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Non-Profit Mergers: Opportunities and Challenges for Fundraising

The decision to merge non-profit organizations is thought to be motivated primarily by three perceived advantages: 1) increased efficiency; 2) increased effectiveness; and 3) increased stability of funding. To this last point, mergers that seek to stabilize funding are typically triggered by changes in donor behavior, by increased competition (sometimes from for-profit companies), and/or by broad societal changes such as business cycles or new legislation.

As a practical matter, while we speak of mergers, in fact the most common scenario is a strong organization assuming the assets, liabilities, and activities of a weaker organization.

While most non-profit organizations will survive the economic stress of 2009, structural changes in the U.S. economy are likely to trigger increased numbers of organizations seeking strategic partners to carry out their missions. In many respects, this consolidation is healthy; less efficient or effective organizations are weeded out without completely ending the value they produce for society. The non-profit sector as a whole is stronger when private and public dollars go organizations that are best positioned to fulfill their charitable missions.

Mergers (or collaborations for that matter) present both major opportunities and challenges for the non-profit organizations directly involved. Opportunities include enhanced capacity to deliver needed services, expansion of geographic reach or programmatic tools, and less competition for resources to support similar missions. Challenges include integrating often disparate organizational cultures into one healthy, productive organization, and correctly estimating the time, effort, and financial resources required to reach operational stability.

The impact of a merger on fundraising is best understood by examining the key elements for fundraising success: a viable mission, compelling case for support, appropriate leadership, engaged donors, solid donor recognition and stewardship programs, and the ability to execute.

Mission

Just like mergers in the for profit sector, non-profit organizations must have a compelling mission fit that makes merging irresistible to the parties involved. This is the fundamental litmus test that the parties must pass in order to proceed to the next building block: will society be better off if our two organizations were to merge?

Smart CEOs and non-profit boards rigorously discuss this and other questions including:

- In what ways is the mission of our potential merger partner compatible with our own mission? In what ways does it conflict with our own?
- How effectively has our partner carried out its own mission?
- Will differences in philosophy or approach to fulfilling our missions require us to change or eliminate programs?
- What tensions or points of resistance related to mission fit are likely to manifest themselves during and after the merger?

Case for Support

Once the parties have confirmed the compatibility of their missions, the next step is to determine the ways the case for support will be enhanced by merging. The case, simply stated, is the most compelling rationale an organization can offer for why it is worthy of philanthropic support. It takes the mission statement off of its revered pedestal and puts it to work.

Under the merged entity, the non-profit leadership team needs to articulate succinctly – qualitatively and quantitatively – what the merged entity brings to the philanthropic marketplace. How does the merger make the organization more worthy of support?

Prospective donors must clearly understand the benefits of merging. To this end, savvy non-profit organizations convene working groups of stakeholders to react to the new case. They make sure that board members with significant philanthropic experience have at least attempted to dispassionately critique a working draft of the case prior to merging.

Leadership

Often whether to merge or not boils down to one word: trust.

The CEO of each organization must fully understand what the ramifications of a merger are, not only for their own jobs, but those of their staff teams. In this regard, they need to trust that their boards have a thoughtful, fair plan for dealing with the very real possibility of reductions in staffing or other changes to employment status.

In turn, non-profit board members need to feel that their skills and talents are recognized and appreciated by staff and that they will have a role to play both during the merger process and thereafter.

When people care deeply about the non-profit organizations that they have served for years, change is threatening. It is to be expected that people may act out in ways that seem out of character – especially when going through a change as profound as a merger. Feelings of loss and even anger can surface. If the partner organization is not seen as a peer, the merger can feel like failure.

The best insulation against these circumstances is to acknowledge early in the negotiating process on all sides that, while there is a business element to the discussions, there is also a human component that needs to be acknowledged and celebrated where possible. Often this is best handled through externally facilitated team meetings and/or creating *ad hoc* committees comprised of representatives of both parties – staff and volunteer – so that each side can get to know each other and build the trust necessary for a successful merger.

One of the biggest challenges to a trusting relationship is the number of board seats that the weaker organization will be offered as part of the merger. Here, organizations are wise to look carefully at their own policies and procedures. Some questions to ask include:

- What monetary and intrinsic value does each entity bring to the merger?
- Did the board of the weaker organization dutifully fulfill its responsibilities?
- If not, what are the ramifications for allowing any of the board members to serve after the merger?

In a sense, there is little difference between the value an individual donor brings through a contribution of personal assets, and the value a non-profit brings through the absorption of its net assets by another. The leadership of the stronger organization needs to ask itself under what circumstances would board seats be offered to a donor bringing a gift of similar size to the net assets.

Donors

Longstanding donors care about the organizations they support. When they learn of a potential merger, strong feelings surface (see above).

Major donors should hear the news early on and, in some cases, might be candidates to serve on a transition committee. It is vitally important for both parties involved in merger talks to have clear, written plans for how all donors, but particularly major donors, will be engaged, informed, and involved throughout the merger process.

As one of the greatest, and in some cases the only real asset that an organization might bring to the table for a merger discussion, donors need to fully understand the rationale for the merger. Regardless of the care taken, the number of donors to the new organization will drop in the first year. This can be offset by key, close-in major donors wanting to invest in the merged entity due to the excitement around new opportunities the merger has created. Non-profits need to remind themselves that donors are not easily herded from one organization to another.

When a donor is blind-sided by any major news the results can be disastrous, and this is as true of mergers as it is of scandals. Great pains must be taken to explain to the donor base how their gifts will be handled under the new entity. They need to be assured that they, too, are valued, and cultivated and solicited as if they have never supported the sponsoring organization, which, in most cases, they have not. While the database might be merged quickly, emotionally willingness to change lags.

Recognition and Stewardship

One of the best ways for a newly merged organization to alienate the donors of the former organization is to forget about them. Forgetting them in the annual report, losing records in a poor database conversion, or not passing along donors' tastes and preferences in the transfer of institutional knowledge from one organization to the other, all contribute to donors feeling as if they are not valued.

Here, the newly merged entity would be wise to acknowledge going into the process that it might make mistakes in listing names in annual reports, in gift receipting, etc. Some might say that this situation is best handled on a case by case basis; however, when moving a large number of relationships from one organization to another, errors of omission are guaranteed along the way. All public announcements related to the merger should be forgiveness based. For example:

"Over the course of this fiscal year, XYZ successfully merged with ABC. We are pleased to acknowledge all of the individuals, corporations, and foundations who supported ABC, and look forward to earning your continued support for the mission of ABC through XYZ. We ask for your patience during our transition and regret any errors or omissions that occur below. For questions or comments please contact...."

Ability to Execute

Mergers acutely impact non-profit fundraising programs and their staffs. Every event, appeal, policy and procedure, staff position, marketing element and activity, etc. of the two organizations needs to be integrated into one. Redundancies, if permitted in the newly merged organization, will reduce the efficiency of fundraising and may confuse donors.

The better the merged organization is able to execute its fundraising, the greater return on investment and donor satisfaction it will achieve. A merger presents a unique opportunity to pick the best resources and activities from each organization. This can be accomplished in the least threatening manner through an objective assessment of the organizations' respective fund development programs. Recommendations on the course of integration are more easily accepted and defended when delivered by an objective third party.