Nonprofit Mergers: The Perils and the Possibilities

by Sherry Ferronato

Royal Bank and Bank of Montreal. Telus and BC Tel. Loblaws and Provigo. Corporate mergers are daily news. The trends of the New Economy, such as globalization, technological developments, increased competition and diminishing revenues, have incited merger mania in the corporate sector.

These same trends are affecting the charitable sector, yet nonprofit organizations have been more hesitant to consider mergers as a strategic option. While various funders have promoted or even forced mergers as a panacea, charities often dismiss the idea. However, given the speed and magnitude of change we are experiencing, it seems probable that charities, like corporations, will have to consider mergers more frequently.
The reality of a nonprofit merger is that it is neither an elixir nor a heresy. Rather, a merger is one alternative -- not necessarily the best or only one -- for nonprofits seeking to respond to the challenging trends of the times. Done well, for the right reasons, and under appropriate conditions, a merger can yield synergistic outcomes for the organization and those it serves.

Why the urge to merge? The answer is epitomized in a story that ran last spring in *The Telegraph*, which reported that street dwellers in London, England were complaining of being literally being buried alive by people's goodwill. Over 52 organizations and countless well-meaning individuals were so busy making night time soup-and-sandwich drops to the homeless, without first consulting each other or the recipients, that street people were waking up beneath blankets of food. Litter, vermin, food quality and environmental health issues -- not to mention the constant disruption of their sleep -- had become major concerns to London's homeless.

While this story represents the absurd extreme, some parallels can be drawn to the Canadian charitable scene, where lack of service coordination, fragmentation, duplication of effort and competition are not unheard of, and failure to consult service users results in misdirected effort and wasted resources. In such an environment, well-intentioned efforts often become counterproductive, creating a new set of problems. These circumstances have fuelled much of the push for mergers.

It was drastic funding cutbacks which in 1996 propelled the former Syme Family Centre and Jane Woolner Neighborhood Organization of Toronto to examine options for a common future. Liz Bonanno, executive director of the recently merged Syme-Woolner Neighborhood and Family Centre, said that each of the former organizations realized that the survival of their respective agencies was at stake.

That same year, Edmonton's Adult Development Centre was finding that its small, single-program mental health agency lacked the critical mass to handle increasing demands, particularly financial demands. Joanne Kidd, executive director of the region's Canadian Mental Health Association (CMHA), reports that when approached by the Adult Development Centre about partnering in some way, the CMHA saw an opportunity to strengthen its programs through organizational efficiencies and service integration.

Rising and changing client demands and volunteer burnout are also factors that encourage charities to think about mergers. The increasing complexity of running a charitable organization has led some agencies, particularly smaller ones, to consider this option. The sheer number of charities -- 76,000 and growing -- is causing some to question whether we can possibly sustain them all, given the funding, volunteer effort and expertise required by each.

Yet, despite these circumstances, many nonprofits resist even discussing the subject. Ron Prokosch, president of Calgary-based organizational consulting firm Drake Beam Morin (Alberta), suggests that people may be skeptical about mergers because of the poor example set by many corporations in the last decade. Although more effective approaches to mergers are now emerging, Prokosch indicates that the "Big Bang" approach -- characterized by ruthless layoffs, doubled workloads, expectations of immediate financial gains and lack of integration planning -- has had bitter results. In fact, he says, over 40% of corporate mergers have been evaluated as less than successful, or even damaging.

But, some may say, the charitable sector is more rational and people-centred in its approach to restructuring. Not necessarily so. The dismal outcomes of some nonprofit mergers, which have mimicked those in the corporate world, have proved a deterrent. Problems caused by the "Big Bang" approach in the nonprofit world have included loss of programs resulting from unrealistic planning and morale problems created by a brutal approach to human resources.

The willingness to consider mergers and the ability to carry them out successfully can be hampered by emotional ties to existing organizations, views of current programs as unique and sacred, ego and turf issues, and resistance to change.

The boards of Syme-Woolner's predecessor organizations, for example, did not immediately embrace the idea of merger. Conflicts encountered in previous joint projects formed the basis of their resistance, as did fears that they would lose something they had worked hard to create. In Edmonton, the smaller Adult Development Centre initially worried about losing its identity and being swallowed up by the larger CMHA. At the CMHA, some questioned whether change was really necessary. In all cases, resistance was overcome by focusing on what could be gained rather than what would be lost.

Given this resistance to merging, many nonprofits have opted for other, less radical, changes in their relationships with other organizations, such as collaboration or joint ventures. As Bob Wyatt, executive director of the Muttart Foundation (which funds mergers and alliances), says, "Every organization should be looking at another way of operating, [but] don't assume merger is the only way to work differently."

The agencies involved in the Syme-Woolner and CMHA mergers examined other options, such as partnerships, alliances and purchase of service agreements, prior to pursuing amalgamation. After weighing the costs and benefits of each, it became clear that, for these groups, merger was the way to proceed.

How can an agency know when collaboration is called for, or when merger is more suitable? In *Nonprofit Mergers: A Board's Responsibility to Consider the Unthinkable*, America's National Center for Nonprofit Boards suggests that collaborations are appropriate when the work to be done together involves only a part of each cooperating agency, such as programming (a joint volunteer training opportunity) or operations (a shared facility). However, when the mutual goal involves the agencies' fundamental purposes, such as strengthening the total organization or improving the capacity to strive towards a shared mission, this indicates the need for a merger.

The most reliable guidepost in considering the appropriateness of merger is always mission. Why do our charitable groups exist? Most organizations would say it is to provide the best possible service to those we assist, or to be of some benefit to our clients or community. If a nonprofit's ability to fulfill this mission would ultimately be strengthened by combining with another group, then it is the organization's responsibility to seriously examine the merger option. A clear focus on mission will virtually always shepherd groups towards the best decision.

In many situations, however, merger discussions are less about mission and more about other agendas. While this does not necessarily make a proposed amalgamation unadvisable, it may contribute to a less than ideal outcome.

Economic pressures, for instance, are often a major merger motivator. However, a merger that is purely about cost-cutting or financial emergency may miss the mark. In fact, the Muttart Foundation has found that due to the costs involved in the merger itself, financial efficiencies are often not realized for at least a year or two post-merger. Even then, cost increases may not cease, but merely slow down.

Mergers done at the demand of third parties often present difficulties. While funders and accrediting bodies have a large role to play in encouraging and supporting mergers, mandating them can create formidable resistance because it threatens the organizations' autonomy to define and pursue their missions. "If you are not there willingly, the merger may happen, but it will not happen well," warns Bob Wyatt.

Besides a lack of focus on mission, other issues can blow a merger quest off course. When the photocopy lease, the telephone system or the new logo threaten to become roadblocks on the road to merger, a detour may be necessary. Concerns such as these can usually be resolved, but only after the real issues underlying them are addressed. Commonly, the fundamental barriers are emotional issues of distrust, "ownership," control, ego, fear of job loss, self-interest, loss of identity, or other undisclosed agendas. Until these are dealt with openly, the merger process will falter.

Such obstacles are not insurmountable. In the Syme-Woolner amalgamation, culture clash posed a threat. Syme Family Centre's board was grassroots, hands-on and program-oriented. Jane Woolner Neighborhood Organization's board, on the other hand, worked at arm's-length from operations and had a policy level emphasis. These cultural differences had the potential to derail the merger process. But once identified and placed on the table, they were successfully resolved with the help of two external consultants and by focusing on what was best for the community.

A potential pitfall in the CMHA merger was the "people" issue. Two Executive Directors needed to be accommodated and a new organizational structure created. Staff fear, anxiety and opportunism arose.

To overcome these hurdles, all current staff were first assured of meaningful employment. Next, all parties agreed in principle to always deal with the feelings associated with change. Management positions, which would be most affected by the merger, were then reconfigured in light of the organization's priorities and functional requirements as well as personal preferences. The jobs of most other staff remained stable, except for changes in reporting relationships. Through strong communication, striving for consensus, and attending to the feeling side, a new working team was built.

Despite barriers and resistance, many nonprofits, like Syme-Woolner and CMHA, have successfully merged. Careful planning, sound management, flexibility, hard work and a sense of humour, can go a long way towards achieving a smooth transition.

Even the most successful mergers have a downside, however. The new Syme-Woolner, for instance, eventually lost the expertise of a valuable senior staff member, who accepted a job elsewhere knowing that ultimately his management position was no longer financially viable. There were some lingering regrets that things were no longer as they used to be. A larger, more complex agency meant the board's intimate connection to the program was no longer possible. With more employees and two operating locations, the sense of closeness among staff was diminished.

Following the merger with the Adult Development Centre, the new CMHA also experienced some loss of closeness and community. It, too, encountered the turnover of staff who decided that this was a good time to make a change. Perhaps the biggest drawback, however, was stress. The merger process was time- and energy-consuming for all, and, added to the day-to-day work of the organization, created extra pressure.

In the least effective mergers, where there is poor planning and implementation, the downside can be more disappointing. Organizations may face an exodus of staff and volunteers who do not agree with the changes can occur. Conflicts may erupt. "Merger syndrome" can set in: uncertainty and upheaval leave people feeling anxious, preoccupied and unproductive. Morale and quality may fall. Program integration may not occur as hoped, clients may fall through the cracks, and improved quality and efficiencies may fail to materialize. In these circumstances, Joanne Kidd prescribes asking key questions, such as, “What didn’t we do?”, “Whom did we forget to include?”, “Where did we forget about communication?”. Then, she says, you have to back up and do it right.

Fortunately, the benefits of successful mergers outweigh the downsides. More effective and efficient services are created. Greater financial and organizational stability result. New fundraising opportunities arise and public profile increases. Some charities use amalgamation as a rare opportunity to develop new organizational behavior and attitudes. New opportunities for staff and volunteers are developed. A spirit of innovation is ignited.

Survival has been the most important outcome for Syme-Woolner, now well into its second year as a merged organization. They have achieved a broad continuum of integrated services: programs for families now extend from pre-natal through adulthood, allowing for “one-stop shopping”. A stronger, committed staff team, with a greater range of knowledge and experience, has now solidified. Community and funder support has increased as they achieved the critical mass required for greater public presence. United Way membership has been attained. There have even been some cost savings.

For the merged CMHA, increased administrative efficiency has been among the biggest benefits one year after the merger. They are already seeing the program redesign result in better quality services and more alternatives and choices for clients. Having succeeded in the merger process, the agency’s reputation has been enhanced among funders and other stakeholders who have encouraged the rationalization of the charitable sector. New people, new ideas, unleashed creativity, and excellent learning opportunities have produced a synergy which has made the merger worthwhile.

This is the essence of a successful merger: a new whole which is greater than the sum of the pre-existing parts.

Should your organization be considering a merger?

Thomas A. McLaughlin, in his book, *Nonprofit Mergers & Alliances: A Strategic Planning Guide*, predicts that innovation in nonprofit organizations today and into the 21st Century will occur not in their programs but in their structures and management. He believes, consequently, that <u>all</u> nonprofit organizations must consider mergers in their strategic plans.

You may not agree that all charities should be contemplating merger, but if your organization can answer yes to several of the following questions, you should be seriously considering merger as a strategic option:

1. Does your organization offer only a piece of a larger service delivery pie?
2. Are your services similar to those of another group in your area or do you serve a related population?
3. Is your long-term funding in jeopardy?

4. Is it necessary to curtail or postpone necessary expenditures due to dips in your cash flow?
5. Are you struggling to recruit volunteers and board members?
6. Are your volunteers, board members and staff burning out?
7. Is the Executive Director/C.E.O. position vacant or soon to be vacant?
8. Are staff required to be Jack's/Jane's of all trades, but able to be masters of none?
9. Are your image and profile suffering due to a scandal or shift in community priorities?
10. Does confusion exist in the community regarding what your organization does?
11. Is the community uncertain as to how your services differ from those of similar organizations?
12. Are your service users asking for something that you do not or cannot currently provide?
13. Is an inadequate infrastructure or lack of expertise preventing your organization from growing?
14. Ultimately, would services to your community be improved by combining with another organization?

Tips for a successful merger

In a successful nonprofit merger 1+1=3. Here are some ideas to help make that happen:

1. **Do it before you have to.** Thomas A. McLaughlin, author and nonprofit consultant, advises that mergers are best done before a crisis hits, when all decisions can be well considered.
2. **Focus on mission and values.** Joanne Kidd of the CMHA recommends starting merger talks by developing a shared set of values. Move past blockages by asking "Does it fit with our values?", "Why are we here?". Liz Bonanno of Syme-Woolner says, "Put the community first."
3. **Take time to get to know one another.** Trust is essential in merger negotiations, and only comes with exposure. Have joint board or staff events, or conduct small joint projects to build a base of trust.
4. **Strive for the best possible organization.** Establish a vision. To achieve that vision, look for the best practices of each of the merging partners, as well as innovative practices not currently in use.
5. **Exercise strong leadership.** Board and senior staff must buy into the process and be willing to take the necessary risks. They must articulate the vision and provide direction for its attainment.
6. **Use a trusted, knowledgeable facilitator.** Liz Bonanno recommends that a facilitator can help to develop a process, establish ground rules, avoid pitfalls and negotiate conflicts.
7. **Get all the cards on the table.** Full disclosure contributes to trust. Discuss non-negotiables, assets and liabilities up front. Bob Wyatt suggests, "Be willing to show your warts."
8. **Keep people informed and involved.**   Timely, clear and open communication with all stakeholders throughout the process calms their anxiety and secures their support. People will take ownership in the new organization and its

success if involved in the plans and decisions which affect them.

9. **"Deal with the people side of the equation,"** advises Joanne Kidd. Attend to people's feelings about change. Take steps to help people let go of the old so they can move on to the new. Make time for team building. Work through culture clash. Deal humanely and expediently with redundant staff.

10. **Develop a thorough integration plan.** Integration will not occur on its own. Articulate the goals for the new organization, and have teams create and implement the blueprint to achieve those outcomes.

11. **Move to the sunshine as quickly as possible.** While mergers require thoughtful planning and implementation, stress is created by getting hung up on detail and allowing negotiations to drag on.

This article is one in a series being written by Sherry Ferronato and Jim Campbell, Co-Directors of a successfully merged organization, Big Sisters and Big Brothers of Calgary and Area, as part of the Muttart Foundation Fellowships. The articles explore current issues in the management of not-for-profit organizations.