



## Tools You Can Use

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November 15, 2007

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*From Becky Andrews, Marketing Manager, Fieldstone Alliance*

NONPROFIT MERGERS are on the rise. The reasons are varied, but many organizations are looking for ways to combine their resources and expertise with others to gain some economies of scale and perhaps position themselves to win more grants and contracts. But is a merger right for your organization? This issue of *Tools* explores that question. The material is excerpted from pages 4-8 of [The Nonprofit Mergers Workbook Part I: The Leader's Guide to Considering, Negotiating, and Executing a Merger](#), by [David La Piana](#).

#### **Why Merger?**

Economic pressures, greater competition, new opportunities, a desperate desire to refocus on mission, basic changes in the paradigm of human service delivery, decreased arts funding, workplace giving (you choose), are all challenges that push nonprofit managers to consider new and different solutions to their problems. "We can't go on long like this," is a frequent lament.

This is clear enough, but the question remains, why merger? What does this solution offer? The participants in a merger often hope for benefits that are immediate and quantifiable:

*We need to squeeze an extra twenty thousand dollars out of next year's budget. Maybe a merger will do that.*

*If we go from two executive directors to one, we'll save enough to hire an additional social worker and to pay the rent increase.*

### **What a merger *won't* do for you**

Unfortunately, immediate savings are seldom the case in a merger. In fact, the costs of a merger transaction can be substantial. While grant assistance may be available and costs can be controlled through a variety of techniques described in *The Nonprofit Mergers Workbook Part I*, two facts remain:

- Money will be spent to create your partnership—lawyers, consultants, printing, moving, and other one-time costs can add up.
- Any savings realized by consolidating the executive director positions and other administrative positions will probably go quickly to meet another need—to augment or create a development department, to underwrite a sorely-needed chief financial officer position, to grant salary increases that level the playing field between organizations, or to buy new equipment.

There is no question that these are important things on which to spend money, and that they can add value to the merged organization, but in making these choices, you have not actually lowered operating costs, and you have not in the end saved money.

### **What a merger *can* do for you**

The real benefits of merger are not short-term and tactical but medium- to long-term and strategic. They take time, planning, and funding to realize

- Better market positioning
- A larger market share
- A higher public profile
- Greater political influence
- More strategic fundraising
- A larger staff, allowing greater specialization of functions and the provision of more service
- The creation of a continuum of services under unified control
- Better economies of scale

### **When to Consider a Merger**

A merger should be considered when

- The level of integration and synergy sought by the potential partners cannot be achieved through lesser means
- Clients and the community already think of the potential partners as the same organization, repeatedly confusing their identities
- A larger entity is needed to compete with other large nonprofits or businesses
- The organization has lost steam, experienced a scandal, or for other reasons cannot sustain and renew itself

Mergers are powerful tools that should be applied judiciously. A merger should never be

acquiesced to solely because a major funder is demanding it; executive directors have arranged it (along with their future roles in the merged organization); or the board chairs, old friends, discussed it among themselves and thought it a great idea.

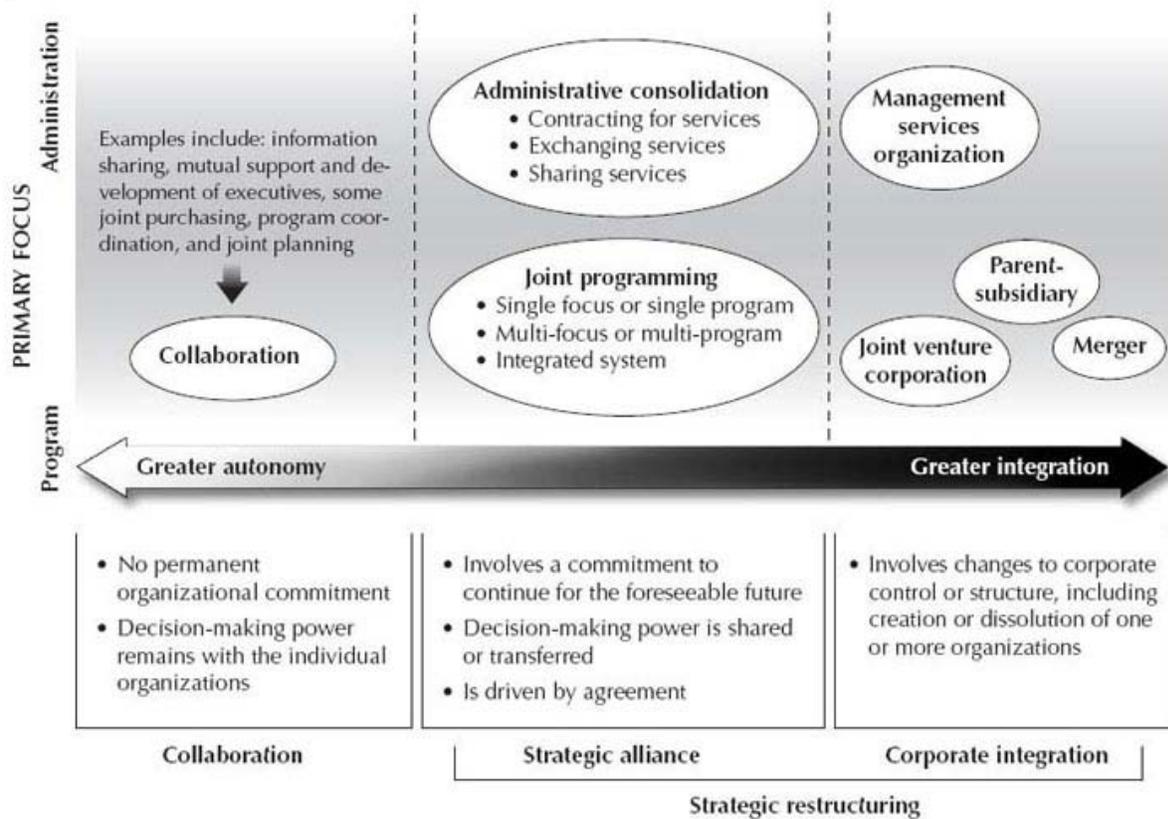
When properly conceived and implemented, however, a merger can strengthen your organization by allowing you to benefit from your partner's experience, resources, and skills. This is most often a two-way street, with your organization also contributing experience, resources, and skills to the mix. Look to the potential whole. Is it greater than the sum of the two separate organizational parts? If so, merger might be the right option for your organization.

### **Other Partnership Options**

Other partnership options yield some of the same benefits as a merger, while preserving a greater degree of independence. These options should be reviewed before a merger is decided upon. La Piana Associates, Inc. developed The Partnership Matrix (Figure 1) to help their clients understand the range of strategic restructuring and collaboration options available.

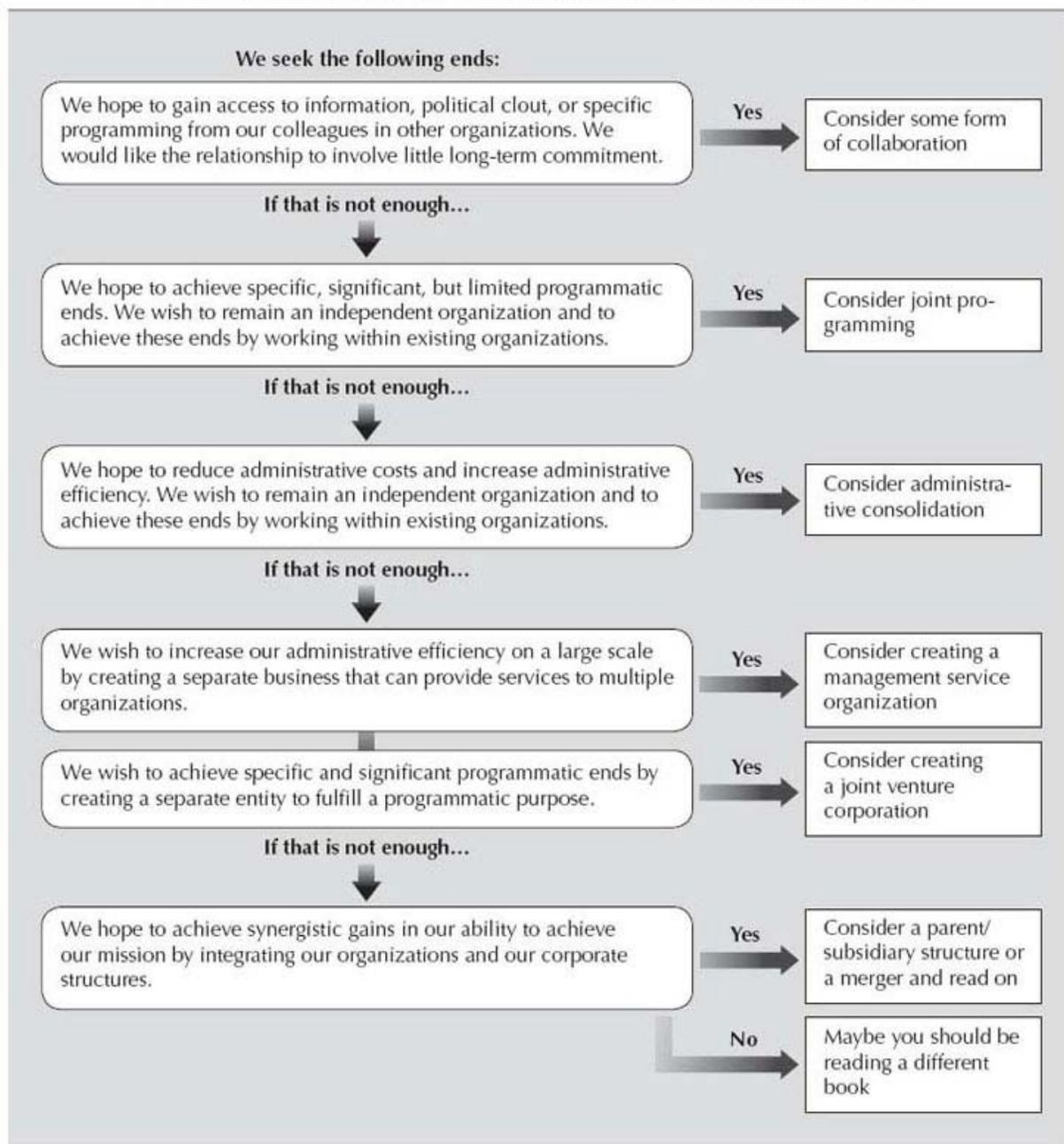
These options lie in a field defined by both a horizontal axis and a vertical axis. Generally, as you move toward the right along the horizontal axis, you experience a higher level of integration and a corresponding lessening of autonomy. The vertical axis represents the degree to which a partnership focuses on programmatic issues (the direct services that an organization provides), administration (the office and management functions that support operations), or a combination of both.

Figure 1. The Partnership Matrix



The Decision Tree below, when used in conjunction with The Partnership Matrix, will help you determine which form of partnership is right for your organization. Work through the Decision Tree with a group of informed leaders from your organization.

### Decision Tree 1. What Form of Strategic Restructuring is Right for Us?



Obviously the topic of mergers is complex, but hopefully this article provides some insight on the things a merger can and can't do for your organization and what some of your options are. See the resources below for more in-depth information as well as details about David's book.

### Additional Resources

## **La Piana Associates, Inc.**

<http://www.lapiana.org/sr/index.html>

This site is dedicated to partnership options for nonprofits. You'll find research and resources, case studies, tips, answers to your questions, and information about the services La Piana Associates offers.

- [Read David La Piana's bio](#)
- Publication: **Strategic Restructuring for Nonprofit Organizations: Mergers, Integrations, and Alliances.** (A free electronic copy of the Phase 1 report can be downloaded from the [Chapin Hall Center for Children web site](#). (You must register on the site to download the report. The full book can be purchased on [Amazon.com](#).) This is a national study on strategic restructuring among nonprofits. The book is based on information gathered through conversations with many managers, staff, and board members who have engaged in strategic restructuring. This research helps answer questions about the impact of strategic restructuring on individual organizations and the nonprofit sector as a whole. Their answers are based on a three-year study on the topic—including surveys of over 400 nonprofits nationwide, six in-depth case studies, and interviews of 20 leaders in the nonprofit sector.

## **Fieldstone Alliance**

- Article: [Organization Assessment: Stepping Back...Taking Stock](#)  
The end result of an organization assessment is an accurate and sometimes painfully honest picture of the organization's current situation, including it's strengths, weaknesses, challenges, and choices for the future.
- Article: [Six Keys to Successful Organizational Assessment](#)
- Services: Fieldstone Alliance's consulting team has extensive experience helping foundations, nonprofits, and networks develop clear vision and strategy and create strategic and business plans to guide their work. We know how to infuse organizations with strategic thinking and capacity for nimble action. For more information, contact Gordon Goodwin at 651.556.4502 or [ggoodwin@FieldstoneAlliance.org](mailto:ggoodwin@FieldstoneAlliance.org).
- Publication: You may also be interested in David La Piana's other book on mergers: [The Nonprofit Mergers Workbook Part II: Unifying the Organization after a Merger](#). This book shows how to bring together people, programs, processes, and systems from two (or more) organizations into a unified whole.

## **NeighborWorks America**

- Report: [The Making of a Nonprofit Merger](#) (pdf). This report describes the merger process of two affordable housing organizations. It examines what went right and what went wrong.

## **The New York Times**

- Article (11/11/07): [Charities Trying Mergers to Improve Bottom Line](#)

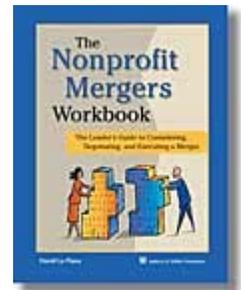
All the Best,

Becky Andrews  
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November 15, 2007

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This issue is adapted from [The Nonprofit Mergers Workbook Part I: The Leader's Guide to Considering, Negotiating, and Executing a Merger](#), by David La Piana.



From assessing reasons and readiness, to finding a partner, to negotiating the best path, to budgeting and implementation, author David La Piana guides you through the maze of options with a steady hand. Based on experience with more than sixty mergers, this handbook is the perfect starting point for any nonprofit exploring a possible merger—and a basic resource for all nonprofit managers.

\$34.95, Item No. 069210. You can order online or call us at 1-800-274-6024.

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