? If not, they will not be able to agree on the issues involved in merging with another nonprofit.

List the top three critical issues facing your nonprofit, from the perspectives of the board, executives, management staff, and line staff. Critical issues are defined as those that are most significant to the organization's future success. These are the issues you must address.

Example:

Board of directors: How are we going to build a new facility for the dance program?

Executive director: Can we build a new dance facility?

Management staff: How can we keep the dance company together between shows, when there is no pay?

Line staff: Are we going to go on tour this summer?

Are there major differences in the critical issues identified by the different groups? Are the issues complementary or competing?
It seems that our issues are not so much in conflict as they are viewed from different perspectives. The dancers want a new theater as much as the board, and management and dancers both see a need to try to keep the company together year-round. We need to find a way to get everyone pulling together on these issues.

Whether you move forward with merger talks or not, it is vitally important to your organization's future that these differences get aired, understood, and ultimately resolved and reconciled.

5. Can your leaders speak with one voice?

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

To avoid this situation, organizational leaders must decide as a group whether to pursue the possibility of partnership. Of course, if underlying differences on organizational goals, strategy, and direction are present, this attempt to "speak with one voice" with respect to the partnership issue may bring them to the fore. If this occurs, these larger issues must be addressed before undertaking any action toward a merger.

6. How solid are board-management relationships?

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

In most cases, serious suppressed conflict will eventually come out in the open, sometimes with catastrophic consequences. Rather than trying to "wait out" the conflict ("the executive director will retire soon") it is far better to recognize differences and animosities and to work forthrightly to resolve them.

7. Are you currently in a crisis?

If your organization is struggling with an acute cash shortage, coping with rapid growth, or dealing with a major internal power struggle, it may not have the energy to focus on a new and challenging opportunity such as that represented by a potential merger. It might be better to wait until the crisis is resolved before embarking on anything so time and energy consuming.

On the other hand, many nonprofits are in chronic crisis, and the wait until the end of conflict could indeed be a long one. In the meantime, many plum opportunities related to possible mergers — new program growth, recruitment of a prized executive director, the addition of a well-connected board member — may be missed. Sometimes an organization must simply jump at a once-in-a-lifetime opportunity, even if it knows it is currently not able to put its best foot forward. But please, have no illusions of your position in this situation or of how difficult the execution of the partnership may be.

8. Do you have a history of successful risk-taking?

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

A merger is, if nothing else, a risk: the time devoted to negotiations and due diligence may in the end have been wasted; the organization you thought would make a great partner may turn out to be an albatross; the savings you have been counting on may not materialize. Great risks often accompany great potential rewards, and sometimes the difference between those who reap the rewards and those who do not is the ability to stay on track while handling the risks, the downsides, and the setbacks.

9. Do you have a growth orientation?

Successful nonprofits, like successful businesses, tend to be growth-oriented. Increasingly, nonprofits view growth as normal and healthy. Shunning growth may lead to staleness and may result in the organization's dollars stretching less far in future years. While an antigrowth ethos was once common among some nonprofits, recent problems such as marginalization, bankruptcy, and failure of smaller nonprofits has led some people to rethink size and to search for a scale appropriate to the mission of the nonprofit. For many nonprofits, this means growth.

10. Is there an opening in either executive position?

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

11. Do you know of other successful mergers?

One way to gauge your organization's readiness to proceed is to determine its reaction to success stories from similar organizations. Do you know of any success stories? Could these "adult survivors of merger" talk to your leadership about their experience? Does your group respond positively or negatively to these stories? Do the stories motivate greater openness to risk-taking, or are they dismissed as either atypical or propaganda?

Summary

After answering these questions, you should have some sense of how good a candidate for merger you would make. The process will not only make you more aware of your strong and weak points, it will contribute to the development of the internal working relationships and common understandings necessary for your team to successfully complete a merger, or anything else for that matter.

back to top

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