VALLEY NONPROFIT RESOURCES
Building Stronger Nonprofits in the San Fernando Valley

Mergers and Alliances: Should More Charities Consolidate Operations?*

The recent downturn in the economy has caused many nonprofits to search for ways to cut their operating costs without those cuts affecting the services they deliver. One way to address this challenge is by collaborating or merging with another organization. Some groups are doing this by sharing resources or collaborating on special events while others are exploring legal mergers.

To explore when these arrangements make sense, discuss common pitfalls, and consider tactics to employ the *Chronicle of Philanthropy* hosted a live online discussion, "Mergers and Alliances: Should More Charities Consolidate Operations," on December 2, 2008. The discussion featured two subject matter experts: William Foster, who works with charities planning reorganizations, mergers and expansions at the Bridgespan Group, a Boston organization that advises charities on management issues, and Lois Savage, president of the Phoenix-based Lodestar Foundation, which has been working to promote collaboration among nonprofit groups by offering cash awards to successful collaborations. Key points made during the discussion are summarized below.

Starting the Conversation

Because some nonprofits may be reluctant to share ideas and tools with other similar organizations, it is important to initiate the conversation in a non-threatening way. Some ways for doing this include:

- Use an intermediary, such as a board member, to broach the conversation. An unofficial conversation between board members of the agencies is a good way to start.
- Facilitate a meeting of Executive Directors who work in the same area to discuss common problems and strategies. This is a good way to start breaking down silos between organizations to make working together a viable option.
- Structure the conversation around what your strategic goals are and if collaboration/merging is the best route. Make sure to articulate your reasons and to consider where the other organization is as that might influence the choice.
- A common challenge is concern of board members, which may affect the ability to move forward productively. Board members are legally vested decision makers who should not be seen as a barrier but an important part of the process. In some cases discussions with fellow board peers who are familiar with the process can be helpful in building confidence of hesitant members.

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The Role of Funders

Funder mandated collaborations don't generally produce long term successes as they usually fall apart when the funding stops. The most durable collaborations develop from the ground up, not the top down. Some things funders can do to encourage nonprofits to collaborate include:

- Require grant applicants to list their peers or competitors in the proposal they submit, which may identify potential collaborators.
- Fund a periodic gathering of nonprofits working on similar issues, to network and explore ways they might work together. There are several foundations that regularly convene their grantees to share information.
- Provide technical assistance funding to nonprofits exploring long term collaborations. This funding can help pay for items such as: coordinators for alliances or coalitions, consultants to help prospective collaborators determine whether to and how to move forward, or rent subsidies for co-locating groups.
- Serve as matchmakers that identify and introduce good opportunities, and then underwrite the cost of due diligence and of collaboration itself.

What to Consider

The vast majority of nonprofit mergers are pursued somewhat haphazardly. It's important for both parties to thoroughly think through the long term strategic benefits and downsides.

When exploring possible mergers remember to consider the following:

- Are your plans too ambitious to complete in the time you are allotting for implementation? If one or more of these things fall off track, how will they affect the rest of the process?
- Are you focusing your attention equally on operational changes and program work? Is focusing your attention more on one detracting from the other?
- Will these changes be made so that employees still feel part of the organization and remain invested in program outcomes?
- Major success factors in merging into one larger organization include: (a) expressing a clear understanding of why the change is happening, (b) demonstrating good decision making (not ad hoc or one-off), (c) having a transparent process and some early wins, and (d) making sure that the new entity has a culture that people are proud to be a part of.
- A common barrier in merger considerations can be the executive leadership of each organization. Beginning the conversation at the board level will remove some of the initials emotional barriers to the conversation. You can't have a large group of

employees making decisions for the organization when it’s really not clear what their roles are going to be in the new structure.

Resources

- La Piana Associates has a number of tools and case studies available on mergers and collaborations (www.lapiana.org)

- *Collaboration: What Makes it Work* is a helpful book published by Fieldstone Alliance (www.fieldstonealliance.org)

- Aspen Institute has produced useful literature on this topic (www.aspeninstitute.org)

- The Bridgespan Group recently completed a study of 3,400 nonprofits involved in merger activities in the nonprofit sector in the last 10 years across four states (www.bridgespan.org)

- The Lodestar Foundation started "The Collaboration Prize" earlier this year in order to build the information base on effective models for nonprofits. They have received 644 nominations and have 30 semifinalists listed. The winner will be announced in March 2009. (www.lodestarfoundation.org)

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