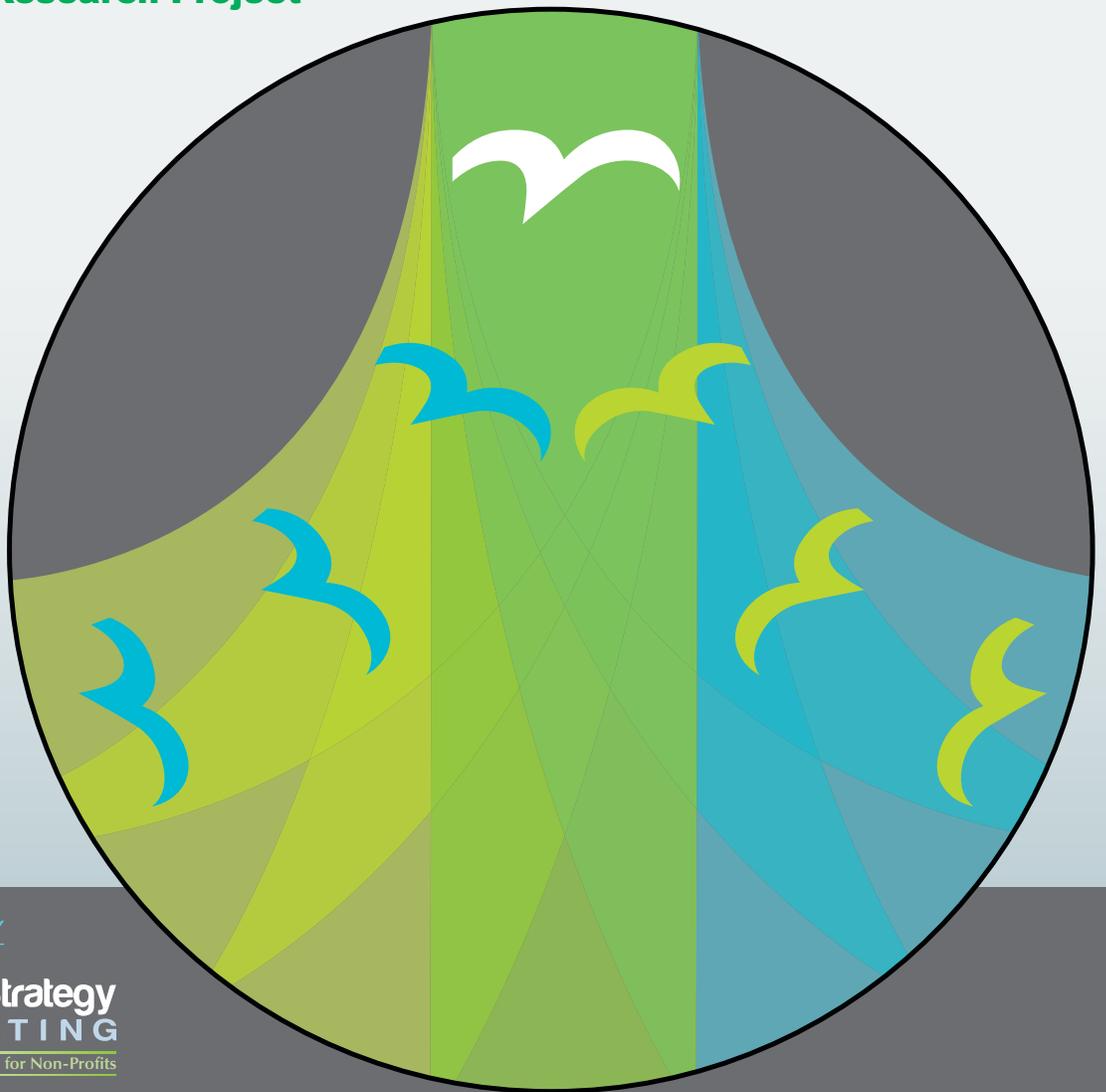


MERGERS AS A STRATEGY FOR SUCCESS

**2016 Report from the Metropolitan Chicago
Nonprofit Merger Research Project**

Donald Haider
Katherine Cooper
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REPORT COMMISSIONED BY



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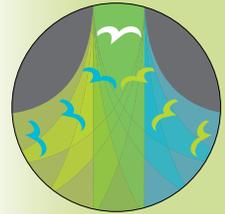
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The Metropolitan Chicago Nonprofit Merger Research Project

The Metropolitan Chicago Nonprofit Merger Research Project is a partnership between Mission Plus Strategy Consulting, a Midwest consulting firm based in Chicago specializing in nonprofit restructuring and the Chicago Foundation for Women.

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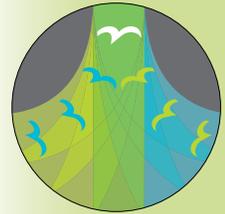
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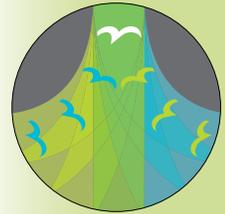
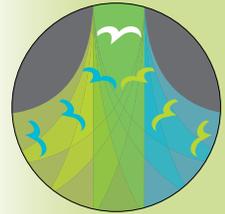


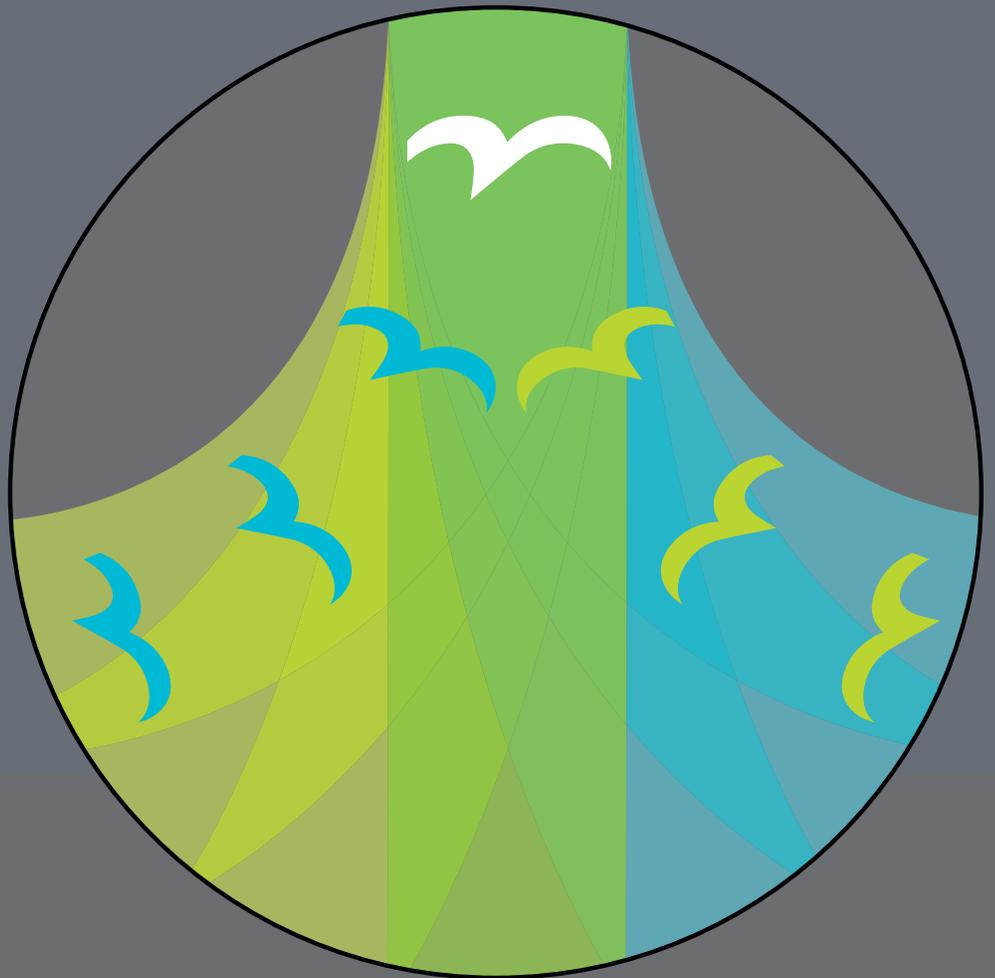
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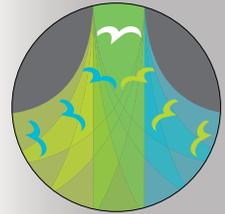


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EXECUTIVE SUMMARY



- **Purpose and Goals**
- **Methods**
- **Key Findings**
- **Critical Issues in Merger Negotiations**
- **Ten Keys to Merger Success**
- **Recommendations for Merger Participants**



EXECUTIVE SUMMARY

The purpose of this study is to explore how nonprofit organizations can use mergers as an effective and powerful tool to achieve their goals, advance their mission, and increase their impact. The study analyzes 25 nonprofit mergers that took place in the Chicago metro area between 2004 and 2014 and highlights the diverse paths these organizations took to arrive at positive outcomes.

While nonprofit mergers have been researched elsewhere (recent studies examine mergers in California, on the East Coast, and in Minnesota), this report marks the first look at mergers in the Chicago metro region. We built on these earlier studies and have added elements and concerns not previously addressed. One notable distinguishing feature is an examination of four cases, in addition to the 25, of mergers that did not complete.

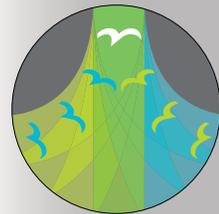
In presenting our findings, we aim to help nonprofits and their partners in the foundation world learn how to better utilize merger strategies. The timing is right: the continuing fallout from the recession and the poor economic health of the State of Illinois will have negative effects on nonprofit revenues for some time. Organizations may need to seek out other strategies, including mergers, if they wish to grow, improve services, and become more effective—or, in some cases, just remain viable.

Through interviews with merger participants, the study offers a qualitative analysis of the entire merger process. It covers:

- Why the organizations sought to merge
- How the participants went about finding an appropriate partner
- How they conducted negotiations
- How they met the challenges that occurred along the way in order to achieve positive outcomes
- What their post-merger organizations look like

In 88 percent of the mergers, participants felt that the post-merger organization was better off than the acquiring or acquired organization.

Above all, the study reveals that mergers don't follow a set course: each one is unique. Every organization has its own set of goals, circumstances, and personalities. A successful merger is one that meets the needs and goals of all the parties involved and leads to improved services or increased impact.



Though the mergers presented here varied in type, process, and degree of success, all the study participants had invaluable observations and suggestions that can be used to guide organizations contemplating merger. In fact, these observations and suggestions serve in this study as a key tool to educate nonprofits, funders, and others about successful merger strategies.

Purpose and Goals

This study analyzes the use of merger strategies and their impact and outcomes in order to provide nonprofits and their funders with the information they need to conduct, support, and promote mergers that advance mission goals.

Major goals of the study are to educate nonprofits and funders about how mergers can

Mergers can be used strategically by all parties not simply to grow or survive but to accomplish specific mission goals and increase impact.

be used to achieve mission and increase impact;¹ to raise awareness and educate nonprofits about different kinds of merger strategies; to determine how to increase strategic, successful mergers within the metropolitan Chicago nonprofit sector; and to show how grantors and grantees can work together to bring about mergers with positive outcomes.

Methods

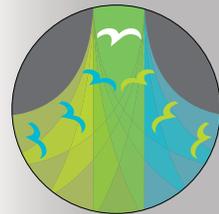
The study analyzes nonprofit mergers that occurred in the Chicago metropolitan area between 2004 and 2014. We conducted more than 100 interviews with key participants in 25 completed mergers, including participants from both acquiring and acquired organizations. The interviews covered the three stages of a merger: pre-merger, merger negotiation, and post-merger. We also examined four additional cases that did not result in completed mergers.

Findings were derived primarily from two methods:

Survey data generated from the interviews. All participants were asked the same questions from a questionnaire developed by our research team. The responses enabled us to compare and contrast mergers across a range of nonprofits; identify the motivations, challenges, actions, and outcomes that our respondents had in common; and identify important factors that led to variations in the merger experience.

In-depth case studies of 5 mergers from among the 25 cases. By conducting a deeper exploration of five mergers, we could more closely identify factors and elements that contribute to highly successful mergers.

¹ To learn about types of restructuring other than nonprofit mergers, please refer to the bibliography in the Nonprofit Merger Toolkit.



Key Findings

Though this study presents a predominantly qualitative analysis, the survey enabled us to quantify some of our key findings. Our most important finding was that in 88 percent of the mergers, in terms of achieving organizational goals and increasing impact, interviewees from both the acquired and the acquiring nonprofits felt that the organization was better off after the merger.

On the question of why the participants sought out mergers, almost all merger participants cited growth as their primary merger goal, including those experiencing financial challenges. Further, most sought either more efficient/higher quality services or to expand their operations into new or different services.

Other significant findings include the following (in chronological order based on the merger process):

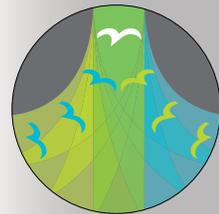
- In 60 percent of the cases, the acquiring organization had experienced a prior merger.
- In 80 percent of the cases, a prior relationship or collaboration existed between the organizations that merged.
- In 60 percent of the cases, the acquired organization initiated the merger discussion.
- In 80 percent of the cases, the merging parties engaged a third party consultant or facilitator.
- In 85 percent of the cases, the board chair or a board member from one of the organizations emerged as the chief merger advocate.
- In 44 percent of the cases, donors paid part or most of the merger costs.

Critical Issues in Merger Negotiations

The critical issues were:

- Finding the right partner is a challenge
- Staff retention difficulties arose in almost all cases
- Program continuation and legacy concerns can be difficult
- Board member transition and retention to the merged organization is commonly an issue
- Liabilities must be carefully investigated and vetted to determine their impact on the future organization
- CEO/ED succession can be contentious and even controversial between organizations
- The naming and branding of the new organization is often a difficult issue²
- Integration requires careful planning between the parties
- Funder involvement produced mixed responses from participants

² Milway, et al., “Why Nonprofit Mergers Lag.”



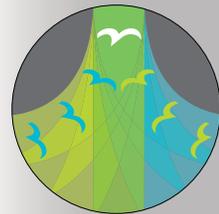
Understanding the thorny issues that arise during the merger process and learning how these issues have been successfully resolved can be extremely helpful for those considering or engaged in a merger. This study highlights what the participants considered to be the most significant issues/challenges and relates how those challenges were addressed.

These issues consistently arose across the merger cases, sometimes threatening to derail the process. As will be seen, the resolutions achieved by the study participants include a wide variety of options and alternatives.

Ten Keys to Merger Success

As a vital way to educate nonprofits on how to achieve positive merger outcomes, we decided to “ask the experts” for advice—in this case, not academics or consultants, but our interviewees: nonprofit leaders who had themselves gone through the merger process. We asked study participants to divulge the most important factors for success, based on their own experience. The most common themes that arose were the following:

1. Trust is the glue that holds together all other issues in merger negotiations.
2. Mission, mission, and more mission: the most successful mergers are mission-driven.
3. In the most successful mergers, all parties are clear about their organization’s overall goals and use the merger as a strategy to achieve those goals.
4. Know yourself and know your counterpart: participants should make sure to acquire as much information as possible about their potential partner.
5. The CEO is often critical in prompting discussions about a merger strategy, especially when the CEO position is in transition.
6. Boards/board chairs must be merger advocates for mergers to succeed.
7. Staff involvement, particularly management, is critical to the success of a merger and certainly to post-merger integration.
8. Leaders must pay attention to cultural alignment, pre-merger and in the merger integration process, if the merger is to succeed.
9. Most successful mergers rely on outside experts, who may include attorneys, accountants, merger facilitators, and/or others.
10. Mergers participants must do their homework regarding all aspects of the process and become familiar with merger strategy.



Recommendations for Merger Participants

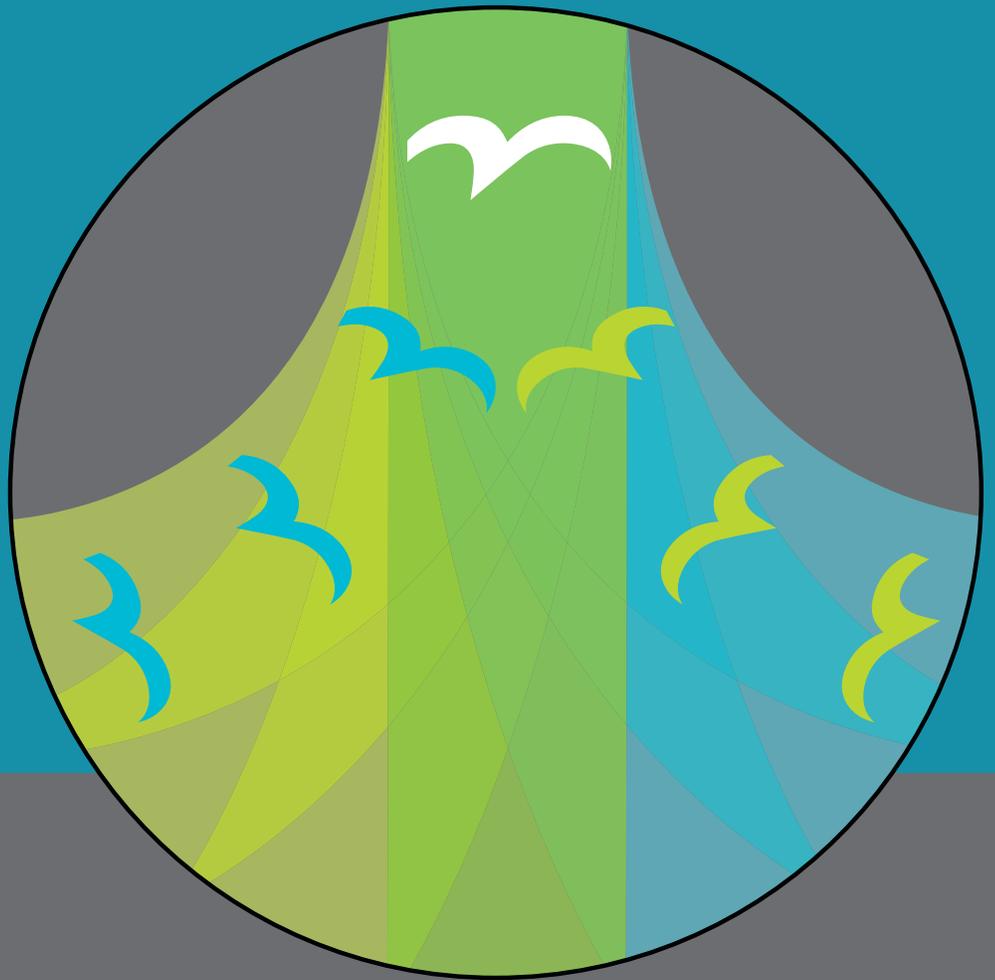
In addition to offering advice to organizations, participants were also asked to offer their recommendations for specific players—board, executive staff, and foundations—in the merger process.

Recommendations to board members included the following: adherence to mission; clarity in merger purpose; be prepared to lead and manage the merger process; seek outside expertise.

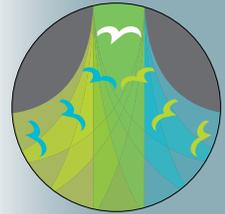
Recommendations to CEOs and executive staff included the following: prep your board on the critical issues your organization faces as it goes through the merger process: set a vision for the merger with clear objectives and expectations.

Recommendations for funders included the following: more transparency and greater clarity regarding funder policies on mergers and merged organizations; greater financial support to help merging organizations navigate the process; better communication and collective action among funders and merger supporters; proactive use of leadership experience and wisdom of those who have gone through a successful merger with those who are new to the strategy.

I. INTRODUCTION



- **Goals of the Study**
- **Merger Definition(s)**



I. INTRODUCTION

With the onset of the Great Recession of 2008, many observers predicted that a record number of nonprofit mergers would ensue. The nonprofit sector was hard hit: one expert suggested that as many as 100,000 organizations might not survive. Indeed, reported *The Chronicle of Philanthropy*, 20 percent of nonprofit leaders believed that mergers would play a big role in their response to the economic downturn.³

A CASE STUDY STORY

The 2012 merger of the Chicago Foundation for Women and the Eleanor Foundation involved an asset transfer, with the Eleanor Foundation dissolving as a separate entity. But its legacy and programs lived on to such an extent that the merger was, in effect, a strategic alliance, and was labeled as such by both parties.

For more on this merger, see page 68.



Yet, while the corporate world experienced considerable restructuring, nonprofit merger and acquisitions activity did not appreciably increase. Despite reduced government spending and a decline in philanthropic giving, one study of merger activity in four states from 2007 to 2012 found no increase in overall nonprofit mergers.⁴ Illinois did see increased activity, but not as much as predicted.

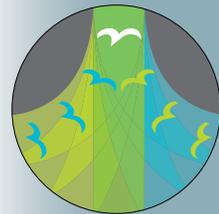
But if the experts were wrong about a jump in mergers, they were right about one thing: many organizations did perish, if not from the recession itself then from the aftershocks—in Illinois, in particular, from the state’s ongoing fiscal crisis. Most disturbing to Chicagoans, such venerable institutions as Hull House and the Marcy-Newberry Association closed their doors. Whether mergers might have saved some of these organizations or, at least, helped them transition to a status that would have enabled their programs to continue and flourish can only be speculated.

Why are nonprofits not using merger strategies to their full potential? To some, the financial costs of merger can seem too high. Some leaders are more focused on protecting their titles and positions. Other reasons are less tangible. To many in the nonprofit world, mergers are a sign of failure. Also, misperceptions exist about the merger process and merger outcomes, with many people believing that all mergers share certain (negative) characteristics.

On the contrary, mergers can take many forms based on the particular needs of the parties involved. In fact, a successful merger is one that enables all parties to achieve

³ *Chronicle of Philanthropy*, March 12, 2009, p. 29.

⁴ Katie Smith Milway, Maria Orozco, and Cristina Botero, “Why Nonprofits Continue to Lag,” *Stanford Social Innovation Review* 12 (Spring, 2014): 48-54.



In general, nonprofit mergers can be found in virtually every area of the nonprofit sector including: arts and culture, legal services, international relations, civic and environmental advocacy, education, healthcare, and human services.

their goals. There is not one right way to do a merger; flexibility and creativity are two of the hallmarks of success, as will be seen in the examples of the organizations profiled in this study.

Certainly not all mergers are successful, and this study breaks new ground by offering an analysis of uncompleted mergers or mergers that resulted in “divorce,” in which two organizations legally merge and then go through a process of dissolving their merger. In some cases, to not complete a merger may be the right call: mergers are not the most

effective answer for every situation. As will be seen, study participants caution that mergers are not a panacea. They must be entered into only after a careful evaluation of the pros and cons.⁵

Nevertheless, *the main thrust of this study is to show that mergers can be an effective and powerful tool—not only for saving distressed organizations but for enabling nonprofits to advance their mission and increase their impact.* By showing how organizations have achieved success through merger, we hope to encourage others to seriously examine its potential to help their own organizations become stronger, more effective enterprises.

Goals of the Study

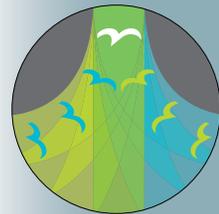
- To educate nonprofits and funders about how mergers can be used successfully to achieve mission goals and increase impact
- To raise awareness and educate nonprofits and funders about different kinds of merger strategies
- To determine how to increase strategic, successful mergers within the metropolitan Chicago nonprofit sector
- To identify specific ways foundations, intermediaries, and other resource providers can better support successful merger strategies in the nonprofit sector

Merger Definition(s)

“Merger” is a generic term for a kind of partnership in which two or more corporations become one. Some confusion exists within the nonprofit world regarding mergers partly because nonprofits have a language of their own (as does the corporate world).

Language matters. In our study, we encountered several examples where boards framed their merger in contexts such as a “combination of equals,” “a union of affiliates,” even “a conditional gift transfer” or simply as a “change of control.” Interviews suggested a reluctance to use language such as “takeover,” “deal,” and even “merger.” We also

⁵ Please see the decision tree tool in the Nonprofit Mergers Tool Kit.

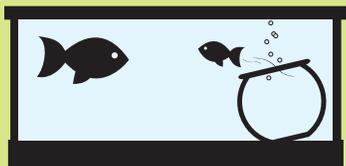


encountered harsh characterizations of mergers, particularly from acquired organizations: “financial stress merger,” “a cram-down merger,” and a “shotgun merger.”

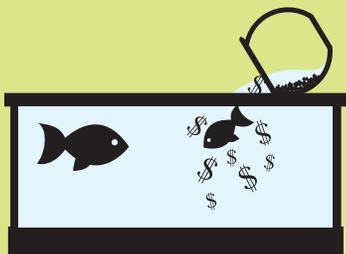
In our case studies, mergers take many forms. In legal terms, most involved an acquisition, with one party as the “acquired” and another as the “acquiring” organization. But these terms, though used throughout the study, can mean many different things:

FOUR COMMON TYPES OF MERGERS

Acquisition merger



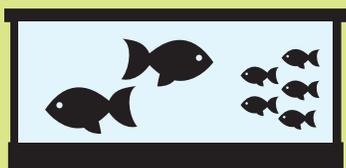
Asset acquisition merger



Merger of equals



Change of control



from cases where an acquired organization’s assets and liabilities are subsumed into a larger organization to partners of coequals. Most fall somewhere in between.

Four common types of mergers include:⁶

Acquisition merger.

Organization A (the “acquired organization”) dissolves and merges into Organization B (the “acquiring organization”).

“Asset acquisition” or “asset transfer” merger.

Organization A transfers its assets to Organization B. Its liabilities are not transferred; rather, Organization A disposes of them by other means.

Merger of equals.

Organization A and Organization B both dissolve into a new organization.

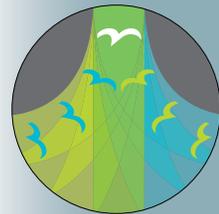
Change of control.

Not a merger per se, but an arrangement by which control of an organization is transferred to another entity. Some examples include the following: a) interlocking boards: boards are reconfigured so that two entities have the same board members, with one entity controlling both boards; b) parent-subsubsidiary: one entity rewrites its bylaws to become a membership organization with only one member, and it names the other entity as that member which, in effect, gives the parent control of the subsidiary; and c) management services contract: the board of the organization to be acquired resigns and is replaced by the acquirer’s board which, in turn, operates the organization through a management services contract.

While these definitions are offered as a guide to understanding the terms used in the study, it is important to remember that *in a successful merger, the organizations involved will negotiate a structure that is mutually beneficial and helps all parties to achieve their goals.*

Please note that by using legal terms, this document is not intended to provide legal advice. When undertaking a merger, it is important to consult with an attorney.

⁶ Adapted from David La Piana, *The Nonprofit Mergers Workbook, Part 1* (St. Paul: Fieldstone Alliance, 2000), 17-21. For more information about these models, please see *The Nonprofit Mergers Workbook*.



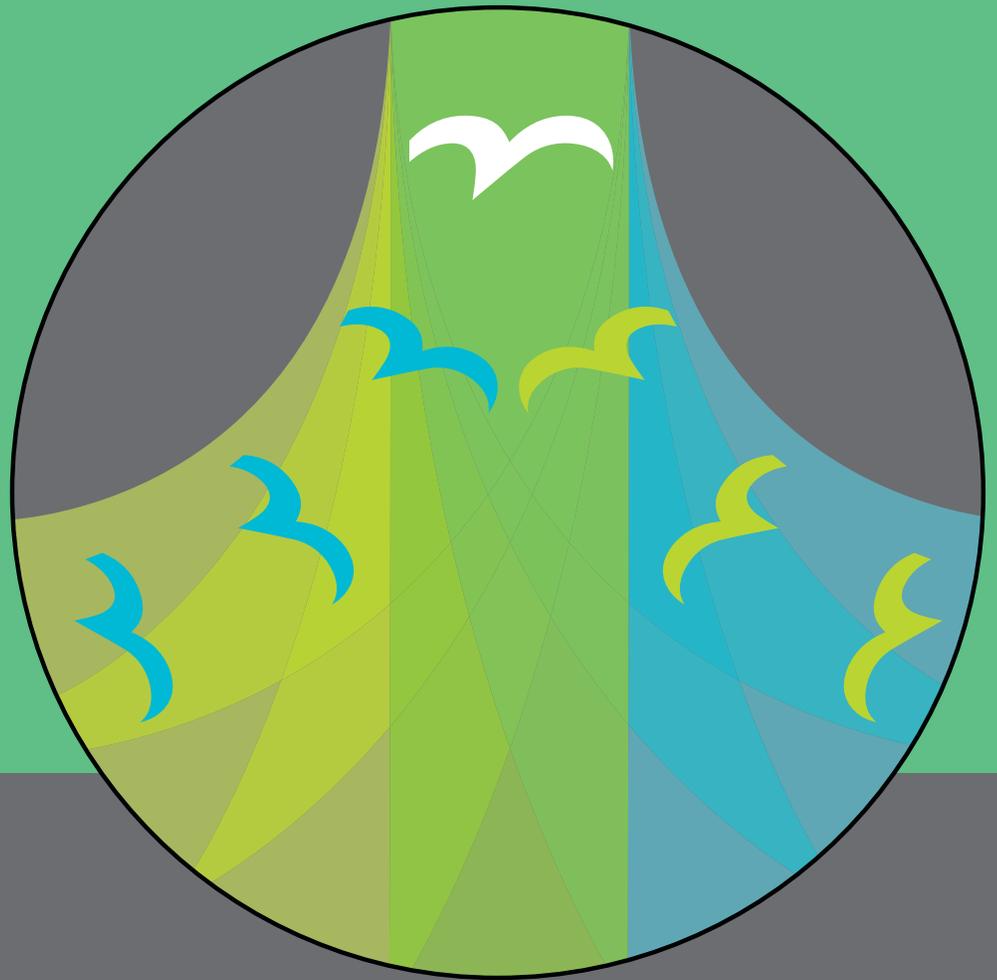
WHAT'S NEW? DISTINGUISHING FEATURES OF THE STUDY

This study contains several features that distinguish it from other nonprofit merger studies that have been completed to date.

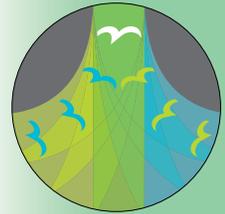
- We provide merger participants a platform to share their experiences and articulate what they learned during the merger process. To a greater extent than other studies, we use the participants' perspective in identifying challenges and offering keys to merger success.
- We give more attention and analysis to uncompleted or dissolved mergers than any previous nonprofit merger study in order to gain a greater understanding of the barriers to using mergers as an effective tool.
- We analyze and explore market forces within merger situations in arenas such as health care, adoption, job training, and literacy, an approach which is not found in most nonprofit merger studies.
- We find more mergers to be strategic in the sense of direction/purpose than commonly cited in the nonprofit merger literature.
- We find new recommendations on how the foundation sector can more effectively support merger strategies in the Chicago Metropolitan area.
- We learned the importance of the acquired organization in initiating mergers in the nonprofit sector—in 60% of the cases, the discussions were started by the acquired organization.
- We learned that succession planning can include consideration of a merger strategy as one of the options open to an organization upon the departure of a CEO.

We hope that this report will generate further discussion about the use of mergers as a restructuring tool to help nonprofits attain their mission. It is also intended to generate conversations among stakeholders in the philanthropic community on how they might more effectively support successful mergers. It provides a roadmap on where to go from here.

II. RESEARCH METHODOLOGY



- **Sampling Procedure and Selection Criteria**
- **Method and Analysis**
- **Limitations of Study**



II. RESEARCH METHODOLOGY

The research team studied 25 nonprofit mergers that occurred in the Chicago metropolitan area between 2004 and 2014. To supplement this sample, the team also drew on published reports of other nonprofits which fit the selection criteria described below.

Sampling Procedure and Selection Criteria

Two data sets were used to identify potential study participants. First, the Illinois Secretary of State's office provided a list of mergers across the Chicago metropolitan area.⁷ Second, the study's Research Advisory Committee generated a list of mergers, including many that were not on the official state list. The team developed the following criteria in selecting participants from these data sets:

Geographic focus: To better understand the local context of nonprofit merger activity, the study drew upon mergers from within the eight-county Chicago metropolitan area: Cook, Lake, DuPage, Will, McHenry, Kane, Kankakee, and Kendall.

Time-specific: To aid in assessing the impact of the Great Recession of 2008, the research team selected mergers that occurred between 2004 and 2014, the years leading up to and following the recession.

Size and mission: To examine the impact of mergers on a wide spectrum of Chicago-area nonprofits, the research team strove to assemble a diverse array of participants. Participating organizations reported revenue ranging from \$250,000 to \$70 million. They covered a range of missions, including health and human services, education, advocacy, and management support.

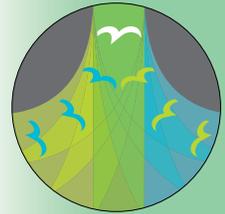
The team eliminated from consideration organizations that were likely to be outliers because of variance in revenue or mission; these included hospitals, places of worship, universities, and professional associations.

A total of 60 mergers fit the criteria for the study. The research team selected 25 of these cases (42 percent) with the goal of achieving diversity in regard to the size, locale, and mission focus of the organizations. As a result, the cases span the entire Chicago metropolitan area.

The researchers took the following steps to eliminate bias:

- **Survivorship bias.** To avoid concluding that nonprofit mergers always lead to organizational survival, the researchers identified and interviewed members of two organizations that pursued mergers but ultimately did not survive.

⁷ We wish to thank Robert Durchholz, Corporations Administrator, Department of Business Services, Illinois Secretary of State, for helping to identify nonprofit mergers for this study.



- Positivity bias. Although the purpose of this study is to identify and analyze successful merger strategies, the research team examined cases of organizations (not part of our 25 cases) that pursued mergers but ultimately did not complete them.
- Individual bias. To avoid over-relying on any individual perspective on a merger case, researchers made an effort to speak with at least three people per case, including individuals representing both organizations involved in the merger.

Method and Analysis

This study presents a qualitative analysis of nonprofit mergers based on two primary methods: interviews of representatives of the 25 selected mergers and in-depth case studies of 5 of the 25 mergers. Where appropriate, we quantified our findings in order to draw statistical conclusions from the sample.

IMPORTANT NOTE: Real names of organizations and people were used only for the five in-depth case studies. For the 20 benchmark cases, pseudonyms were used in order to protect their privacy.

Interviews

The research team conducted more than 100 interviews, including with board members and executive staff members. (Some participants were interviewed more than once for clarity.) Participants were interviewed via phone or in person, with interviews lasting between 30 and 90 minutes.

Following the method of the 2012 Minnesota merger study conducted by MAP for Nonprofits and Wilder Research, the team grouped questions into three categories: pre-merger, merger negotiation process, and post-merger (see Appendix 2).⁸ The interviews were semi-structured, allowing the interviewer to follow up with additional questions to clarify or elaborate on response.

Case studies

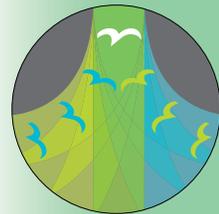
Case studies provide useful narratives of the details and learnings from particular mergers. This report includes five in-depth cases intended to provide valuable insights to practitioners considering a merger. In most cases, multiple interviews were conducted.

The research team has attempted to provide metrics on merger outcomes in order to highlight best practices in the pre-merger, merger negotiation process, and post-merger phases.

Supplementary material

To help illuminate the impediments to would-be mergers, we have included a section on cases of mergers that either were not completed, were dissolved, or were not pursued.

⁸ MAP for Nonprofits and Wilder Research, “Success Factors in Nonprofit Mergers,” 2012.



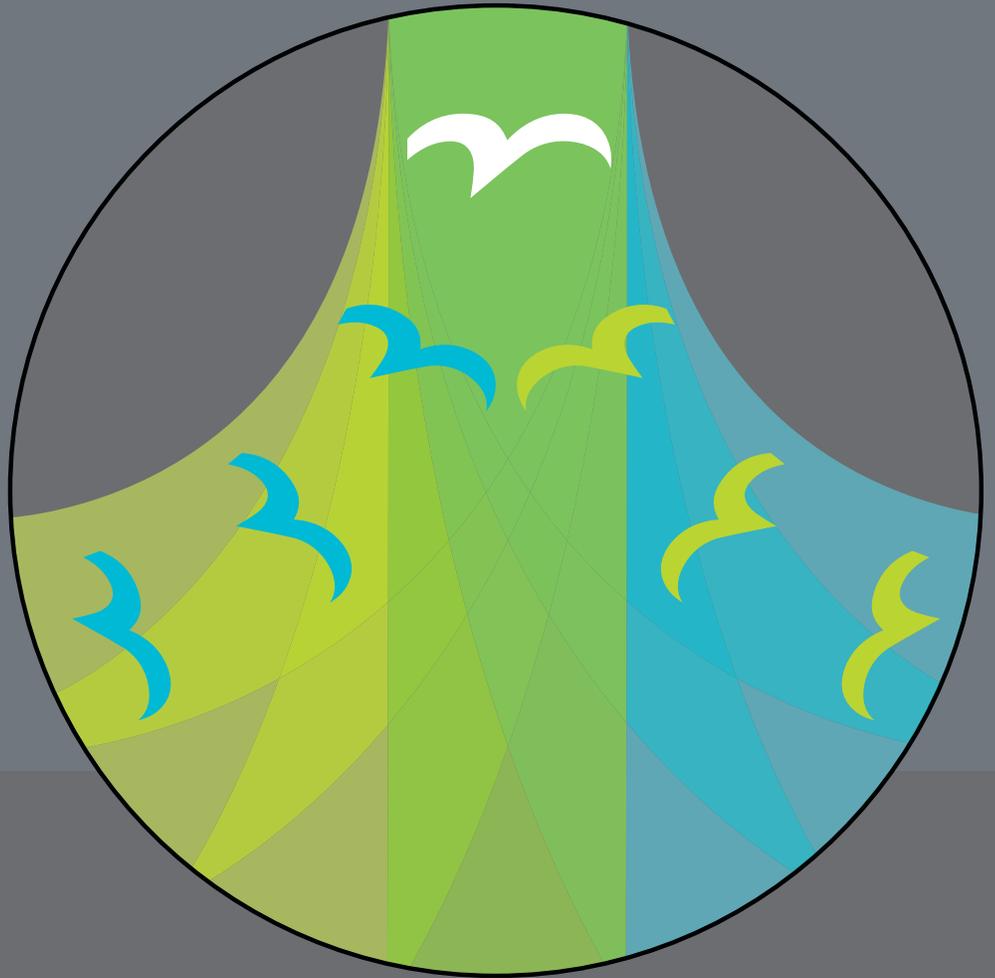
Because these organizations lay outside the primary focus of our study, we used published reports in addition to interviews to discuss their cases.

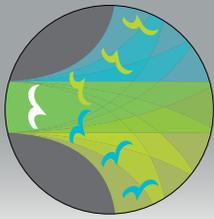
Limitations of Study

Criteria for this study exclude smaller organizations (those with budgets under \$250,000) as well as some subsectors commonly addressed in merger literature (such as hospitals). Although the research points to some common characteristics of mergers, the study does not make claims of causality. As in any case study research, generalizability of the findings to other cases is limited.

Finally, this study reflects a leadership bias in that interviews were conducted with executive staff and board members from each participating organization. This is not uncommon in organizational research; however, the researchers acknowledge that there are other people who are impacted by or involved in a nonprofit merger (donors, attorneys, consultants, program staff, volunteers, clients, etc.). The inclusion of these individuals is beyond the scope of the current research, though this suggests an area of future research.

III. OVERVIEW: THE 25 MERGER CASES

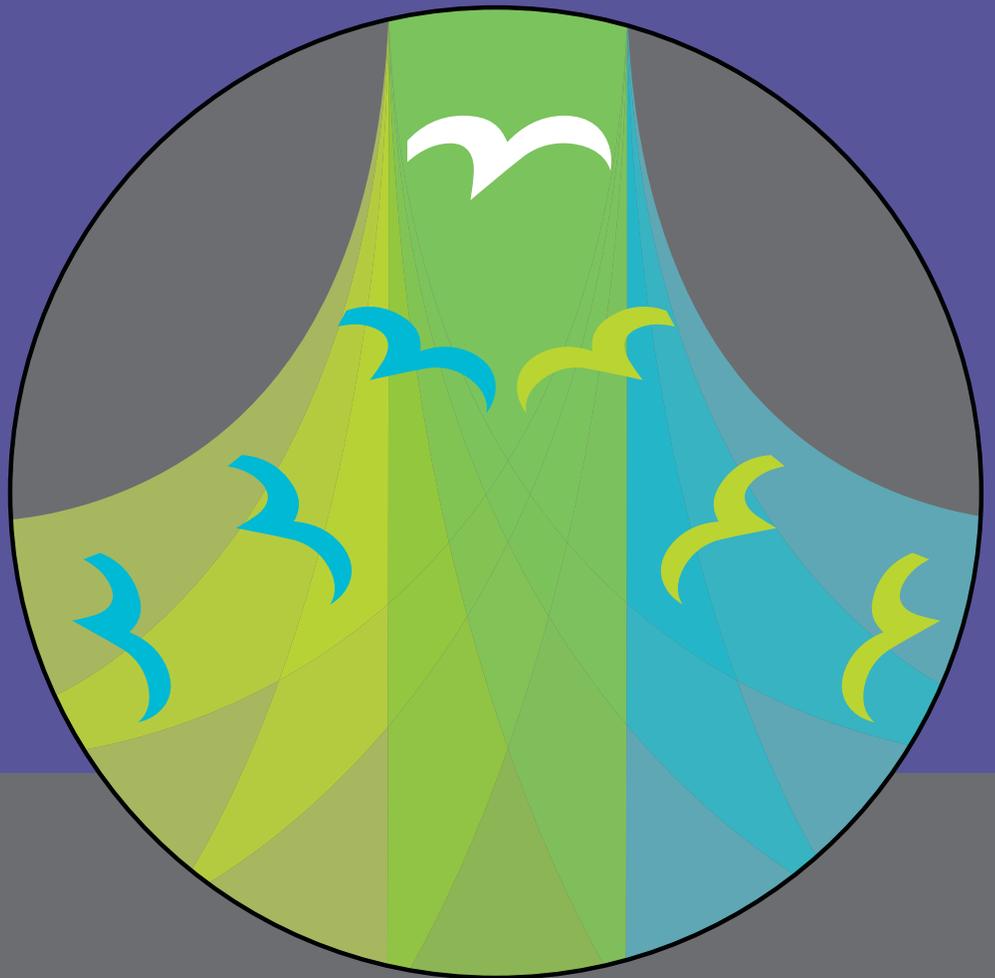




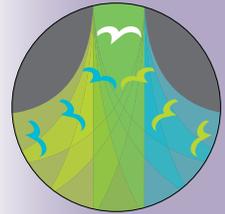
III. OVERVIEW: THE 25 MERGER CASES

Acquirer Name	Acquired Name	Now Known As	Size (Budget)		Post-merger Service Area	Industry/Field	Merge Date
			Acquirer \$	Acquired \$			
Five Case Studies							
Big Brothers Big Sisters of Metropolitan Chicago	Big Brothers Big Sisters —Lake County	Big Brothers Big Sisters of Metropolitan Chicago	\$2m	\$500k	Lake, Cook & DuPage Counties	Youth Mentoring	2010
Chicago Foundation for Women	Eleanor Foundation	Chicago Foundation for Women	\$2.3m	\$1.1m	Cook, DuPage, Kane, Lake, McHenry and Will counties	Empowerment	2012
JourneyCare	Horizon Hospice & Palliative Care and Midwest Palliative & Hospice CareCenter	JourneyCare	\$35m	\$13m (Horizon) & \$33m (Midwest)	10-county metro Chicago area	Hospice	2014
Seguin Services	United Cerebral Palsy of Greater Chicago	UCP Seguin Chicago	\$27m	\$9m	Cook and DuPage county with tech services for all 102 Illinois counties	Intellectual/Development Disability Services	2013
Working In the Schools—WITS	Boundless Readers	Working in the Schools—WITS	\$1.4m	\$500k	Chicago	Literacy	2014
Twenty Benchmark Mergers (pseudonyms)							
A Child, A Home		A Child, A Home	\$55m	\$8m	Chicago metro area	Foster Care	2012
AdoptWell		AdoptWell	\$25m	\$2m	Chicago metro area	Adoption Services	2014
Art Ed		Art Ed	\$2.5m	\$1.1m	Chicago	Arts Education	2004
Books and More Books		Books and More Books	\$2.3m	\$400k	Chicago-Cook County	Literacy	2013
Discover		Discover	\$16m	\$500k	Chicago-Cook County	IDDs	2013
Families 4 Health		Families 4 Health	\$68m	\$1m & \$4m	Chicago metro area	Health Care	2012
Health Bridge		Health Bridge	\$21m	\$3.4m	Chicago metro area	Health Care	2011
Home and Heart		Home and Heart	\$15m	\$600k	Chicago-Cook County	Homelessness	2011
House Serve		House Serve	\$15m	\$6m	Chicago	Housing	2005
Jobs Inc.	The Industry League and Train, Inc.	Jobs Inc.	\$6m	\$3.8m	Chicago	Job Training	2013
Legal Serve		Legal Serve	\$2.3m	\$400k	Chicago	Legal Aid	2014
My Choice Chicago	Suburban My Choice	Metro Chicago My Choice	\$60m	\$10m	Chicago metro area	Fund Raising	2004
Neighbors Action		Neighbors Action	\$2.3m	\$300k	Chicago	Community	2013
Revitalize		Revitalize	\$3.4m	\$400k	Chicago metro area	Advocacy	2014
Salute to Girls		Salute to Girls	\$4m	\$8m	Chicago metro area	Youth Development	2008
Train Inc.	Learn-A-Skill	Jobs Inc.	\$4.7m	\$1.5m	Chicago-Cook County	Job Training	2004
Vitality		Vitality	\$8m	\$700k	Chicago metro area	Adoption	2011
Votek		Votek	\$1.3m	\$650k	Chicago	Job Training	2005
We're About Health		We're About Health	\$28m	\$400k	Chicago	Health Care	2007
Works for You		Works for You	\$1.3m	\$1.3m	Chicago-Cook County	Capacity Building	2005

IV. FINDINGS



- **Part 1: The Pre-Merger Stage and the Merger Process**
- **Part 2: Evaluating Merger Success**



IV. FINDINGS

Part 1: The Pre-Merger Stage and the Merger Process

In 88 percent of the mergers, participants felt that the post-merger organization was better off than the acquiring or acquired organization.

Mergers are complex undertakings. Each one involves a unique mix of circumstances, goals, and personalities. Nevertheless, by collating responses to the surveys, some general trends become apparent. This section reveals significant characteristics of the 25 mergers in our study, for the pre-merger period and the merger process

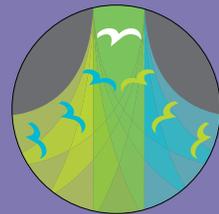
itself. The following section will address post-merger considerations.

Pre-Merger

- Almost all merger participants cited growth as the primary merger goal, including those indicating financial weakness.
- Almost all merging organizations sought either more efficient/higher quality services or expansion of their operations into new or different services.
- In 24 percent of the cases, the loss of a key funder or client of the acquired organization contributed to its board's decision to merge.
- In 52 percent of the mergers, the CEO of one of the merging organizations either retired or was about to retire, or an interim CEO was in place.
- In 56 percent of the cases, the acquired organizations indicated that financial weakness entered into their decision to seek a merger.
- In 60 percent of the cases, the acquired organization initiated the merger discussion.
- In 60 percent of the mergers, the acquiring organization had previous experience with a merger.
- In 60 percent of the cases, one or both parties to the merger considered other merger candidates.
- In 80 percent of the mergers, a prior relationship or collaboration existed between the organizations that merged.
- In 84 percent of the cases, at least one board member from either the acquired or acquiring organizations had experienced a for-profit or nonprofit merger prior to this merger.

The Merger Process

- In most cases, large organizations acquired much smaller ones; there were only six cases where the budget size difference was less than three to one.



- Mergers took longer than most participants expected. The shortest involved six months, with the longest conducted over a three- to four-year period. Most mergers took a year, and a few took longer. Some organizations set timetables for the merger, including separate segments, and they adhered to them. Others set timetables but did not follow their plans.
- In 44 percent of the cases, a due diligence⁹ review was conducted by board members' law firms on one and sometimes both organizations. Excluding federation cases (which involved the merger of different branches of a federated organization), 50 percent of the cases involved a due diligence review.
- In 44 percent of the cases, outside contributors paid part or most of the merger costs.
- In 44 percent of the cases, the naming of the organization or its branding were cited as difficult issues for the boards. Excluding federation cases, 50 percent of the mergers involved difficult naming/rebranding issues.
- In 56 percent of the cases, funders and grantors were asked to advise on the merger decision.
- In 64 percent of the cases, cultural integration of the organizations was more difficult than board members had anticipated.
- In 80 percent of the cases, the parties to the merger engaged a third party consultant or facilitator.
- In 80 percent of the cases, one or more board members of the acquired organization were asked to join the new board.
- In 85 percent of the cases, the board chair or a board member from one of the organizations emerged as the chief merger advocate.

Part 2: Evaluating Merger Success

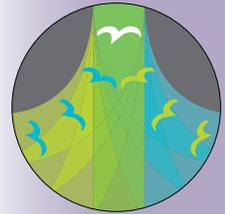
DEFINITION FOR SUCCESS:

A successful merger is one that meets the needs and goals of all the parties involved, and leads to improved services and/or increased impact.

In the first major study on nonprofit mergers 20 years ago, consultant Thomas McLaughlin listed a series of procedural steps that, if followed, would lead to a positive outcome.¹⁰ But mergers are not that simple. As this study shows, they come in a variety of forms, involve multiple participants, and follow different paths.

⁹ A comprehensive appraisal of the potential legal, financial, governing, and other liabilities or risks of a proposed merger partner.

¹⁰ Thomas McLaughlin, *Nonprofit Mergers and Alliances* (New York: Wiley, 1996). See also Peter Kramer, "Merging for Greater Impact: A Case Study," The Nonprofit Finance Fund, 2013. Case involves 7 steps to a successful merger.



A CASE STUDY STORY

Both United Cerebral Palsy of Greater Chicago (UCP) and Seguin Services embraced the strategic purpose of their combination—trading competencies and resources. UCP had technology, buildings, land, and access to DuPage County. Seguin had housing, job training, and residential services.

For more on this merger, see page 84.



UCP Seguin CEO John Voit and client Dan Garringer

Evaluating the success of the merger can be equally complicated. For one thing, the different parties involved typically establish their own success criteria, which, although compatible, may not be the same. For example, the acquiring organization might see the merger as an opportunity to grow, while the acquired organization might think simply of survival or financial stabilization. In evaluating the outcomes of our 25 cases, an additional consideration arises. Most of our mergers came after 2011. Commentators on merger success note that one cannot adequately evaluate the results until several years out.

Nevertheless, while it may be too early to definitively assess the outcome of each merger, we can come to some preliminary conclusions based on the experience of each organization to date. Overall, in 88 percent of the cases, the parties to the merger (representing both acquiring and acquired organizations) concluded that the organization was better off in terms of mission, services, and/or financial health. This generally

positive outcome can be elaborated upon by looking in more detail at each case.

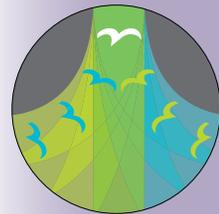
Below, we evaluate the outcomes of our 25 mergers using two different metrics.

First, for the 20 benchmark mergers, we summarize outcomes from the separate vantage point of each party, the acquirer and the acquired. What did each party expect to achieve from the merger? Are they on track for success in meeting these goals? Are there significant problems that have impeded a positive result?

Second, for the five case studies, we view success from the vantage point of the merged entity: the two organizations together. Below, we offer a brief summary of the outcomes of each merger. In Appendix 1, we provide in-depth analyses of these five cases, presenting a detailed look at each merger process. These case studies are offered to readers as templates of successful mergers.

1. The 20 Benchmark Mergers

The differing perspectives of the acquirer and acquired were readily apparent in these mergers. The acquirers generally sought to grow their operations either through pooling or trading of programs, services, and competencies (see sidebar, pp. 36–37). Most of the acquired had experienced financial distress or inability to grow as a single program



or activity without access to a larger, more financially stable organization. In some cases, their primary objective involved survival of mission, staff, and programs, though growth was also an important consideration. (Note that all benchmark cases use pseudonyms.)

A Child, A Home: Because of its greater capacity and experience, the large acquiring organization was able to leverage the assets of a much smaller, less efficient acquired organization in the foster care field.

AdoptWell: The out-of-state acquirer expanded its footprint into the Midwest and acquired an adoption provider that proved to be financially sustainable. The acquired partnered with a highly reputable national adoption provider that enabled it to continue to operate, carry on its name, and retain its staff.

Art Ed: The acquirer was able to stabilize both organizations serving largely the same markets with improved efficiency and with support from mutual donors.

Books and More Books: The acquirer gained access to a smaller, volunteer-based book collector for Chicago schools and used its stronger book sorting, distributing, and selling operations to grow its activities.

Discover: The acquirer expanded its services and programs for the disability community while the acquired was able to maintain its inclusion-based service model under a larger, more financially stable organization.

Families 4 Health: The acquiring provider gained access to programs and services of the acquired provider to fit a larger growth plan and strategy. The financially strapped acquired provider's programs and services survived.

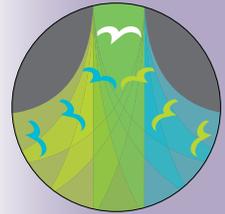
Health Bridge: The large acquirer expanded its health services and operations through acquisition of a smaller, AIDS-focused organization, which, in turn, broadened its programs and gained financial stability.

Home and Heart: This merger of two organizations serving the homeless experienced integration and growth challenges because of their different approaches and cultures. However, they eliminated competition over funding and ultimately became stronger financially. The board also became stronger.

House Serve: The merged organizations traded services and populations served. The acquired organization achieved substantial back office efficiencies while the acquirer expanded its footprint in the Midwest region overnight and obtained expertise in housing the homeless.

Jobs Inc: The acquirer gained access to the acquired's job training and placement programs, enabling the financially failing acquired's programs to survive.

Legal Serve: The acquirer gained a new program portfolio while the acquired gained access to a stronger organization, which took over its struggling activities.



My Choice: Federation merger in which all the metro-area organizations came under one operation to become more efficient and effective.

Neighbors Action: Two similar neighborhood-focused agencies survived loss of government funding and better utilized one another's capabilities to stabilize services to constituents.

Revitalize: The older and larger acquirer gained the competencies of a smaller, fledgling operation. Together, both were better able to pursue advocacy activities and programs.

Salute to Girls: Federation merger in which tremendous efficiencies were achieved, though legacy and service integration issues remain because of how the merger was forced by the national organization on the local participants.

Train Inc: Two job training operations sought greater synergy and survival capability by merging. However, after three post-merger years of losses, the recession drove them into another merger (Train Inc. merged into Jobs Inc., listed above).

We're About Health: The acquirer became better able to serve the community and access outside financial support while the acquired survived financial difficulty and was able to continue its programs.

Works for You: Two struggling nonprofit management resource organizations combined, and as a result, they were able to survive. However, the merged organization has not grown financially in the 12 years since the merger.

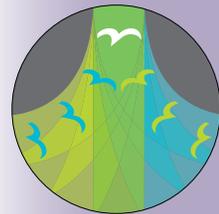
Vitality: The acquirer was able to expand and grow its foster care programs and facilities while the acquired was able to survive financial distress.

Votek: Two small training and employment operations merged with the acquirer, which became better able to provide more services to more people under declining government support with only marginal growth prospects.

2. The Five Case Studies

In all five cases, participants viewed the merger as a means to grow their organizations. But growth assumed several dimensions. First, growth allowed the organizations to serve more people through more and enhanced programs (see BBBS-MC). Second, growth came from moving into new service areas and territories, expanding program footprints, and engaging more volunteers and sponsors (see UCP Seguin and JourneyCare). For WITS, growth involved doing things differently through new services, resources, and capabilities. For the Chicago Foundation for Women and the Eleanor Foundation, growth meant leveraging their combined assets to double in size and increase their grant-giving capacities.

2010—Big Brothers Big Sisters of Metro Chicago tripled in size after three suburban chapters merged into the Chicago chapter. The organizations have become more



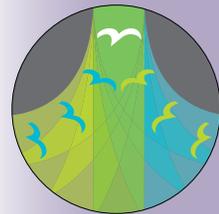
efficient in their combined operations, more effective in service performance, and more sustainable financially through diversified revenue sources. BBBS-MC also has grown in reputation and stature.

2012—Chicago Foundation for Women doubled its assets since merging with the Eleanor Foundation. It has increased grants, expanded programs, successfully integrated two boards, and grown in reputation and stature.

2013—After the merger of United Cerebral Palsy and Seguin Services, UCP Seguin has grown in size and program operations. The combined organization is financially stronger in terms of its balance sheet and assets. All programs have grown significantly, and the merger leaders look back with great satisfaction on achieving more mission through merger.

2015—JourneyCare, the largest of our five case studies, is also the most complex due to size, scope, and the challenges of integrating three volunteer-driven organizations. Having survived the first year of merger without patient, market, or referral loss is a significant accomplishment. Growth has resumed and financial metrics are on track. In late 2015, JourneyCare was named one of the nation's eleven Palliative Care Leadership Centers.

2015—Working in the Schools (WITS) absorbed Boundless Readers by successfully integrating its board and programs to better serve more Chicago schools. Early indications are that fund-raising events and support are on track and that other literacy-based organizations view this merger as a model of success.



THE IMPACT OF THE ACA AND MEDICAID EXPANSION ON NONPROFIT MERGERS

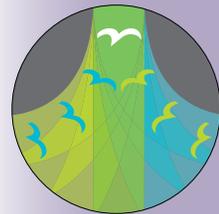
A significant driver for nonprofit strategic mergers and affiliations today is the Affordable Care Act (ACA) and specifically the expansion of Medicaid. Several of the cases highlighted in our study were driven by the need to achieve scale due to changes in the healthcare arena.

Historically, human services in America largely developed at arm's length from the medical system. If behavior health services and case management services were offered, they were offered independently from the medical system. But this model is undergoing a fundamental overhaul, particularly in Illinois.

For years the State of Illinois has been moving services to Medicaid whenever possible because Medicaid costs are shared by the Federal government. Initially, there were limits on the State's ability to make this transfer, because the Medicaid eligibility rules at the time precluded many people, particularly single men, though they were suffering from major problems and had low incomes. Many of these clients required human services, which were being mostly paid by State dollars.

The ACA changed this. It added more than 700,000 adults to Illinois Medicaid, many of whom were previously being served by the human service system. A large percentage of those newly added individuals presented issues of mental illness and substance abuse. They were often involved with the criminal justice system and lacked family support. Many of these clients required social service support from multiple agencies. With the ACA coming into effect, it became more feasible to pay for services necessary via Medicaid.

As the State realized that more of these human services were going to be paid with Medicaid dollars, it came to understand that its old business model was no longer relevant. The State understood that it couldn't contract with a large number of individual providers and continue a fee-for-service payments model any longer. The driving force was less the desire to save money—Medicaid conceded from the outset that any savings would be longer-term—but more the realization that the traditional model produced care that was too fragmented to meet clients' real needs. The state of Illinois turned to the managed care organization model as the means for achieving the desired service integration. The State is operating under the premise that private managed care organizations (MCOs), have the capacity to coordinate all forms of care—mental health, substance abuse treatment, and healthcare along with their supports, and form networks with nonprofit partners such as hospitals, clinics, human service agencies, supportive



housing organizations, and home-based care nonprofits, among others, who contribute to health outcomes.

Slowly these networks are starting to form. In response, Illinois has seen health care providers and some human service providers, particularly mental health providers, start coordinating care and receiving payments from managed care organizations. The move to managed care, therefore, was intended not simply as a way of funneling Medicaid dollars to the same delivery systems, but as a way of creating new delivery systems that are run by private vendors, which are almost exclusively for-profit, to explicitly coordinate medical care and behavioral health services (including substance abuse treatment) under one case-managing entity.

In the face of this new model, widespread changes in business practices are necessary for social service providers.

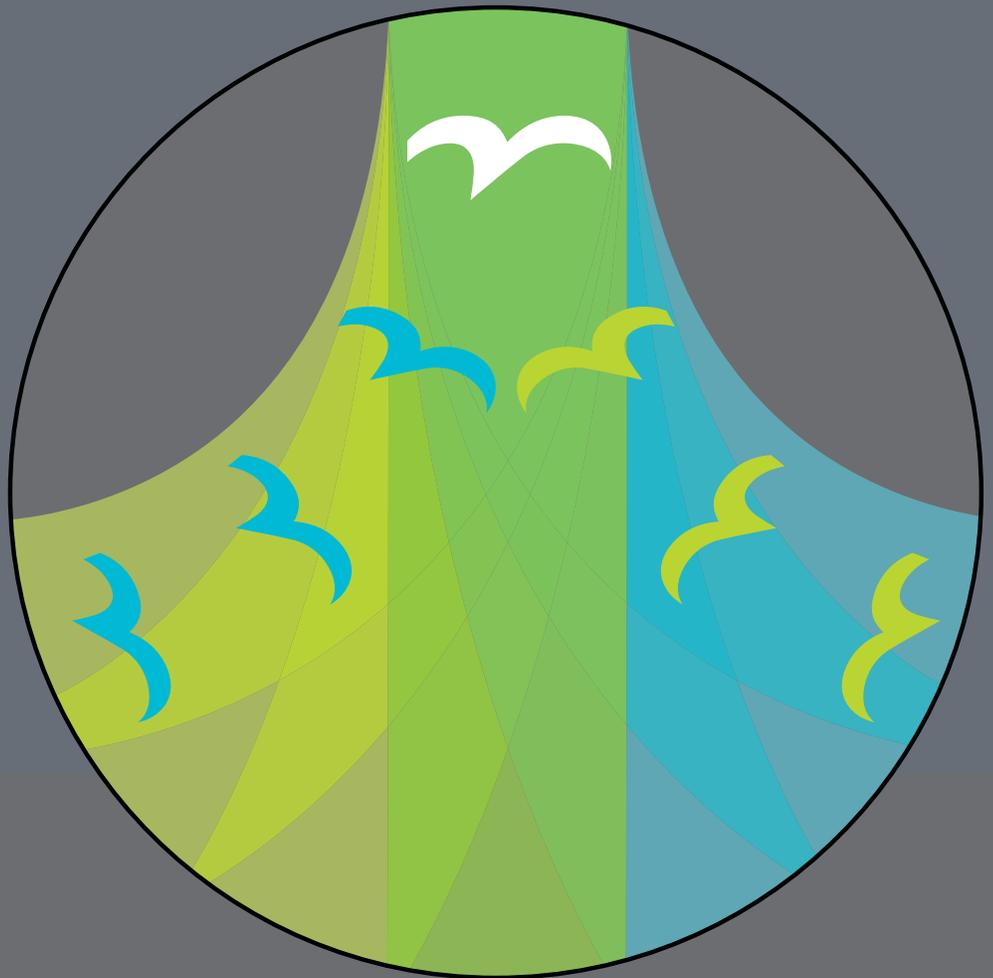
- Providers must not only *provide* care but be able to manage care with an explicit integration into the larger plan of care.
- Providers must have an *infrastructure* to implement care management. They must be able to meet the business requirements of the more care-coordinated medical systems—electronic medical records and sophisticated billing practices—for timely communication with other providers.
- Providers must have the information and management capability to analyze their provisions of care to both improve and clearly demonstrate the *value of care provided to achieve healthcare outcomes*.
- Providers must demonstrate geographic reach and serve more lives in order to demonstrate impact from a business perspective.

In short, most human service providers need entirely different business models than the ones they used prior to the ACA and infrastructure to support those new models if they are to successfully provide services under a Medicaid Managed Care system. To achieve this in most cases will require scale. Scale is usually achieved through mergers, networks, or alliances of agencies in order to:

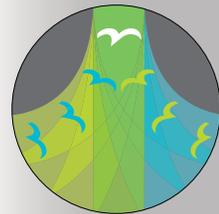
- Install and effectively operate new systems. Small organizations are unlikely to have access to necessary capital, human or financial.
- Simplify contracting. Managed care entities are not going to contract with an endless number of small scale agencies. Their administrative costs, and frankly agency costs, will be minimized by contracting with a smaller number of agencies that can demonstrate their ability to provide value. Indeed, the ability of the whole care network to provide high-value care will be enhanced by having to coordinate among fewer agencies who can all be orchestrated to play from the same sheet.

Managed care has long been a driver for mergers in the for-profit sector, and this is now true in the nonprofit sector with Medicaid expansion in Illinois.

V. MERGER NEGOTIATIONS: RESOLVING KEY CHALLENGES



- **Part 1: Critical Issues in the 25 Mergers**
- **Strategic Mergers**
- **Part 2: Barriers to Merger: Four Additional Cases**



V. MERGER NEGOTIATIONS: RESOLVING KEY CHALLENGES

We asked study participants to identify the most difficult issues they dealt with in the merger process and to discuss how these issues were resolved. In many cases, the issues were quite similar but their resolution called forth a variety of responses and resulted in different outcomes, reflecting the particular goals, personalities, and circumstances of the organizations involved. In Part 1 of this section, we present critical issues in the 25 merger cases and show how they were (or weren't) resolved. In Part 2, we go beyond the bounds of our study sample to include published reports of uncompleted or disbanded mergers in order to explore further some of these same issues.

Part 1: Critical Issues in the 25 Mergers

Finding the right partner is a challenge.

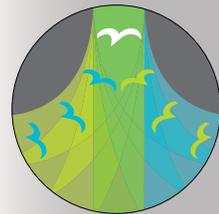
Once deciding to pursue a merger, boards must consider a whole host of issues: mission, strategy, markets and clients, funders, and more. Partner recommendations may come from board members, foundations and funders, and outside professional facilitators. Consultants can help boards work through their selection process.

Prior cultivation of relations between organizations can make a difference in partner selection, such as in the case of Boundless Readers and its positive experience working with WITS in Chicago schools prior to their merger. Both boards acknowledged what a good fit this merger made because they knew each other well before the merger. In some cases, such as the Chicago Foundation for Women and the Eleanor Foundation merger, no other organizations were actively engaged in their merger space. Being the only two may seem like a good match, but it does not always work out, as the example of Civic A and Civic B will show (see Part 2, p. 38).

The acquired provider in the AdoptWell case invited three interested merger candidates to make presentations to its board, two of whom were well known to the acquired. But

the one not known to the board, a West Coast provider, became the merger choice because of its faith-based connection and the likelihood that the staff and the name of the acquired would be retained by the acquirer.

In almost two-thirds of the mergers in our study, the acquired organization approached the acquirer about merger.



Staff retention issues arose in almost all cases.

In almost two-thirds of the mergers in our study, the acquired organization approached the acquirer about merger. For the acquired, employment considerations ranked at or near the top of merger issues. In some cases, staff retention became a precondition for merger. At the other extreme, a few cases found the acquirer asserting sole discretion over which acquired provider employees would be offered employment.

The organizations pursued a variety of strategies to address employment issues. In the My Choice Metro Chicago merger, suburban staff members were convinced that the 200 or so new jobs would go to Chicagoans. Instead, the My Choice CEO opened all post-merger positions to everyone employed by all of the individual organizations so each employee would have an opportunity to compete fairly for a new position with the new organization. A human resource consultant served as the broker for post-merger job selection.

In the JourneyCare case, merger rumors spurred the departure of a few key administrators, requiring management to offer their replacements retention contracts during the merger discussion period. Retention bonuses were used to encourage others to stay.

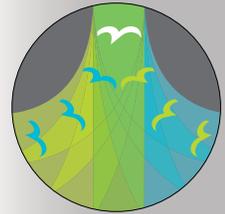
In contrast, staff members in the UCP Seguin merger were brought into merger discussions from the outset and assured that no one would lose their job the first year. They were informed that salaries, benefits, and vacations would be honored post-merger. UCP Seguin had the staff of each organization meet their counterparts and begin integration activities from the beginning of what was a lengthy merger process. This resulted in what was a smoother, less problematic integration process.

Most of the acquiring organizations took on staff from the acquired organization, and in most cases, these staff members stayed with their new organizations. Some assumed positions of leadership. While this worked well in most cases, staff from the acquired organization did not always feel comfortable in the new organizational culture. Where the acquired was significantly smaller than the acquirer, employees often had difficulty adapting to a more complex culture. Others found new opportunities and greater professional development in a larger organization. In cases where employees left, staff severance was a sensitive issue that had to be dealt with carefully.

When, how, under what circumstances, and who should go about discussing a prospective merger with staff? With few exceptions, most participants subscribe to having clear and open communication between merger participants (boards and CEO) and staff with frequent communication. However, participants also cautioned against sharing plans to merge too early lest the merger fall through.

Program retention and legacy issues can be difficult.

There are two main types of legacy issues. First, the acquired organization may have particular programs or practices that are critically important to the organization and,



A CASE STUDY STORY

For Boundless Readers, the key to the merger arrangement (and its deal breaker) involved continuing the Rochelle Lee Teacher Awards. WITS leaders were most respectful of this legacy and saw the long-term benefit for WITS in integrating the Awards into its program.

For more on this merger, see page 90.



often, central to its identity. The future status of these programs is a matter of considerable import. The other, less tangible legacy issue involves emotional factors (shock, anger, sadness, etc.) from donors, founders, and staff over the dissolution of the acquired provider.

For some nonprofits with organization-defining programs or services, ensuring continuation of those programs or services was critical to the merger. One example of this was the Eleanor Foundation's grant-giving model, where preservation of that legacy was a negotiation “deal-breaker.” As discussed in our case study (see Appendix 1), the legacy was preserved. In the We’re About Health merger, negotiators wanted their legacy organization’s name etched on the building’s edifice and the program director of the acquired provider to have an office outside of the CEO’s office. They got both.

In the Salute to Girls merger, negotiators representing legacy assets cared more about the nostalgic aspects of the acquired’s programs than anything else, according to some interviewees. As one veteran nonprofit leader framed differences between the corporate and nonprofit sectors: “corporate mergers are about tangibles; nonprofit mergers are about intangibles.” This distinction is worth remembering in merger negotiations.

Many respondents noted the importance of acquirers’ efforts to honor the history of the acquired provider. They cited actions agreed upon by both parties that continued the acquired’s legacy by symbolic means, such as conferring awards in the name of a former supporter. As the CEO of A Child, A Home noted of the acquired: “When you are an organization and then you become part of another organization ... you have to pay attention to that and find ways where the legacy of the organization continues to be celebrated and remembered and recognized.”

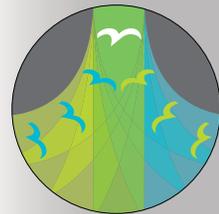
“When you are an organization and then you become part of another organization...you have to pay attention to that and find ways where the legacy of the organization continues to be celebrated and remembered and recognized.”

— CEO, A Child, A Home

Board membership decisions should be as transparent and fair as possible.

In almost all our cases, the acquirer retained one or more board members from the acquired provider.

We found a wide variety of retention approaches. Some organizations apportioned board



representation equally regardless of the size differences between the organizations. In several cases, the entire board of the acquired provider was asked to join the new board.

Where boards wished to limit or adhere to bylaws governing board size, a set number of positions were offered to the acquired organization. Acquiring boards often interviewed prospective acquired board members before making offers. In some cases, former board members were given other roles within the organization. Some organizations saw the merger as an opportunity to revisit the commitment of each board member to the mission of the organization and to realign the new board.¹¹

The permutations of board retention are many. In two cases, a board member from an acquired provider became the chair of the newly merged entity as an agreed-upon method to integrate the organizations. Board members of another struggling nonprofit had little interest in joining its successor. In the AdoptWell merger, where the acquirer was an out-of-state provider, the acquired asked for a single board seat and ended up with two. The post-merger integration of Salute to Girls was impaired by a new board that included many pre-merger members whose terms had not yet expired and who continued to battle over issues raised during the merger.

However the issue of board membership is handled, participants cautioned that it should be as transparent and fair as possible. Sometimes a special committee to settle board membership is set up for the negotiation process. In one case, a merged organization staggered board terms by drawing names out of a hat. This was viewed by all parties as a fair method for resolving terms of service.

Liabilities must be carefully addressed.

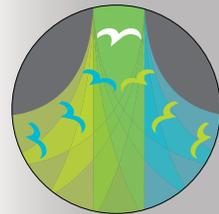
Often, financially distressed organizations seek to merge with mission-compatible organizations that are financially better off. But the distressed organizations may come with liabilities that a potential merger partner finds daunting. In more extreme cases, the organization might have financial liabilities and risks that could endanger an acquiring organization. Since most nonprofits operate in a world with limited liquidity and reserves, with little margin for error, financial liabilities are a merger repellent hindering nonprofits in search of a rescue.¹²

However, the presence of large debt or liability does not mean that merger options are closed.

However, the presence of large debt or liability does not mean that merger options are closed. In the case of Works for You, the organization worked through the financial difficulties with foundations, banks, and attorneys to receive approval for its 2005 merger. While these negotiations added time

¹¹ See BoardSource, *The Handbook of Nonprofit Governance* (San Francisco: Jossey-Bass, 2010) for suggestions on building a board and on board dynamics.

¹² John MacIntosh, SeaChange Capital Partners, “Nonprofit M&A is No Oxymoron,” September 2012.



to the merger process, the merger worked out, suggesting it is possible to resolve financial distress under a turnaround management team.

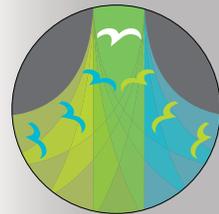
Various merger strategies can mitigate the impact of serious liabilities. In an “asset transfer” merger, the acquiring organization receives the healthy assets of the troubled organization without carrying out a full-fledged acquisition, thus enabling the acquirer to leave the liabilities behind (though these liabilities must be legally resolved). Another strategy involves transferring control of an organization without actually acquiring it. This strategy was used by Jobs Inc., a 20-year-old, \$15 million social enterprise, in its amalgamation with two organizations that had actual/potential significant financial liabilities. Jobs Inc. used a management service contract to run the former agencies’ programs, which potentially shielded it from liability.

Jobs Inc. offers a holistic approach to homelessness, addiction, and poverty through job training and placement, shelter, and rehabilitation services, took over two struggling agencies between 2009 and 2012. The first was the 100-year-old Industry League, which provided counseling, training, and affordable housing to the homeless. It had fallen on bad times: scandals, a tarnished brand, a defaulted loan on its major property holding, and major liabilities. The second, Train Inc., had been a leader in Chicago’s job training/placement field for temporary workers. After losing its major private sector client, it ran four years of operating deficits and depleted its assets, and its board had to decide between liquidation or merger.

Jobs Inc. had a standing policy of not merging with financially weakened service providers, even where mission and programs fit its structure. Nevertheless, it found a way to take over Industry League and Train Inc. by convincing their existing boards to resign their positions, thus relinquishing control to Jobs Inc. It then obtained a management services agreement to run both agencies without directly assuming any of their liabilities. Programs and services previously offered by the two would be subsumed under Jobs Inc. once various funders and contractors agreed to the change of control agreement. Jobs Inc., in turn, would negotiate with contractors, creditors, and lenders over reduced payments, loan reductions, and write-offs. At the end of cleaning up balance sheets, a formal merger remained an option.

In addition to financial issues, other kinds of liabilities must be addressed. Agencies that work with youth, for example, need to be protected against lawsuits involving child abuse that may have occurred in the past. In the AdoptWell merger, the acquirer’s board and management were covered by insurance for six months. In the BBBS Metro Chicago-Lake County asset transfer merger, lawyers placed a long-tail liability policy in the shell corporation that had been created during the asset transfer. This policy protected the former directors and officers once assets had been transferred to the acquirer.

Several participants discussed the importance of a vigorous due diligence process that should include full disclosure of all obligations (mortgages, leases, contracts, and



obligations of any material nature). In cases where organizations have legacy bequests and donor-designated funds, it may be necessary to isolate these or restrict them in a way that honors the funder's wishes, such as creating a separate foundation attached to the new organization. An attorney would be necessary to advise in such cases.

CEO/ED succession can be contentious.

The role of the CEO can become a contentious issue in at least two situations: when the CEO/ED retires or resigns and a board must decide whether to seek a permanent replacement or merge and when two or more CEOs seek to be named head of the merged organization.

In some of our 25 cases, boards had to choose which CEO to retain. One organization made its desire for its CEO to be successor a "deal-breaker" issue. Sometimes the acquired provider CEO was retained as second-in-command or senior program director. In the Art Ed merger, the smaller organization's CEO and nine staff members lost their jobs. In the Salute to Girls merger, it was decided that none of the seven merging organizations' CEOs would be offered the new position; instead, the national organization selected an external leader. The My Choice Chicago CEO was so successful in advocating for the merger that one of her early adversaries informed the new board that he would not serve unless she was retained as CEO. In contrast, the CEOs of Arbor Vitae and Helping Hand were incompatible, and their inability to work together was a major factor in causing the merger to dissolve (see next section).

Best practices suggest that organizations engage in succession planning to ensure a smooth transition when a CEO leaves. However, some study participants suggested that having an interim ED provided the opportunity to talk about merger. Per this study and others, nonprofit mergers occur most frequently when a CEO departs or retires. That being the case, organizations might wish to approach succession planning in such a manner that does not preclude the merger opportunity.¹³

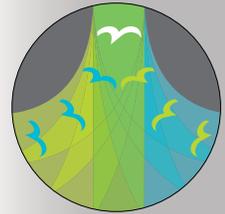
The naming and branding of the new organization is often a difficult issue.¹⁴

For founders and key funders, naming can be an extremely difficult issue and must be given attention from the outset by both sides. Several participants hired marketing consultants to assist with naming and branding/rebranding and noted that they were a great help.

In some cases, the choice of a name came fairly easily. Seguin was twice the size of UCP, but United Cerebral Palsy was a better known and more widely recognized brand, so the parties easily agreed to naming the merged organization UCP Seguin. In AdoptWell, it was agreed early on in discussion that the name of the acquired would be continued for a period of time.

¹³. Thomas A. McLaughlin, "Don't Replace, Merge" *The Nonprofit Times* 18 (December 1, 2004), p. 4.

¹⁴. Milway, et al., "Why Nonprofit Mergers Lag."



In the case of JourneyCare, where merging agencies were about the same size and age, the merging parties initially agreed that none of their organizations' names would be used for the post-merger organization. But once all other name options had been exhausted, the name of the largest among the three was put into play by a board member from one of the acquired organizations.

In several cases, the merged organizations agreed to select completely new names to avoid conflict over choosing one organization's name over another. In other cases, such as Works for You, a new name was thought to better capture the mission of the merged organization. Others noted that rebranding issues were not fully "resolved" insofar as some board members or donors were dissatisfied with the name even after the merger. A participant in the A Child, A Home merger indicated that four years later it is still "us vs. them."

A CASE STUDY STORY

For JourneyCare, integration of three community-based organizations with nearly 1,000 employees spread across multiple locations proved to be more challenging than anticipated. The new organization had to engage in "clean-up operations" while pivoting to a new strategic plan. "We had to fly the plane while remodeling it," as one board member put it.

For more on this merger, see page 75.



Integration requires careful planning.

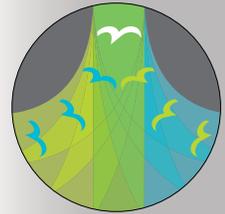
La Piana characterizes integration as "the process through which two or more nonprofit organizations bring together their people, programs, processes, and systems into a unified system."¹⁵

While texts describe step-by-step processes for conducting a smooth and successful post-merger integration, participants assert that each merger is different and that seamlessness is the exception. However, most merger consultants agree, as did the participants in this study, that integration should begin before legal execution of the merger.

There should be a post-merger plan, and most of the mergers in this study, large and small, had detailed plans. The plan should be in place, with both parties participating, even before the merger agreement is signed. Boundless Readers Board Chair John Martin presented a detailed week-by-week plan for merging with WITS that was followed in detail by both organizations. This very small merger had a very big plan. Several mergers involved a separate board-created merger committee composed of board members from each

organization that created or presided over the merger integration plan. BBBS-MC and My Choice hired consultants to assist them at every step of their integration. Both

¹⁵ David La Piana, *The Nonprofit Mergers Workbook, Part II: Unifying the Organization After A Merger* (St. Paul: Fieldstone Alliance, 2004), p. 2.



organizations praised consultant work for getting the merged organizations up and running quickly.

In contrast, Salute to Girls, the largest affiliate within the national Salute to Girls system, underwent a mandated merger between 2006 and 2008, when the national organization sought to consolidate its local councils. In the Chicago area, Salute to Girls had to integrate seven councils into one, in a service area that spread across 245 communities in 10 counties in 2 states. The merger required the integration of organizations with seven different cultures/histories (from inner-city neighborhoods to suburban enclaves to rural communities), seven CEOs, and seven sets of bylaws and operating systems. Predictable consequences flowed from the forced, poorly executed merger, including lawsuits and the departure of board members and volunteers. The post-merger aftermath left an enduring legacy of distrust among the “seven tribes.” Recent signs of membership and financial stabilization seem more encouraging, however.

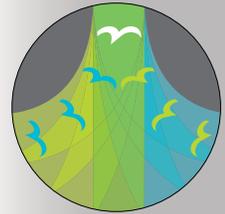
Funder involvement produced mixed responses from participants.

Most participants considered funder involvement to be essential, particularly where large individual donors and legacy bequests were involved. However, in the case of foundations, some participants referred to negative experiences, while others noted their apprehension at not knowing what the funders’ policies or practices were toward mergers. This translated into concern that the funder would “buy out” (less support) as opposed to “buy in” (more support) if informed in advance of a prospective merger. The need for better communication between grantor and grantee emerged as a clear takeaway.

There were no cases in which a large donor was involved in the merger process other than cases of donor legacies or bequests. Where legacy contributions were involved, at least one participant talked about contacting family members as part of the merger process, partly out of respect and also to seek future support. If the parties to the merger wish a large donor to continue its support post-merger, then early inclusion is critical even if the person or family might be opposed. Nationally, cases have arisen where major donors have vetoed a merger, such as the Smile Train-Operation Smile example.¹⁶

The biggest funder-related issue was lack of foundation support. We heard a much repeated refrain about merger funding expectations. “In projecting our financial pro-forma under a merger, we thought that one plus one equals two,” observed one participant. But it turned out that funders “diminished their support” after the merger. Participants wanted greater transparency and better communication from funders regarding continuation of existing support and how they viewed post-merger requests. One participant suggested that funders assure grantees that they would not be penalized for merging.

¹⁶. Stephanie Strom, “Seeing Power Grab, Opposition Arises To Charities’ Merger,” *New York Times*, February 24, 2011, B1.



STRATEGIC MERGERS

*Mergers can be used strategically by all parties not simply to grow or survive but to accomplish specific mission goals and increase impact.*¹⁷ Examining outcomes through the lens of strategy offers a particularly valuable way to evaluate merger success.

For example, as a federally qualified health clinic, Families 4 Health saw opportunities for growth with the passage of the Affordable Care Act of 2010 and the anticipated services the State of Illinois would provide for uninsured recipients as a result. It engaged in several mergers as it underwent a strategic transition from being largely a child welfare provider to a health care provider for uninsured populations.

Two common types of strategic mergers involve “pooling” or “trading.” Pooling occurs when two organizations combine similar resources, including programs, in an additive manner. A pooling type of merger may reduce overhead/back office operations. It can also help deliver goods and services to customers in a more efficient and effective manner. Trading occurs when organizations exchange dissimilar but mutually valued resources through a kind of give-to-get process. Trading mergers join different kinds of programs, operations, and services in a single organization. Such mergers often involve greater uncertainty and risk because different markets, needs, and customers are involved.¹⁸

Many of our study participants engaged in pooling or trading strategies. Below, we take a closer look at these cases to assess how their strategic approach factored into their mergers.

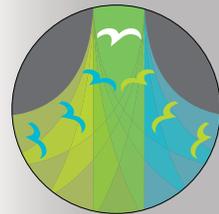
Pooling Strategies

By combining services and patient referrals, JourneyCare created the largest hospice network in the Chicago metro area. The merger enabled it to serve more patients within its current footprint and to expand services into new geographic areas. Big Brothers Big Sisters of Metropolitan Chicago rolled up BBBS operations in the Chicago area through three mergers to combine operations, reduce costs, and provide more and better services (see case studies of JourneyCare and BBBS, Appendix 1). Other cases that involved pooling of similar activities, programs, and services included the following: Art Ed; A Child, A Home; Neighbors Action; and Discover.

Metro Chicago My Choice also merged to pool similar services and operations. Its merger combined numerous city and suburban My Choice affiliates under a single Chicago-based operation. The My Choice merger was driven locally by My Choice

¹⁷ Alex Cortez, William Foster, and Katie Smith Milway, “Nonprofit Mergers and Acquisitions: More Than a Tool for Tough Times,” Bridgespan, February 2009.

¹⁸ E. J. Zajac, T. A. D’Aunno, and L. R. Burns, “Managing Strategic Alliances,” in Shortell and Kaluzny, *Health Care Management: Organization Design and Behavior* (Clifton Park, N.Y: Delman Cengage Learning, 2011), 321-346.



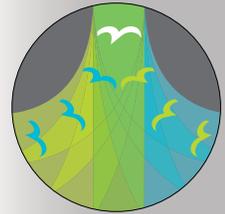
Chicago board leaders, whose activities raised most of the region's funds, to eliminate inefficiencies related to operating so many different organizations within a single metropolitan area. The resulting merger saved nearly 20 percent in annual operating costs, making the new My Choice a more efficient and coherent operation. However, largely because of the recession, post-merger fund-raising activity trended downward.

Trading Strategies

UCP had services and technology. Seguin had residential facilities. Their merger involved a trading of assets, competencies, and markets. Train Inc. had job contracts and access to day labor opportunities, while its merger partner, Learn-A-Skill, trained the unemployed who sought work. The two also traded different revenue streams to strengthen their mutual needs: one was 95 percent private employer funded, while the other was 90 percent foundation and government supported. Boundless Readers had a unique, successful, but limited school-based reading program, while WITS had a broad mix of school-based literacy programs. This combination both enriched (concentrated) and expanded literacy efforts to new schools. (See case studies of UCP Seguin and WITS/Boundless Readers, Appendix 1.)

With the We're About Health merger, two community health programs joined together: one served only women; the other only men. To be eligible to be certified as a Federally Qualified Health Clinic (Medicare/Medicaid eligible), they needed each other, just as they needed each other to gain access to additional funding and to grow. House Serve combined two different housing providers: one for older adults and the other focused on affordable housing. Two faith-based advocacy organizations merged: one had grassroots organizing skills and programs, while the other had developed a sophisticated policy analytics capacity. They needed each other to expand their collective impact both at the grassroots level and among government policymakers.

Two nonprofit consulting operations, one with IT specialties and the other with general management skills, merged to form Works for You. Two literacy organizations combined: one collected books from suburban sources; the other dispersed the books to Chicago schools or sold them outright through a Chicago-based store. The Legal Serve merger involved two organizations that provided similar services to two different populations. In AdoptWell, trading was critical to the merger decision: one provider operated on both coasts, while the acquired served the Midwest. The former engaged exclusively in international adoptions; the acquired operated both in international and domestic adoption markets. These examples of trading illustrate how strategy and strategic considerations are becoming more frequently utilized by merger participants.



Part 2: Barriers to Merger: Four Additional Cases

Pointing to gaps in knowledge about nonprofit mergers, the 2012 MAP for Nonprofits merger study cited the need for studies of mergers that did not work out, either because the merger was not completed or because the merged organization experienced negative outcomes.¹⁹ Not only could such studies help us identify (and address) impediments to successful mergers but these cases can also reveal how, in some instances, a merger might not be an appropriate strategy.²⁰

Issues that made organizations back away from a merger

- Environment: general conditions related to the industry, market, locale, etc.
- Organizational culture: incompatible patterns and practices regarding decision-making, rules, incentives, communication, addressing of conflict, etc.
- Strategy: poor fit, strategy not clearly articulated, business environment changes, etc.
- Structure: form ill-suited to strategic purpose, one-sided or poor incentive structure, etc.
- Behavior: egos and personal dislikes, single point of contact, etc.

The following four cases (drawn from published reports as well as interviews conducted by the research team) present examples of different circumstances that prevented successful mergers from taking place. The first two involve uncompleted mergers. The third case considers a legendary organization that did not seek out a merger and subsequently shut its doors. The fourth involves a completed merger that resulted in a “divorce.” All cases took place between 2004 and 2014 and involved Chicago-area organizations.

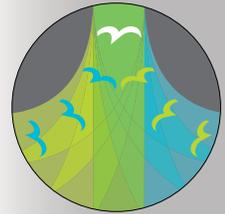
Staffing Issues: Civic A and Civic B

In 2010, two of Chicago’s most prominent civic agencies discussed merging. Civic A and Civic B (pseudonyms) both promoted a more sustainable and prosperous Chicago region, advocating better regional planning and smarter public and private investments. Their respective boards overlapped and they shared many of the same funders. They knew each other well at the CEO, board, and staff levels.

Chicago business and civic leaders encouraged the combination, signaling that future financial support would be contingent upon it happening. Both organizations were financially solid. From the outset, it was clear that staff would keep their jobs, salaries, and benefits. Both agencies were led by highly regarded professionals; each was

¹⁹. MAP for Nonprofits and Wilder Research, *Synopsis: Success Factors in Nonprofit Mergers* (2012), p. 17.

²⁰. See Zajac, “Managing Strategic Alliances,” and Yaakov Weber, Christina Oberg, and Shlomo Tarba, *The M&A Paradox: The Factors of Success and Failure in Merger and Acquisitions* (New York: FT Press, 2012).



appropriately cautious about how they might work together under a merger arrangement. While both wished to continue in their current positions, it was suggested that Civic A's leader would serve as CEO responsible for operations, while Civic B's leader, older and more experienced, would be offered a two-year term as Executive Chair charged with policy guidance.

The staffs of the two groups differed in age, one being generally younger than the other. The culture of the two boards also differed: one was more proactive, the other far less so. While their agendas overlapped, their missions and priorities were not quite the same. These obstacles could have been overcome, participants stated. But the proposed two-year term limit for the Executive Chair proved to be a problem, probably constituting the biggest merger impediment because merger discussions terminated shortly after it was suggested. In 2011, Civic B went its own way, taking a new name and a new location. Three years later, it ceased to exist.

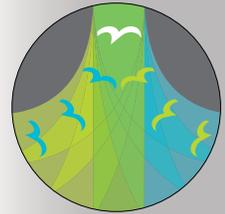
Financial Liabilities: Larkin Center and Lawrence Hall Youth Services

What happens to a nonprofit organization when its financial health deteriorates and it signals that it is in trouble? Larkin Center, a 117-year-old provider located in Elgin, Illinois, that helped children with emotional and mental health difficulties, went bankrupt. It had hoped to merge with Lawrence Hall Youth Services, a 151-year-old Chicago child welfare provider established to equip at-risk youth and their families with the skills to lead independent and productive lives. Larkin closed its doors shortly after Lawrence Hall terminated the merger process, which collapsed after 18 months of discussion. Larkin staff then faced the task of working with state agencies to transfer contracts and to transition clients.²¹

During the lengthy courtship, Lawrence Hall's board of directors had been aware of Larkin's weak financial condition but they liked the upsides: a good brand name, market extension into Elgin, program and service overlap, and extensive real estate holdings. Lawrence Hall's board chair, a prominent Chicago attorney with an extensive merger background, made sure that his firm's pro bono due diligence team conducted an extensive examination of Larkin's financial situation. The team brought to the attention of the board several disturbing factors, which resulted in the board decision to terminate further discussions.

Due diligence uncovered significant solvency issues. Faced with a prospect that a merger could take down their provider, Lawrence Hall's board backed off. No other suitors came to the rescue, which is often the case when nonprofits experience financial difficulty. Unlike in the private sector where risk capital rushes into troubled enterprises looking for value and transaction business, nonprofit funders tend to avoid risky situations.

²¹ Jennifer Delgado, "Child Care Charity Shutting Historic Campus," *Chicago Tribune*, April 12, 2012, p. 23.



A Legend Goes Bankrupt: Hull House

When Hull House shut its doors in January 2012, the bankruptcy of the iconic settlement house shook the nonprofit world, especially Chicago-area human service providers. Why this happened is the source of much conjecture.²² Our interest is limited to whether Hull House should or even could have entertained restructuring, possibly a merger, and whether such an action might have altered the outcome.

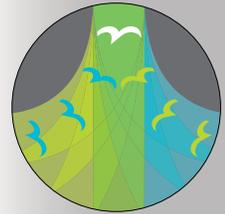
A formal merger proposal with a solvent human service provider came before the board a decade earlier and merger talks occurred a few years before the bankruptcy, but both initiatives fizzled. At some point after the Great Recession of 2008, Hull House's downward financial spiral became irreversible. Declining fund balances, chronic deficits, and expanding liabilities moved its financial structure into a bankruptcy category. Hull House drew down its banking lines of credit, depleted cash advances from Illinois contractor agencies, exhausted board fund-raising and, reportedly, dissipated its remaining support among Chicago's foundations.

Blame was directed at the board, the State of Illinois as key funder, and at the provider's financial structure and business model. One participant felt victimized by "state agencies which hampered their efforts to downsize and controlled Hull House's fate." Another noted that the provider's business model, composed of 90 percent state-funded revenue and 10 percent private funding, was unsustainable.

Two months prior to bankruptcy, state agencies asked Metropolitan Family Services (MFS), a sister service provider, to consider rescuing Hull House. Apparently, a quick due diligence response concluded that too much liability was involved. In February 2012, Hull House filed for Chapter 7 liquidation, listing assets of \$1 million to \$10 million and liabilities of \$10 million to \$50 million. Lawsuits followed from creditors, unions, employees, and others. Its programs and services were transferred to other service providers. MFS acquired two Hull House programs and also purchased the Hull House trademark.

In short, Hull House had the opportunity to restructure and to engage in a merger. It had assets that others found appealing. Whether a merger, as part of a larger restructuring, could have saved the venerable organization remains speculative but raises a vital question: how can restructuring be used to save financially weakened nonprofits before they hit a point of no return?

²² Anne Cohn Donnelly, "The Demise of the Jane Addams Hull House Association," Case: 5-114-003, The Kellogg School of Management, Northwestern University, 2014.



The Divorce: Arbor Vitae and Helping Hand

From a market and strategic perspective, the 2005 merger of Chicago-area adoption agencies Arbor Vitae and Helping Hand (pseudonyms) made sense. Adoption services operate in a highly competitive marketplace; provider success may turn on capturing greater market share. The unique strengths and weaknesses of each were well known to the other. Both parties anticipated an affiliation of equals that would be greater than their separate parts (a frequent refrain in the merger world). The respective boards expected to grow market share and enhance their leadership position within the industry.²³

They merged and eighteen months later dissolved the merger and returned to being two autonomous organizations. What went wrong? Differences in organizational culture played a major role. Incompatible elements between the groups were not adequately ventilated or flagged during the merger process. The boards were so focused on getting the deal done that they ignored discomfiting information about their differences. Even though their merger committees met often, they focused their attention on issues such as finance, structure, and “protecting their own turf.” Moreover, different CEO management styles impeded cooperation. One provider was led by an MBA who delegated much responsibility to professional staff. A charismatic entrepreneur with a reputation for micromanagement led the other. These differences would play out in post-merger decisions such as hiring, marketing, information sharing, and reporting to their respective boards.

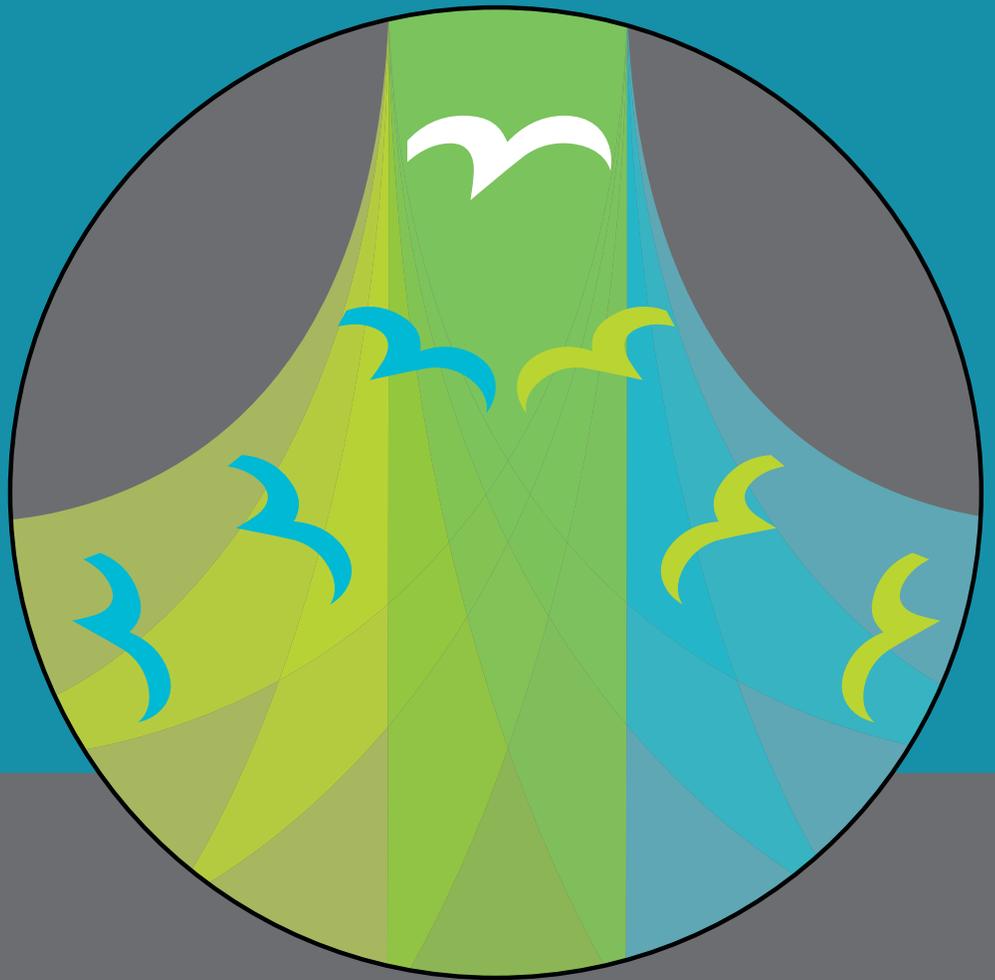
Structural factors also entered into the breakup. For legal reasons related to debt, foundation assets, and closely held international licenses, the merger structure involved the creation of four distinct boards. In effect, this meant that the two agencies continued to operate as largely separate entities without much incentive to build trust. Also, it was

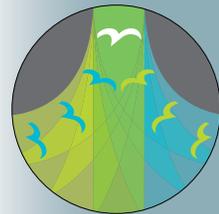
Mergers involve risk and should not necessarily be the first option under consideration.

easy to dissolve the organization when no assets had been exchanged. The incompatibility is best explained by cultural differences, but behavior and structural reasons contributed equally to the unpleasant divorce. Merger failure, like merger breakdown, invites several explanations.

²³ Kathy Shaw and Anne Cohn Donnelly, “The Proposed Affiliation of Arbor Vitae and Helping Hand,” Case 5-408-756, The Kellogg School of Management, Northwestern University, 2009.

VI. TEN KEYS TO MERGER SUCCESS





VI. TEN KEYS TO MERGER SUCCESS

Merger participants offered many observations regarding how organizations can ensure a successful merger. Here are their top ten pieces of advice. Section VII will provide more recommendations, aimed specifically at particular players in the merger process.

1. Trust is the glue that holds together all other issues in merger negotiations.

“Trust overcomes fear, which is the biggest impediment to change and to a merger.”
— Paul Dulle, former CEO of United Cerebral Palsy Chicago

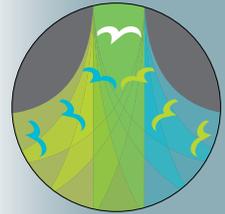
For the mergers in which the acquired and acquirer had prior working history (80 percent of the cases in our study), trust began with familiarity among the parties at several levels within the organizations and over time. Several participants referred to cultivating relationships with other organizations before a merger, which then became a good precursor to trust-building in the actual merger.

In the case of Arbor Vitae and Helping Hand, the merger that dissolved, trust between the two CEOs, the two boards, and senior management was not strong enough to overcome cultural differences and structural barriers. In contrast, the UCP Seguin merger was all about trust-building that extended more than three years from preliminary merger discussions to actual merger. Paul Dulle, CEO of UCP, and Board Chair Roger Hughes repeatedly referred to trust as the essential ingredient for a successful merger. Dulle and Hughes went to extraordinary efforts to build trust between the new and outgoing CEOs, between the two boards, between staffs of both organizations, and then among all of the above. For instance, the program staff partnered together on projects, including housing development, employment, and service projects, as a means for getting to know each other better. “Trust is the flip side of fear, so if you eliminate as much fear from the merger process as you can, you will likely succeed,” observed Dulle. The Chicago CEO of My Choice eventually built trust among suburban legacy organizations by getting them to buy into the “win-win” concept of a well-implemented merger being in the best interests of all stakeholders.²⁴

2. Mission, mission, and more mission.

Nonprofits are in the mission business. The key merger question is how the new organization will expand the mission impact. Those pleased with merger outcomes suggested that mission played a central role in guiding the merger. On the other hand,

²⁴. While much is written on trust and team building within organizations, La Piana’s *Nonprofit Mergers Workbook, Part II* still serves as a standard reference. Several participants referred to it as their guide.



mission drift can occur after a merger, as suggested by a former ED of Neighbors Action. “It took us months to get back on track to rewrite our mission,” he observed.

“If the mission of the two organizations can deliver more value together than apart, then that should be the driver. If you are really clear about the mission value, it will lift you up past the things that can become obstacles.”

— CEO, A Child, A Home

A certain cautionary note entered into the advice that nonprofits should revisit their missions to see if a merger is the best strategy for them. “There ought to be the question of whether merger is the right approach, or maybe the organization should just close. Organizations have such a strong need to survive that they can’t ask, sometimes, the hard questions,” one ED told us. “Maybe you’re not funded because your mission is not needed as much anymore.”

3. In the most successful mergers, all parties are clear about their organization’s overall goals and use the merger as a strategy to achieve these goals.

Previous merger studies indicated that most nonprofit mergers were inspired by financial pressure or a leadership vacuum. While true of some of our cases, most participants were concerned about growing their organizations. How management decides to grow an organization is perhaps the most challenging question an executive team faces. Merger may not be the right answer or the only pathway to growth and increased effectiveness. Agencies experiencing a financial crisis may not be good merger

“Scale matters. Being able to expand the scale and reach of our child welfare services would enable us to do more work, better work ...because of the complex dynamics in the field of child welfare, having greater scale would position our organization to be able to be a best practice leader.”

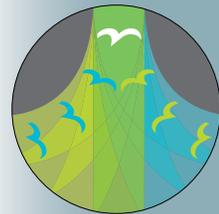
— CEO, A Child, A Home

candidates. Be sure that the strategy response to the merger question is thoughtfully crafted, fully articulated, and based on hard data.²⁵

But strategies may differ between the acquirer and the acquired. Families 4 Health, an organization whose growth strategy was built on providing services to the uninsured, sought to position itself where it thought government was going to integrate health care providers. It was moving from child welfare into health care by blending the two together in a strategic way to increase funding and to enter new markets. One provider it acquired could not pay its bills; the other was a weaker competitor to Families 4 Health in the same

community market. The acquired agencies’ strategy was simply to find a financially

²⁵. See Laurence Capron and Will Mitchell, *Build, Borrow, or Buy: Solving the Growth Dilemma* (Harvard Business Publishing, 2012) and David La Piana, *The Nonprofit Strategy Revolution* (Fieldstone Alliance: St. Paul, 2008).



Strategy may differ between the acquired and acquiring organizations.

secure acquirer with a compatible mission, with the goal of keeping their programs operating and stemming layoffs.

In the Big Brothers Big Sisters case, strategy played a guiding role, internally and externally, in achieving the merger's long-term growth objectives. Internally, the organization needed resources to build the capability to expand into new territories and forge new community relationships. Externally, the merger allowed it access to a large market and a new group of funders.

4. Know yourself and know your counterpart.

Organizations were urged to be honest about their own assets and liabilities prior to initiating a merger. In some 60 percent of the mergers in the study, one or both parties considered other merger prospects prior to their final selection. All organizations operate in the context of markets. Organizations and their boards ought to know what markets they compete in, who their clients are, and who their competitors are [for donors and clients]. This will give them a better sense of merger candidates and how to position the organization relative to its competitors.²⁶

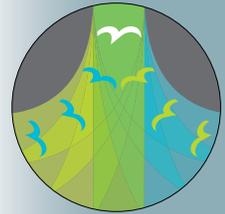
"Get to know your counterpart" was a frequent refrain among merger participants, particularly among those being acquired. Keep asking the hard questions about how the acquirer is going to absorb staff and programs, use assets, and allocate board positions. Even when the merger was successful, some participants expressed regret that they had not asked more questions of their merger partner. The former ED of Health Bridge assumed all was fine within the merger partner's operations. He found that it wasn't, and, "we could have negotiated [the merger] better, but we didn't know." The former ED of

*"As an organization, you need to know the good, the bad, and the ugly about your own organization."
— ED of Votek*

Home and Heart noted, "We were unaware [of what our partner was going to do]... We were in such horrible shape, we weren't really thinking through the implications of [the merger]."

Boards have to know what is going on inside the other organization. One person suggested that a staff person be appointed as the day-to-day liaison with the other provider to report to the board or to the board committee working on the merger. Such an appointment does not preempt the CEO. Rather, it can be more effective to have one person responsible for merger-related documents and information as opposed to the CEO, who still must run the provider until the merger is finalized.

²⁶ See Peter Frumkin and Suzi Sosa, "Competitive Positioning," *Nonprofit Quarterly*, Fall, 2014, pp.33-43



5. The role of the CEO in prompting discussions about merger can be critical, especially when the CEO position is in transition.

The CEO is critical to how the merger discussion is framed and how boards respond to a leadership vacancy. When a CEO resigns or retires, boards may seek a successor without considering whether the time is right to consider a collaboration such as a merger. Upon announcing his retirement as UCP President, Paul Dulle changed his board's reference point from succession planning to merger planning. The JourneyCare merger involved three CEOs convincing their boards to consider a merger because they felt it was in the best interest of all three nonprofits.

Besides being visionaries with a sense of what a new organization might become as a result of a merger outcome, CEOs also must be key strategists in understanding their industry and its dynamics.

An interim director, while not a candidate to succeed as the permanent CEO, may have more leeway than an outgoing CEO in facilitating a merger or finding the right merger partner. In several cases, interim CEOs who turned down the permanent CEO job initiated merger conversations with other organizations to assist their boards in thinking about future options.

6. Boards/board chairs have to be merger advocates for mergers to succeed as a general rule.

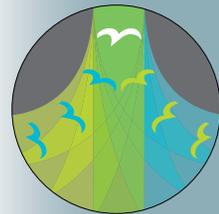
“If you really want to get to the right decision, you better make sure you figure out a way to get the whole board to take ownership over the process.”

*— Former Eleanor Foundation Board Chair
Nick Brunick*

If the board chair is not fully committed, the chances diminish that other board members will carry the merger load. However, with the board chair's support, another board member can become the chief merger advocate. Board dynamics vary, so different strategies may apply to different situations. Board members may assume different roles, such as merger advocate and merger skeptic. In the Chicago Foundation for Women merger, a board member emerged as lead advocate and negotiator while the board chair

sought consensus with the other board's chief negotiator when difficult issues arose.

Board members were often involved in logistical details: provision of legal and financial experience, referrals of consultants and attorneys, and relations that facilitated the search for suitable merger partners. Most mergers had board members with prior corporate or nonprofit merger experience. Their familiarity with the process was seen as a positive.



It often took time for boards to “buy into” mergers or feel comfortable with the idea, so participants emphasized the importance of patience. Boards that are not fully engaged or that defer to the wishes of their CEO, such as in the Arbor Vitae/Helping Hand case, may pay a steep price. “If you don’t have a board that’s engaged, you can’t look to your staff to get this done because they have day jobs,” noted a Works for You board member.

7. Staff involvement is vital to the success of a merger and certainly to post-merger integration.

“It’s probably counter-intuitive for most people, and it is a hard thing for organizations to want to do, but I think the success of the merger really goes to the fact that from the beginning it was a very open process and we daylighted all the problems. We were able to have very honest conversations with staff members that had concerns.”

— Former ED

Noting that integrating staff after a merger “is far more of an art than a science,” La Piana provides helpful suggestions on what leaders can do to make staff integration work better: address concerns; communicate early and often; work to align provider and staff interests; clarify new roles; and celebrate the merger.²⁷ As SeaChange’s John MacIntosh observed, “Collaboration is like marriage; if you can’t celebrate, don’t consummate.”²⁸

Participants referenced a well-developed communications plan and use of social media, such as a website, to deal with staff apprehension and concerns. Once the merger agreement is executed, staff wishes to be involved in a successful implementation. They want to be inspired that the

merger will lead to bigger and better things for the combined organizations and that they can help make this a reality. As one merger CEO noted, “I provided a vision of the post-merger to provide staff with something they can believe in and aspire to.” The process of assimilating two organizations and building a new one takes time. “There will be growing pains, and cultural integration takes time.”

8. Leaders must pay attention to organizational culture for the merger to succeed.

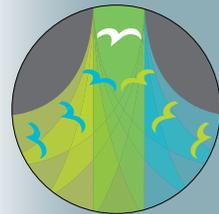
Culture includes organizational history, values and beliefs, traditions, methods, practices, and the like.²⁹ In the corporate world, culture is often cited as the key reason mergers fail. An organization needs a self-assessment of their own culture,³⁰ and they must attain a sense of compatibility with the values and culture of the organization with which

²⁷ La Piana, *Nonprofit Mergers Workbook, Part II*, p. 95.

²⁸ MacIntosh, “Nonprofit M&A is No Oxymoron,” Rule VIII.

²⁹ See La Piana, *Nonprofit Mergers Workbook, Part II*, Chapter 8, on cultural integration.

³⁰ For more information about cultural assessment, see the Culture section of the *Nonprofit Merger Study Tool Kit*.



“I think it’s been mixed. I think some of it is going to be natural, with growing pains. You’re going from a smaller, scrappy organization to being merged with a really huge organization...There was a little bit where the hairs on the back of my neck would kind of pick up, and I’d be like, ‘Why is this happening?’ You get defensive, but then looking back on it now, I can see why it happened.”
— Board member from acquired organization now with current organization

it is combining. Moreover, they must be deliberate about the culture that the new organization will create post-merger, which might be different from their current one. Moving from one to another requires a strategy, a plan, and much participation.

The issue of culture arose particularly among smaller organizations acquired by larger ones. Anticipation of future issues and concerns is a key takeaway particularly for organizations that differ in size, religious affiliation, financial strength, and founder legacy. For Salute to Girls, the difficulty of their merger was all about cultural differences and the consequences of forcing widely different organizations to become one over a period of time. In the Big Brothers Big Sisters case, CEO Art Mollenhauer and his board crafted a vision of what they wanted their organization to be and how mergers would help get them there. In JourneyCare, moving from a blend of three cultures

to a unified culture built on best industry practices would be both an immediate and a long-term challenge. As one merger participant observed, “Nonprofits are more bounded by cultures than for-profit corporations because they are mission-based institutions where values and beliefs define them.”

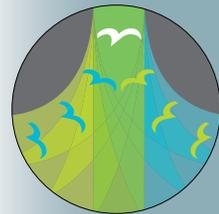
“We were making mistakes left and right. We were virtually on our own... competency in guiding the process would have prevented a lot of these problems.”
— Former ED of House Serve

9. Most successful mergers rely on outside experts. These may include attorneys, accountants, merger facilitators, and others.

Although some organizations reported that they had sufficient internal resources in the form of board members or staff with prior merger experience, most noted their critical need for professional facilitation. The former ED of House Serve observed: “We were making mistakes left and right. We were virtually on our own... .

Competency in guiding the process would have prevented a lot of these problems.”

Some sectors in which nonprofits operate require industry-specific advice. JourneyCare, for example, needed to understand its role in a changing industry following passage of the Affordable Care Act. The Discover merger dealt largely with difficult state funding issues in the disability field.



The kind of assistance needed to complete a merger depends on the organization, its board, and its situation. But most organizations do require some form of outside help and should assess their need for assistance early in the process.

“Our merger happened, not because of a crisis, not because they were running out of money. It happened in a very thoughtful manner with intent.”

— K. Sujata, CEO, Chicago Foundation for Women

10. As a resounding takeaway, participants strongly encouraged merger participants to do their homework.

In most cases, participants acknowledge that the mergers took longer than they had expected and were more expensive than anticipated. They felt that boards needed more information to prepare them for what is involved in a merger and what to

expect from the process. For example, when and how to engage outside consultants—from attorneys to facilitators to strategic planners and financial advisers—presented a particular conundrum. Participants also felt that they would have benefited from hearing about the experience from board members who had gone through a merger.

Organizational leaders should diligently consult the resources available for understanding mergers, from their own board members or colleagues who have been through merger to the wide variety of published works and online resources that exist. The mechanics of a successful nonprofit merger are described by La Piana, McLaughlin, and others in the field.³¹ They offer a host of suggestions and advice on what one needs and whose advice should be sought.

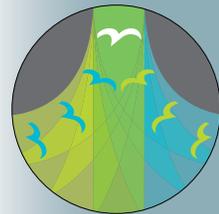
Most experts advise that boards start not with the perspective of merger but rather with exploration of a spectrum of restructuring options.³² Mergers involve risk and should not necessarily be the first option under consideration. Two of our mergers, UCP Seguin and JourneyCare, began with collaborations and partnering alternatives and then moved into a merger discussion.

For more information about how to learn about mergers and the topics covered in the study, please see our detailed bibliography and the merger tool kit that has valuable information that you can use to help guide your process.

See a full complement of tools and resources on merger strategy, at www.ChicagoNPMergerStudy.org

³¹. Thomas A. McLaughlin, *Nonprofit Mergers and Alliances* (New York: Wiley and Sons, 2010); Dan McCormick, *Nonprofit Mergers* (Gaithersburg, Md., Aspen Publishers, 2001); LaPiana, *The Nonprofits Workbook* (Parts I and II). See also David La Piana, “Merging Wisely,” *Stanford Social Innovation Review* (Spring 2010): pp. 28-33.

³². See Donald Haider and Franz Wohlgezogen, “Change Comes at a Cost,” *Stanford Social Innovation Review* (Winter 2012): pp. 66-71.



IMPACT OF ILLINOIS BUDGET CRISIS ON NONPROFITS AND NONPROFIT MERGERS

Although the 2008 recession caused great hardship among nonprofits, its effects were mitigated by the 2009 federal stimulus package, which infused some \$800 billion into the U.S. economy.

Massive federal intervention blunted much of the short-term decline in state and local governmental spending, upon which many human service agencies depend. Partly for this reason, human service agencies experienced lower closure rates than other nonprofits during that period.³³

But once the stimulus funding faded, some states, including Illinois, fell far short of full economic recovery in jobs and tax revenue. Illinois' predicament was greatly compounded by governmental mismanagement and political stalemate. At first, Illinois reduced services, temporarily raised taxes, and borrowed extensively to cover gaps between revenues and expenditures, but these measures did not avert the growing disaster.

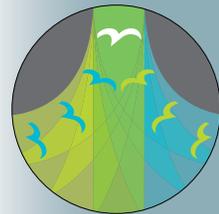
Over the past several years, Illinois has been in a full-fledged fiscal crisis. By 2016, its structural deficit had ballooned to more than \$8 billion in a \$40 billion state budget. This deficit, coupled with mounting pension fund debt exceeding \$110 billion, caused the state's credit rating to plummet to lowest among the 50 states, leading to higher borrowing costs. Meanwhile, the state operated for 14 months without a budget until a stopgap 18-month budget was authorized in July 2016. This makeshift measure, however, falls short on revenues needed to support planned expenditures. The backlog of unpaid bills is projected to rise to more than \$10 billion by the end of 2016.³⁴

This crisis has proved far more damaging to nonprofits than the recession itself. Service providers dependent upon state funding for operating resources have been especially hard hit, but virtually all providers with state contracts have been affected. The state's actions have included budget cuts, changes in program eligibility, delayed reimbursements on contract payments, declining payments to cover actual costs, and inordinate delays in signing service contracts. Service providers have resorted to the federal courts to mandate payments and gain short-term budget agreements to generate partial payments. Reduced reimbursement rates have led to layoffs, pay cuts, heavier caseloads, high burnout, and employee turnover.³⁵

³³. Nathan Dietz, Melissa Brown, and Thomas Pollak, "The Impact of the Great Recession on the Number of Charities by Subsector and Revenue Range," The Urban Institute, June 24, 2014.

³⁴. *Chicago Tribune*, July 15, 2016, p. 6.

³⁵. Annie McGowan, "Failing To Keep Pace: An Analysis of the Declining Value of Illinois Human Services



The failure to enact a state budget caused many agencies to close and critical programs to shut down in every corner of the state. In a 2016 United Way survey, 90 percent of 338 human service agencies in Illinois reported that they had to cut programs impacting more than one million people. When income eligibility for the Child Care Assistance Program was temporarily lowered from \$37,000 to \$10,000, for example, an estimated 90 percent of households were disqualified, reducing revenue for providers and causing many to shut their doors. It is not surprising that human service leaders refer to the state's safety net being "broken" or "shattered" rather than "tattered," "frayed," or "unraveling." As CEO of Community Behavioral Health Association of Illinois Marvin Lindsey put it, the budget standoff resulted in "The state's mental health infrastructure being destroyed."³⁶

Service providers have struggled to supplement the difference between what the state will pay and the actual cost of the services provided. Agencies have drained their cash reserves, exhausted lines of credit, sold assets, and hit their debt limits. As Voices for Illinois Children noted in March 2016, "Dismantling the foundations of Illinois's health and human service system [has resulted] in long-term damage to our state that will take years to repair."³⁷

The environment in which Illinois human service providers find themselves has had conflicting effects on merger activity. On the one hand, there has been increased merger activity among social service groups according to Terry Mazany, CEO of the Chicago Community Trust.³⁸ Yet, while the crisis has led to an increased interest in mergers, the state's ongoing fiscal situation may impede newly merged organizations from achieving their goals. Moreover, several participants in this study expressed frustration over the failure of various stakeholders to understand their precarious situations.

Our study also identified another consequence of the crisis that can impact mergers. Some CEOs and executive directors found the stress levels involved in maintaining programs and staff under dire financial circumstances to be more than they could handle. As a result, we found CEOs and executive directors quitting or taking early retirement because they were "burned out." In noting how this situation affects mergers, David La Piana observed, "Stress and burnout are heightened by the inability...to effectively advance their organization's mission. When the press of economic survival overtakes the earnest desire to accomplish a mission, the job may cease to be satisfactory."³⁹ Given this environment, we expect the number of stress-related mergers to increase.

Reimbursement Rates," Illinois Partners for Human Service Report, 2016.

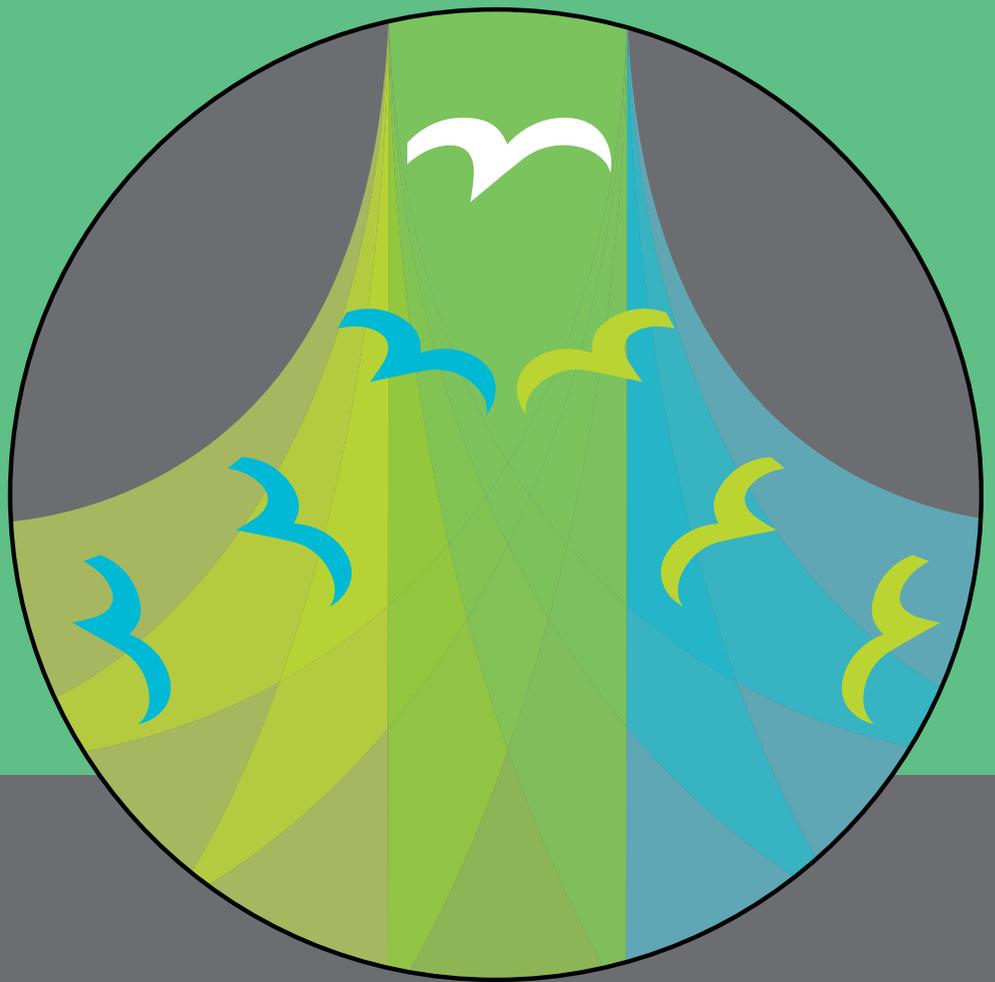
³⁶ *Chicago Tribune*, July 18, 2016, p. 1.; "Illinois State Budget Impasse," *Joliet Herald-News*, January 25, 2016, p. 1; McGowan, "Failing To Keep Pace;" Andrea Durbin, "The Safety Net is Unraveling," *Crain's Chicago Business*, February 1, 2016, p. 11.

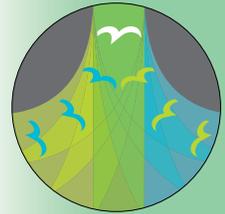
³⁷ Voices for Illinois Children, "Issue Brief," March 2016, p. 1.

³⁸ Shia Kapos, "M&A Activity Up Among Nonprofits," *Crain's Chicago Business*, August 31, 2013, p. 18.

³⁹ La Piana, *Nonprofit Mergers Workbook*, p. 3.

VII. RECOMMENDATIONS FOR MERGER PARTICIPANTS





VII. RECOMMENDATIONS FOR MERGER PARTICIPANTS

In addition to offering their views on the most important keys to merger success, we asked interviewees to offer more specific advice aimed at particular participants in the merger process: (1) CEOs/executive directors; (2) board chairs and board members; (3) foundations and funders; and (4) the philanthropic community in general.

CEOs/Executive Directors/Interim Directors:

- The CEO/Executive Director can be the catalyst for the board's consideration of a merger. Often, his/her decision to leave or retire triggers board activity and response. You must be fully engaged in the transition process. No one better understands the consequences of turnover than you.
- Work with board members to find the right partner. Your knowledge of the partnering landscape is invaluable. But make sure that the final decision on merger partner is the board's.

A CASE STUDY STORY

For Big Brothers Big Sisters of Metro Chicago, the merger was part of a long-term plan to pursue a turnaround built on stabilization, investment in capacity building, and growth. The internal strategy required investments in capacity building. The external strategy involved growth through merger. Together, the implementation of these successful strategies enabled the organization to prosper.

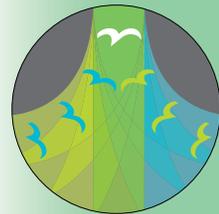
For more on this merger, see page 61.



- Prep your board on the issues critical to your organization and your understanding of what is critical to the other party (or parties) to the merger.
- Set a vision for the merger with clear objectives and expectations. Create excitement. Celebrate the merger.

Board Chair/Board Members:

- CEO retirement or departure provides an ideal opportunity for the board to discuss merger prior to a replacement search. Should the board name an interim executive director, the board will have an opportunity to initiate a merger discussion.
- Some mergers begin as alliances or collaborations. If your organization is engaged in such an alliance, take the opportunity to initiate board discussions about whether a merger makes sense.



- Board members ought to fully understand the reasons to consider a merger. Be clear on what you expect it to achieve and what information and support is needed to make this decision. Have a realistic sense of what your board can and cannot do to facilitate a merger.
- The board chair is crucial to success of the merger. Use your understanding of board dynamics to choose the role you will play and how you will shape the “rules of engagement” (deadlines, appointments, decisions) on merger negotiation. Be responsive to every board member. Openness and fairness are essential for successful mergers.
- In selecting a merger partner, be realistic about the appraisal of your own organization regarding its strengths and weaknesses. Understand your industry, its dynamics, and the other players in the field.
- Make sure there is a plan or framework for the merger process. Boards that invest time, talent, and resources into planning the merger have a far better chance at a successful merger than those that do not.
- Seek out expert help in all phases of the process, from selecting a merger partner to post-merger integration. Most participants found consultants to make valuable contributions to the merger process and outcome.
- Make sure that someone is looking at post-merger integration and is planning ahead before the merger plan is executed.

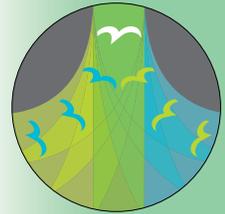
Foundations/Funders:

- Most participants cited the need to better understand foundations: what they do, how they do it, how funding cycles and reviews work, and how they make decisions.
- Respondents asked for greater donor transparency in regard to policies and practices. For example, one respondent wanted a better sense of how funders would react when approached by a financially weakened grantee that may be acquired by another organization. Would disclosure of financial distress affect pending grant requests or jeopardize future funding opportunities?
- Participants noted that, without outside financial assistance, merger costs detracted from merger success. Some respondents referenced funder collaborations in New York, Boston, Philadelphia, and Los Angeles, where

foundations pooled and leveraged resources to promote merger success.

- Respondents hoped funders would step up their assistance as brokers, facilitators, and investors in mergers. They referred to roles that funders might play at different stages of the merger

Most participants considered funder involvement to be essential, particularly where large individual donors and legacy bequests were involved.



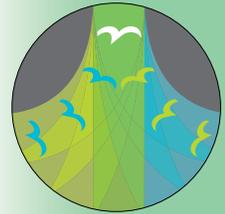
process when assistance can have significant impacts. This support includes pre-merger discussions; merger preparation and partner searches; engagement of help from consultants, banks, or lawyers; and supporting post-merger organizations with IT, office space/leases, HR, and strategic planning.

- The overwhelming consensus was the “philanthropic community” can and should play a much more active role in facilitating nonprofit mergers, collaborative arrangements among foundations being one example. At a minimum level, the community might provide more and better information to help boards discuss and think about mergers.
- The philanthropic community ought to celebrate board chairs and members who led their organizations through successful mergers. There does not appear to be a civic award or ceremony for those who successfully have done their nonprofit-board duty through a merger or other restructuring.
- A chronic complaint is that funders “short-changed” their grantees in mergers. Merged organizations do not expect to be punished for merging.
- Though state government human service agencies were seen, for the most part, as unreliable partners, in emergencies, they have been known to have fronted advances to help organizations survive. Respondents asked that state agencies be more transparent about their policies and practices in keeping their contractors solvent.
- Smaller agencies need more assistance in the merger process. Several of those acquired indicated that they needed help getting their financial house in order (debts, leases, and other obligations) and helping their people and programs survive a merger.

Social Impact Sector:

- We need a better collective arrangement for engaging merger advisers, from general consultants to law firms, bankers, and marketing and branding specialists. Similarly, more help is needed on restructurings through use of turnaround teams and/or knowledgeable consultants who work with struggling organizations. A few organizations already provide this role in a limited way, but help is needed on a more reliable, dependable basis.⁴⁰

⁴⁰. See Melissa Harris, “Chicago Community Trust Encourages Nonprofits to Merge, Form Partnerships,” *Chicago Tribune*, February 10, 2013. Article notes how a Chicago Community Trust program assisted more than 100 Chicago-area nonprofits with costs associated with closing, merger, or consolidation of back-office operations, which, at its peak, grew to a \$500,000 annual program.

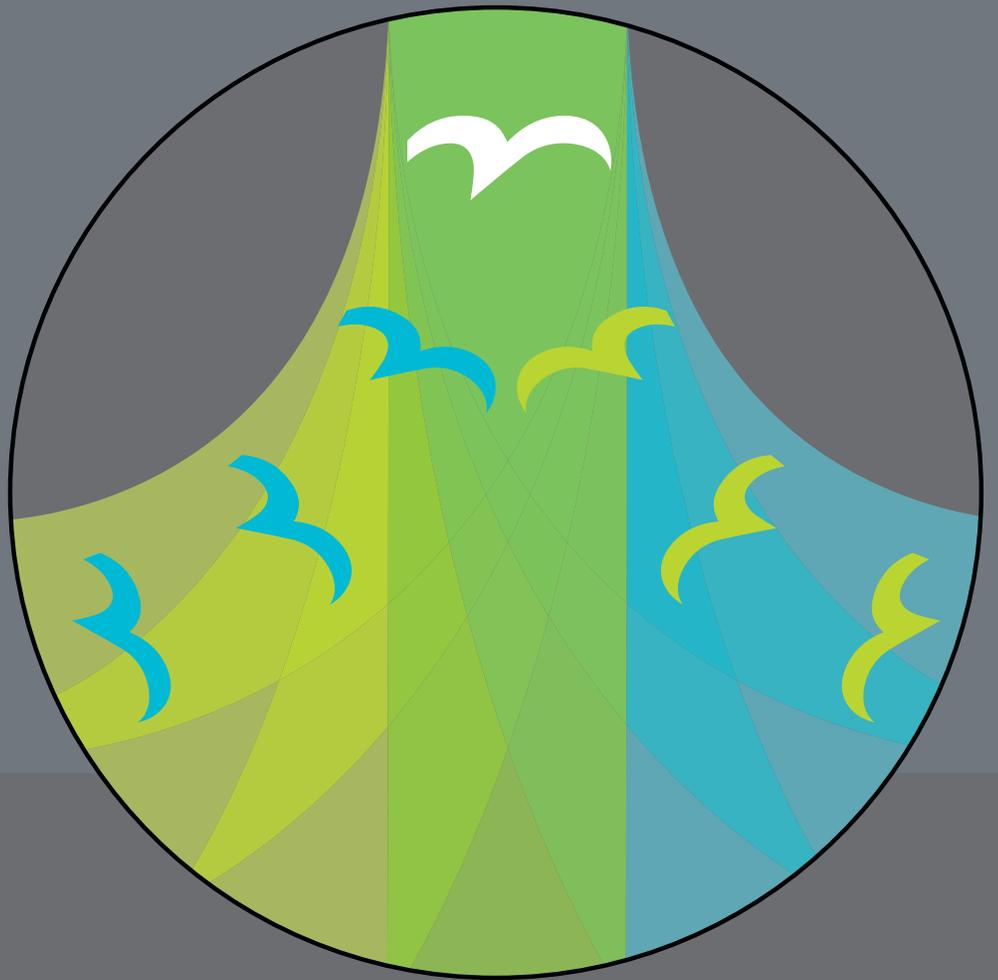


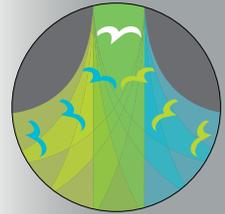
- Mergers have a negative association for many in the nonprofit world. The philanthropic sector can play a crucial role in helping change this. Supporting educational programs for the nonprofit community would send a positive signal that mergers, where appropriate, help produce a stronger, more vibrant and effective nonprofit sector.
- Several participants noted that their experience and knowledge could be made available to those who could benefit from meeting with a group of merger veterans.

Finally, participants referred to the promising role being played by Forefront in the Chicago region and statewide. It is educating members about developments outside of the region and is playing a strong role as a convener of and advocate for the social sector. Its Mission Sustainability Initiative project has great potential to place Chicago in a premier position relative to initiatives that have emerged in other cities, such as the Catalyst Fund in Boston, SeaChange Capital Partners in New York City, the Nonprofit Finance Fund in Philadelphia, and the Los Angeles Nonprofit Sustainability Initiative.⁴¹

⁴¹ The Catalyst Fund for Nonprofits in Boston just completed a five-year fund to support local collaborations and mergers with the help of five funding partners. The SeaChange Lodestar Fund for Nonprofit Collaboration makes grants to encourage and support mergers, acquisitions, joint ventures, and other formal long-term collaborations, as does the New York Merger, Acquisition and Collaboration Fund. The Nonprofit Sustainability Initiative, supported by 13 Los Angeles foundations, helps local nonprofits explore and pursue strategic restructurings including mergers. The Nonprofit Repositioning Fund, administered by the Philanthropy Network of Greater Philadelphia, encourages and supports collaborations among nonprofit organizations. The Nonprofit Finance Fund, a community development financial institution in Philadelphia, operates nationally with a broad portfolio of activities including consulting, tailored investments in nonprofits, and innovative financing for nonprofits.

VIII. CONCLUSION





VIII. CONCLUSION

Mergers have been stereotyped in the nonprofit world as an emergency measure. This study of Chicago-area mergers has shown that they can be much more than that: they can be used as a strategic tool for organizations to advance their mission goals, to improve their services, and to expand their impact. Many of the organizations profiled here went into their mergers with these reasons in mind.

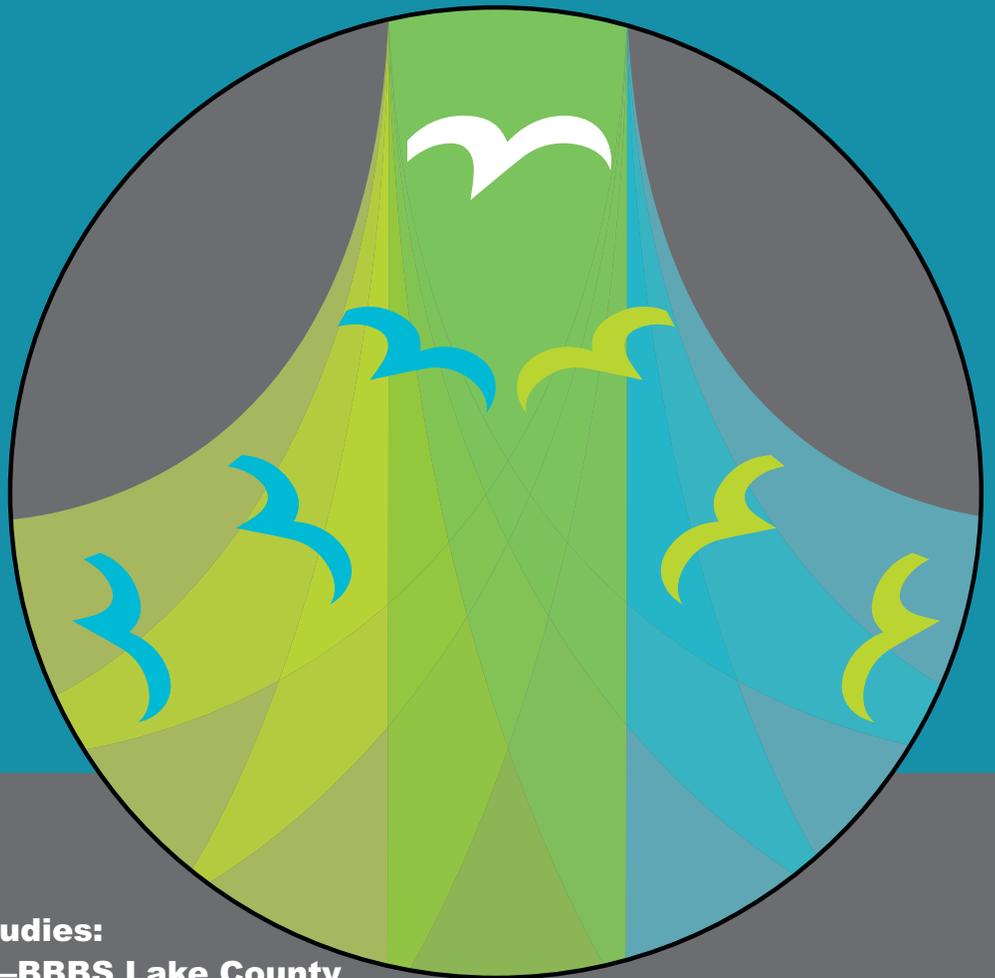
In addition to examining *why* organizations have chosen merger, the study has also explored *how* the organizations have approached the merger process. As our examples have shown, there is not one right way, not one formula for success. The organizations analyzed here varied in size, in mission, and in locale. Their mergers, too, took many different forms.

In our analysis, we have relied on the voices of the people involved: we have heard directly from the participants why they decided on merger, how they resolved the issues and challenges that arose during the merger process, and what advice they would give others considering merger as a strategy. They also offered their perspectives on what they think needs to happen to strengthen the climate for appropriate, strategic mergers in the Chicago area. This last point has particular relevance not only for the organizations themselves but for the larger community of funders and other stakeholders who support the Chicago area's nonprofit sector. The participants' recommendations, offered in the previous section, provide a roadmap for where to go from here.

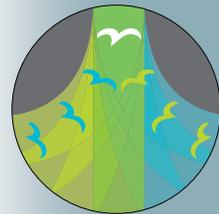
One final point: Several participants stated that during their merger process, they did not know where to get the information they needed. A sufficient body of research and experience exists, but it is not reaching the people who need it. Merger information should be more accessible and user-friendly. It should come in a variety of forms, from case studies to "how to" publications to lists of those who assist on mergers. To that end, this study will be accompanied by a "toolkit" that nonprofits can use to explore and guide the merger process.

We hope that this study on Chicago nonprofit mergers provides further momentum for what already is occurring within Chicago's vibrant social sector.

APPENDIX



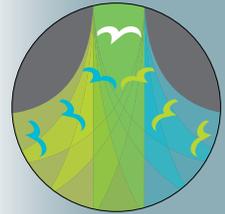
- **Appendix 1 The Case Studies:**
- **BBBS Metro Chicago—BBBS Lake County**
- **CFW—The Eleanor Foundation**
- **JourneyCare—HHPC and MPC**
- **Seguin Services—UCP**
- **WITS—Boundless Readers**
- **Appendix 2 Interview Protocol — Nonprofit Mergers**



APPENDIX 1

THE CASE STUDIES: AN ANALYSIS OF FIVE SUCCESSFUL MERGERS

1. Big Brothers Big Sisters of Metro Chicago–Big Brothers Big Sisters Lake County (2010)
2. Chicago Foundation for Women–The Eleanor Foundation (2012)
3. JourneyCare–Horizon Hospice and Palliative Care and Midwest Palliative Care (2015)
4. Seguin Services–United Cerebral Palsy of Greater Chicago(2013)
5. Working in the Schools–Boundless Readers (2014–15)



I. BIG BROTHERS BIG SISTERS OF METRO CHICAGO

Big Brothers Big Sisters of Metro Chicago (\$2m budget) Merges with Big Brothers Big Sisters of Lake County, Illinois (\$570,000 budget) (2010)



Big Brothers Big Sisters
of Metropolitan Chicago



Big Brothers Big Sisters
of Lake County

Industry

Youth Mentoring

Mission

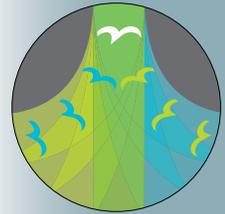
Empower at-risk youth by providing high-impact one-to-one mentoring that enables lifelong success.

Background

Big Brothers Big Sisters of Metropolitan Chicago (BBBS-MC) is a classic organizational turnaround, from a functionally insolvent organization in 2005 to one of the most celebrated and successful chapters in the Big Brothers Big Sisters system. From 2006 to 2010, BBBS-MC expanded in the metro area through three different mergers under the leadership of CEO Art Mollenhauer. In the last of these mergers, BBBS-MC acquired Big Brothers Big Sisters of Lake County, Illinois, (BBBS-LC) in 2010 through an asset transfer merger where both parties combined their operations to achieve greater efficiency and more effectiveness.

This merger resulted in substantial growth in client services and high performing customer metrics supported by a solid, diversified financial base. The highly engaged BBBS-MC board worked with and supported its CEO in his early decisions to invest the resources internally that were necessary to achieving the organization's merger goals.

BBBS-MC serves 1800 Chicagoland children ages 7 to 17 through a variety of outcomes-based programs utilizing individual mentor-mentee relationships. Founded in 1904 in New York City, Big Brothers chapters spread rapidly across urban America. Big Sisters followed in 1970, and the two organizations merged in 1977. The Chicago BBBS



chapter was incorporated in 1967, becoming Big Brothers Big Sisters of Metropolitan Chicago in 1977.⁴²

When BBBS-MC acquired BBBS of Lake County, Illinois, it completed the consolidation of the Chicago region, previously served by four independent BBBS organizations. In the first merger, in 2006, BBBS-MC acquired BBBS of Lake County, Indiana, which had become insolvent. In 2007, BBBS-MC assumed responsibility for the DuPage County chapter, in Chicago's western suburbs.

The merger was driven by local forces and leaders rather than by national imperatives. It became a model for consolidation in other BBBS metro regions.

Significance

A Turnaround Success and a Leadership Story

The BBBS-MC case serves as a notable example of turnaround management. In 2005, the Chicago organization was functionally insolvent, being supported by generous board members' credit cards and by BBBS America. The provider was leaderless and deficient in trained professional staff.

Between 2005 and 2015, the organizations' assets grew substantially and the sources of its funding multiplied. From a deficit and negative net asset position in 2005, BBBS-MC progressed to a positive fund balance and net asset standing. While two-thirds of its operations had been financed by government grants and the United Way of Metropolitan Chicago before 2006, less than 5 percent of its operating budget came from these revenue sources in 2015. A healthy diversified revenue structure reflects the expanded base from which the organization now draws support, including large individual donors, big events, and corporate and philanthropic sources.

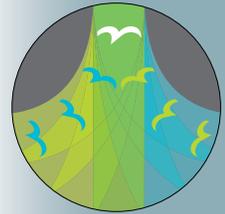
In a period of national financial turmoil, BBBS-MC experienced consistent growth in revenues, scope of services, and corporate support.

BBBS Chicago: Ten Year Overview 2005-2015 (IRS #990)

	FY Ending 6/30/2005	FY Ending 6/30/2015
Revenue	\$1,346,000	\$3,837,000
Expenditure	\$1,475,000	\$3,818,000
Difference	(\$ 128,000)	\$19,000
Net Assets	(\$ 224,000)	\$1,246,000

Arthur Mollenhauer, Chief Executive Officer of BBBS since 2006, is widely recognized inside and out of the BBBS system as the driving force behind the turnaround.

⁴² On federation structures see Maise O'Flanagan and Lynn Taliento, "Nonprofits: Ensuring That Bigger is Better," *McKinsey Quarterly* (May 2004).



Mollenhauer came to BBBS-MC following a business career with the health product firm Baxter International, Inc. He was an eight-year volunteer at BBBS Lake County and had served on its board. Acclaimed for being among the most thoughtful and proactive nonprofit leaders in Chicago, Mollenhauer proved well suited to the challenges that lay ahead. As one of his board leaders commented, “Art spoke a language to which his board responded: planning, growth, performance, and accountability.”

Fundamental to understanding this merger’s success is Mollenhauer’s strategic focus, which he applied to BBBS Metro Chicago through three successive stages of organization change:

- Stage One: Cleanup, stabilization, and turnaround, 2006–07
- Stage Two: Investment in capacity building, 2008–10
- Stage Three: Growth, expansion, and development, 2010–14

Stage One

Cleanup, stabilization, and turnaround

In 2005, the Chicago operation was stuck in a no growth, downward spiral. It served fewer than 400 children (perhaps closer to 100). As Mollenhauer observed: “Turnaround starts with vision and with mission.” The mission: to provide high-impact one-to-one mentoring services to at-risk children.

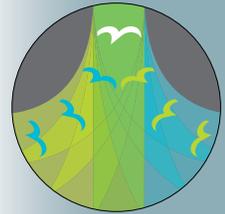
A turnaround process begins when leaders confront the brutal reality of their organization’s situation. Mollenhauer acknowledged that BBBS Metro Chicago was not doing its job. It had failed to develop a sustainable business model to support its mission.

Mollenhauer and his board operated on the premise that the key to growth was increased efficiency driven by more centralized operations. With multiple BBBS organizations run haphazardly throughout the Chicago region, growth opportunities were constrained. BBBS-MC Board Chair Mark A. Kaufman provided the vision for new growth, helping Mollenhauer and the board understand how to deliver more quality services on a small-scale basis. Soon, BBBS-MC began consolidating with the mergers of the Indiana and DuPage County chapters. These friendly acquisitions provided the impetus for further consolidation and service centralization, culminating with the asset transfer between Chicago and Lake County BBBS in 2010.

Stage Two

Investment in capacity building

Mollenhauer brought strategic planning discipline to BBBS-MC through a series of three-year plans with annual financial, operational, and program elements. Each department maintained responsibility for setting its own goals and for working with finance to craft a budget. The strategic plan defined where the organization wanted to be in three years.



Annual operating budgets were used to monitor and measure performance. Monthly scorecards coupled to bi-annual forecasting enabled managers and staff to ensure alignment and to measure progress.

If more at-risk children were to be served and served well, organizational capacity had to be expanded. Mollenhauer convinced his board as well as corporate and foundation investors to spend up front in order to get greater returns later. New staff was hired and new IT and software put in place. As BBBS-MC's Finance Committee Chair noted: "Together we bought into smart plans and smart investments."

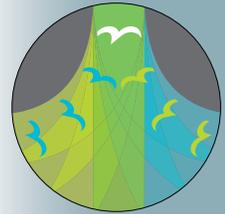
Investments in people were crucial. The organization had relied on part-time staffers and now transitioned to a full-time professional staff. Staff would be charged with professionalizing the organization: recruiting and screening students and families; enlisting corporations to provide mentors, funds, and facilities; vetting volunteers; matching volunteer mentors and mentees. Programs would be delivered through multiple venues: schools, clubs, workplaces, and various community locations. To build this new delivery platform required BBBS-MC to increase its staff by 50 percent.

The success of BBBS is based on its safe, strong, and enduring 1:1 match between mentor and mentee. Mollenhauer worked with staff to build a customer-focused service model. Rather than simply measuring growth in number of clients, BBBS moved to client outcomes and to measurement of actual impact on youth, communities, and workforce (long-term success).

Pre-Merger

The merger plan was founded on the value proposition that "a unique opportunity [existed] to better serve more children ...through an efficient regional entity driven by regional revenue opportunities." When successfully integrated, the merged organization would serve 25 percent more children and generate 30 percent more revenue. Growth projections figured in upfront costs and transition expenses. Two to five years would be needed to accomplish the operational changes.

Four partners provided the infrastructure necessary to convince the Lake County BBBS board that the merger would result in more mission. SeaChange Capital Partners of New York City, a firm that specializes in the nonprofit sector, provided financial and consulting support. Its funding was contingent on BBBS-MC's adherence to a disciplined three-year plan with operational and financial milestones. PricewaterhouseCoopers (PwC) consulting services advised the merger integration: 100 steps were specified along a timeline covering programs and operations (HR, finance, IT, etc.). PwC scheduling and operational assistance enabled the merger transaction to move quickly and smoothly. Jenner and Block provided pro bono legal assistance. Because Illinois has no statute of limitations on sexual abuse suits, BBBS-LC needed legal protection against long-term



liability that might arise once assets transferred to BBBS-MC. Lawyers crafted a “tail” liability policy to insure against cases of past sexual misconduct. The policy was placed with the shell corporation that had been created during the asset transfer process. (It turned out to be needed.) For quality control and insurance purposes, the merger required that Lake County mentoring matches be reauthorized and mentor background checks performed.

The Chicago Community Trust became the fourth partner in the merger, providing a substantial infrastructure grant toward the end of the merger process. (Five foundations came together to support the merger’s costs.) This grant helped finance IT support/upgrades and a new phone system, critical for operational efficiencies. BBBS also was able to automate its HR and donor -based systems.

Merger Process

For nearly a year, the two boards and their respective committees planned and reviewed the merger transaction in detail. The selling point was simply that a merger between the two groups would provide more mission: it would serve more children better on a financially more sustainable basis. This message was carried to both organizations’ stakeholders, particularly corporate supporters who provided BBBS financial support, volunteers, meeting venues, and event sponsorships. Both boards carefully reviewed Lake County’s revenue base (individual donors, United Way, foundations, major employers) to be assured that this base would be sustainable in the post-merger period. BBBS-MC cleanup notwithstanding, BBBS-LC was in a stronger financial position than Chicago. But by centralizing operations in one Chicago-based system, everyone would gain by serving more children more effectively to better outcomes.

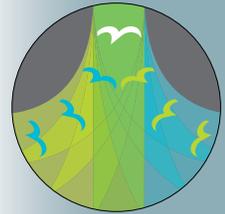
Post-Merger

Stage Three

(Growth, expansion, and development)

The Chicago board approved the merger in July 2010, with full integration to be attained four months later. The respective boards differed in size (41 vs. 7) and committee structure. It was agreed that five Lake County board members would move to the MC board and that the Lake County board chair would sit on the MC executive committee. As a legacy gesture, a Lake County advisory board would be constituted to focus on Lake County.

There would be no layoffs. Lake County staffers would reapply for their positions or seek new ones that had been added in the process of expanding BBBS-MC. Jeremy Foster, CEO of BBBS-LC, transitioned to Senior Vice President of Development (the number two position) for BBBS-MC. “This merger was in the best interests of the organization,



and the title really did not matter to me,” Foster recalled. An MC board member called the staff integration “seamless.”

It should be noted that the merger plan anticipated a one- to two-year lag before growth accelerated. In May 2012, two years following the merger, Mollenhauer gave the following progress report:⁴³.

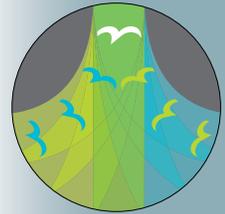
- Integration: Lake County (LC) assets transferred; employees and matches completed and senior staff integrated into the new organization.
- Program Growth: Expanded LC matches with 70 percent original LC matches clearing the rematching process.
- Board: Four LC and one addition join MC Board at \$10,000 level. Added 3 new members post-merger with total give-and-get contributions exceeding \$380,000.
- Financial Impact: Net positive financial impact from merger of a least \$200,000 by end of FY 2012 through cost savings and new funding. Net position of cumulative merger impact in FY 2011-2013 forecasted to be \$1,074,570 (\$747,000 incremental revenues and \$327,570 from costs savings).
- Quality Enhancement: Match enhanced engagement and match quality upgraded including a new logic model leading to expected outcomes and reduced caseload for match support specialists.

BBBS-MC’s revenue increased from \$2 million in 2010 (pre-merger) to \$3 million in 2012 (with the merger adding \$538,000) to almost \$4 million by 2015. In the midst of the Great Recession, with charitable giving in decline, BBBS-MC achieved substantial revenue growth.

And revenue growth was augmented by revenue diversification. Prior to Mollenhauer’s tenure, BBBS-MC had been dependent upon government grants and the United Way. In 2014 and 2015, the organization derived a quarter of its revenues from three large fund-raising events. Where corporations once sprinkled financial support on multiple BBBS activities, BBBS-MC now promoted larger celebrity events (golf outings, for example) and broader participation. Corporate sponsors welcomed the opportunity to invite major clients and suppliers to these events. By scaling up, BBBS successfully increased sponsor support.

Increased corporate involvement enabled BBBS-MC to serve more children, which, in turn, attracted more foundation and individual giving—approaching \$1 million in 2015. To generate greater board support, BBBS-MC split its board into a fund-raising board and a governance board and doubled the annual board member give/get policy to \$20,000 from \$10,000 per board member. The organization also has taken advantage of partnering opportunities with nonprofits such as Boys and Girls Clubs of Chicago,

⁴³. Big Brothers Big Sisters of Metro Chicago Merger Plan: Final Report to SeaChange Partners (BBBS-MC Internal Document, May 25, 2012).



generating \$750,000 in new revenue. After achieving its Stage 3 target of growth and development, BBBS-MC has embarked on a capital campaign aimed at long-term sustainability.

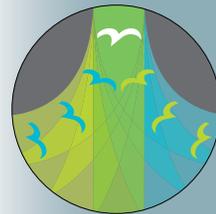
The brand and reputation of BBBS-MC has been greatly enhanced since the 2010 merger. Growing individual and corporate financial support has resulted. The organization fulfills its mission through mentoring programs in which at-risk youth are matched with caring, screened, and trained volunteer mentors. Close supervision by a full-time trained staff member is part of each match. The logistics and monitoring of BBBS-MC's operations at schools, Boys and Girls Clubs, workplaces, and community sites were made possible through investments in platform systems and employees. An increased number of children are now being served through higher quality programs and services.

Outcome success and program quality oversight increased under the merger, as professional training expanded and the ratio of match support staff to mentor-mentee participants improved. Additionally, the culture of the post-merger BBBS-MC has been enhanced by centralization, professionalism, and staff and volunteer loyalty. The extent to which this culture was shaped by Art Mollenhauer indicates how crucial the CEO position can be to an organization undergoing merger.

Takeaways

Big Brothers Big Sisters of Metro Chicago's merger with Big Brothers Big Sisters of Lake County is a classic merger success story. But measuring merger success involves more than evaluating outcomes. It also requires an assessment of whether the organization, by choosing merger, picked the right strategy to accomplish its goals. For BBBS-MC, the merger was part of a long-term plan to pursue a turnaround built on stabilization, investment in capacity building, and growth. The overarching goal involved serving more children better through greater operational efficiencies and more revenue. The internal strategy required investments in capacity building. The external strategy involved consolidation and centralization through three mergers, culminating with the Lake County BBBS merger. Together, the design, execution, and implementation of these successful strategies enabled BBBS-MC to grow and prosper. Since the 2010 merger, the number of at-risk children served increased by 70 percent, from 1,050 to 1,800 in 2016.

Partners to this success include BBBS-MC board members, who shaped and invested in these strategies. The board chair helped fashion the key ingredient involving how to deliver more quality services on a small-scale basis through multiple venues (schools, clubs, workplaces, and community locations) and evaluate their effectiveness based on outcomes. One should view the case, then, with its interrelated parts: leadership, vision, strategy, strategy implementation, and outcomes.



II. CHICAGO FOUNDATION FOR WOMEN

Eleanor Foundation (\$5–6m assets) and the Chicago Foundation for Women (\$6–7m assets) Form a “Strategic Alliance” (2012)



This merger involved a transfer of assets (termed “a conditional gift transfer”) from the Eleanor Foundation to the Chicago Foundation for Women (CFW). Once conditions of the transfer were met by the acquiring organization, the Eleanor Foundation dissolved.

Industry

Empowerment, Fund-raising, Grant-making

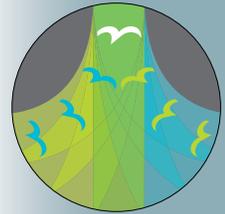
Mission

CFW invests in women and girls as catalysts, building strong communities for all. To support its philanthropy, it promotes “increased investment in women and girls, raises awareness about their issues and potential, and develops them as leaders and philanthropists.”

Background

In 1984, four leaders of Chicago’s philanthropic community—Marjorie Craig Benton, Sunny Fischer, Iris Krieg, and Lucia Woods Linley—began a series of discussions that led to the creation of the Chicago Foundation for Women (CFW). Lack of economic opportunity, limited access to reproductive and other health services, domestic violence, and a host of other issues threatened many women’s lives. Given the underrepresentation of women in philanthropy and the small amount of philanthropic resources devoted to addressing women’s issues and needs, the founders incorporated CFW in 1985 and began an aggressive fund-raising effort that led to its first grants in 1986. Their vision, fund-raising, and networking prowess guide the foundation to this day.

The Eleanor Foundation (EF) dates to the turn of the 20th century (1902), when it provided housing and education for young, single women with no place to live. Under its founder, Ina Law Robertson, a contemporary of legendary social reformer Jane Addams, the Eleanor Foundation grew into a vast social organization that included residences for



single women, a summer camp, banking facilities, a magazine, and the Eleanor League for Girls. Over time, real estate assets were sold off, including the residences for single women in Lincoln Park (2001). This helped capitalize the foundation at about \$12 million as a public grant-making fund to focus regionally on helping female-headed households achieve economic self-sufficiency.

Significance

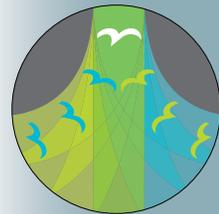
Exchanging Competencies, Maintaining a Legacy, Building Trust

The significance of this merger lies with how two organizations combined to exchange their competencies and resources and how the legacy of the Eleanor Foundation—its economic security grant-making program—prosperes today. The parties achieved their separate and mutual objectives: doubling of asset size; robust fund-raising; continuation of the Eleanor Foundation’s legacy grant program; and expanded grant-supported programs and projects. The case also exemplifies how two fully engaged boards, which took ownership of the asset transfer plan, succeeded in obtaining their mutual objectives by building trust among board members.

Why Merge?

These two grant-making organizations had much in common. Their missions were similar in their focus upon improving the conditions under which women live, work, and raise their families. Both were devoted to raising awareness of the barriers to economic and social progress for women. The Eleanor Foundation’s mission, from its origins, focused on assisting low-income female heads of households to gain access to opportunities to achieve economic security. CFW had a similar focus though with a broader portfolio of interests that included both girls and women, health and health care access, and domestic violence. Both were public, community foundations: individual donors gave to the foundations, which, in turn, made grants to organizations. Aside from grant-making, both also engaged in research, advocacy, and capacity building.

The organizations also had significant differences. CFW had a 27-member all-women board made up of some of Chicago’s most notable women leaders. It had developed a robust fund-raising operation capable of raising \$1-2 million annually, several times the amount raised by EF. EF’s board included men as well as women. Its grant-making model offered intensive services to beneficiaries to help them gain affordable housing, access to childcare, increased income, and increased savings. Grants totaling \$1 million per year enabled 750–1,000 women to move from poverty to economic security. While this model had a productive impact, fund-raising was not keeping pace. EF was spending down its assets at a rate which, if continued, would have exhausted the foundation within ten years.



According to EF's Board Chair Nick Brunick, the lack of fund-raising success generated board discussion about longer-term options. Members realized that with the recession of 2008, charitable fund-raising nationally would not return to previous levels for many years. Also, donors in difficult times were more likely to give directly to causes and organizations than to pass-through foundations. EF could reduce its rate of expenditures but that would reduce its impact. It might spend down its assets and go out of business over the next ten years. Or the foundation might scale up through new arrangements, working with a partner who could help raise the funds needed to broaden its impact. The 2012 bankruptcy of Hull House accelerated the board's interest in pursuing a collaborative option. The six-month path to a merger began.

K. Sujata, President and CEO of the Chicago Foundation for Women since 2011, would be crucial to the successful collaboration of the two organizations. She had many years of executive experience in the nonprofit sector, including as Director of Chicago Continuum of Care, Executive Director of Apna Ghar, and Director of Programs at the Eleanor Foundation. Her familiarity with EF's programs, staff, and board would provide cohesion and continuity to the merger process.

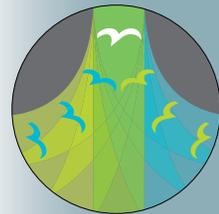
Pre-Merger

The departure of the Eleanor Foundation's CEO and EF's link to CFW through K. Sujata served as catalysts to get the merger ball moving. EF board members agreed that they should meet with CFW and see whether a merger would serve the interests of both organizations.

CFW Board Chair Andrea Kramer viewed the opening to the Eleanor Foundation as a unique opportunity to strengthen both organizations. EF had lost its chief executive, was not operating with full staff, had no brick and mortar building, and was spending down its endowment. An alliance with EF would enable CFW to grow its asset base and increase its impact. In turn, CFW might consider admitting men to its board. At a spring 2012 meeting, Kramer, EF Board Chair Brunick, and another EF board member began a process to explore options. CFW referred to these early sessions as exploring a "strategic alliance," while Eleanor Foundation participants viewed them as merger discussions. EF did not consider any other merger partners or candidates, since these were the two principal foundations occupying the "women's issue space" in the Chicago region. CFW had a prior acquisition experience in 1996 when it acquired the assets of the Sophia Fund.

Merger Process

The EF board, which included many law and finance professionals, organized board committees to do separate due diligence assignments: financial tasks; programs and programming; board structure and board membership. Members took a businesslike



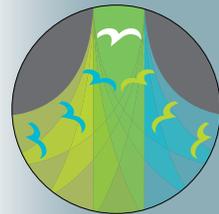
approach to deciding whether CFW would be a good fit. As EF Board Chair Brunick reflected, “I was really impressed and amazed at how different individuals at our board stepped up and said ‘I will do this’ and ‘I will do that.’ We really divvied up the work and everybody did a lot of work.” CFW also had its due diligence teams, while a small group from both sides engaged in actual negotiations.

From the CFW side, Board Chair Kramer felt that the resulting transaction, if it occurred, would be a rather straightforward quid pro quo: “You give us your money, and we’ll keep the Eleanor name alive and we want you to be part of CFW.” She developed this approach from the very first meeting with EF board members where “it was clear that they were ambivalent about doing anything that meant that their foundation’s legacy would be gone.” One EF board member observed, “We were concerned that since CFW made a lot of small grants, that they did not grasp our strategy of making big, impactful grants.” It also became clear that some Eleanor board members wanted to continue on as members of CFW board. This was not a problem but an issue that would be negotiated among the merger participants.

No consultants were employed by either side. McDermott Will & Emery, Kramer’s firm, was Counsel to CFW. EF’s Counsel was Skadden Arps, where one of its board members was a partner. Both firms operated in a pro bono capacity. The CFW Board Chair and her partner, a nonprofit expert, drew up documents from CFW’s side, and Skadden’s five-lawyer group did them for EF. Because the Eleanor Foundation board did not tell its small staff (a development person and an office manager) about the merger, its interim CEO was not in a position to be very helpful. The board and Skadden lawyers did much of the background work.

While both sides attest to how smoothly the merger proceeded, issues arose as drafts were exchanged regarding funding initiatives, funding levels, staff positions, severance, and future board composition. One participant recalls that the lawyers had gone “draft happy” on these exchanges. There was much work to be done. In liquidating a foundation, due diligence required a full accounting of the grantor’s multi-year obligations and any open-ended commitments.

The Eleanor Foundation’s board considered maintenance of effort to be a major issue. It wanted language that committed CFW to funding EF’s grant-making initiatives at their current level. CFW was receptive to this from the outset of discussions. “Whenever CFW gave a grant for economic security for women, we offered to name it ‘The Eleanor Network,’” Kramer recalled, “It would not just be Eleanor money, but it would be both of our money together.” Agreement on this point covered two issues: funding at the same level and preservation of the legacy grants, with grant-making for economic security being labeled the “Eleanor Network at Chicago Foundation for Women.” These naming concessions were to be maintained over the next three-year period so that, as one EF



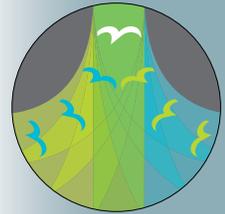
board member put it, “they [the names and grant structures] would become part of CFW’s DNA after the merger.”

Another major issue involved board composition. Eleanor Foundation negotiators wanted a certain number of its board members to be on the CFW board so as to be in a position to exert influence over EF’s integration into CFW. It was agreed that 6 of EF’s 12 board members would join the CFW board, including Brunick (who is still on the CFW board and has served on CFW’s executive committee). No issues arose about allocating board seats by numerical considerations such as size of assets. As Kramer noted, “The whole point was that we’re one for all and all for one basically.” By welcoming EF Board Chair Brunick to the new CFW board, CFW agreed to permit men to join its board, a controversial issue to some, but not a deal-breaker.

Finally, the Eleanor Foundation expressed concern about its staff, whom it did not want to be unemployed as a result of the merger. Only three positions were at stake. It was agreed that staff was to be offered generous severance packages and the opportunity to apply for positions with CFW, which had no obligation to hire them. CFW did ask EF’s office manager to join the CFW staff and help with the Eleanor Network; she remains in a key position today.

Two negotiation leaders made sure issues were resolved; compromises occurred and the final merger decision was unanimous. EF board member Courtney Van Lonkhuyzen was given full credit by Brunick for taking the lead on negotiations with Kramer, who did corporate mergers and acquisitions for her law firm, McDermott Will & Emery. “If Courtney had not been willing to play her role as the top negotiator with [Kramer], I would not have been able to come in and be the nice guy to come up with compromise,” Brunick observed. The merger process took place over a six-month period and met the target date: the agreement was able to be announced before CFW’s annual fall fundraising luncheon. There were no post-merger surprises. Board chairs give K. Sujata enormous credit for promoting trust among participants, and making them feel comfortable with the merger as being a good fit for both.

Sujata’s executive team and program staff were involved in the merger discussions from the onset. The program staff was particularly concerned with the process for making grants. The rest of the staff became involved as the merger got closer to the announcement stage. Large and small donors as well as stakeholders (partners, supporters, former board members) were informed within 24 to 48 hours prior to the public announcement, which came with a print story on the merger. The entire merger, from opening conversations to merger announcement, transpired over nine months. The due diligence stage lasted approximately four to five months. In selecting an asset transfer approach (termed a conditional gift transfer), participants chose what some characterized as the “simplest method” for the transaction.



The press release announcing the merger, drafted by both CFW and EF, spelled out the mutual benefits. It began, “The Eleanor Foundation and the Chicago Foundation for Women have formed a strategic alliance to maximize the impact of their efforts to boost economic security for female-headed households in the region.” In the press release, Brunick noted that the two organizations were “joining forces because together we can do far more to help female-headed households reach the middle class than we can alone.” As one article noted, “The alliance—a merger of sorts—will double the money the Chicago Foundation for Women gives away every year.”⁴⁴

Outcomes

Several merger goals have been met. A robust fund-raising strategy and three-year investment plan have enabled CFW to double its asset size since the merger and to move closer to the \$3 million annual distribution target that EF board members were particularly interested in achieving. The merger was immediately followed by a board retreat, where the integrated board worked on a strategic growth plan to cover the next three years and to meld their respective cultures. Within two years, the number of CFW donors, projects, and clients served had significantly increased. In 2014, CFW worked with more than 2,000 donors and partners to fund 150 projects in four counties serving 53,000 women and girls.

At the 30th Anniversary of the CFW in September 2015, K. Sujata celebrated CFW’s tremendous growth and the advances it had helped make in the lives of women and girls. She also spoke of how the two boards had built a culture of trust and of their mutual interest in bringing other foundations into the fold. Comments from the Eleanor Foundation regarding the state of the merger included, “good for both organizations,” “gone well,” and “going well.”

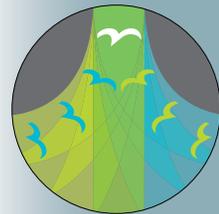
Takeaways

EF Chair Nick Brunick cited board ownership of the merger process and outcome as crucial to a successful merger. “If you really want to get to the right decision, you better make sure you figure out a way to get the whole board to take ownership over the process of taking seriously whether we should do this or not,” he stated.

Brunick’s second insight involves trust and finding ways to develop trust between the boards and organizations. “Take time to build relationships and to help the staff and people at each board to get to know each other and to understand the story behind these organizations.”

Third, Brunick advocates a very serious process to evaluate whether a merger makes sense, saying, “It is easy to get lost in the weeds: we are losing our name; losing our turf;

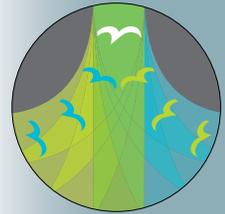
⁴⁴. Melissa Harris, “Eleanor Foundation To Merge Into Chicago Foundation for Women,” *Chicago Tribune*, September 7, 2012, B1.



losing our donors. Some of that stuff you might have to do if it means that you're accomplishing larger goals that are at the heart of your mission." Finally, he advises, "Be clear about why you want a merger." At the Eleanor Foundation, "we were clear we wanted to preserve our grant-making model, grow it, and use it to serve more women in the region so we can have a bigger impact." These goals led the organization to transfer its assets to a larger organization and then dissolve, moves that led to a positive outcome.

The board member who initiated the merger discussions advises board members, "Take risks—just get the conversation going." As a deal-making entrepreneur, she also advises that once merger discussions have begun, "be sure to set and to keep to deadlines. Momentum is everything in getting a deal done."

Sujata found much comfort from the merger. "We would like to look at other opportunities where we can do another acquisition or two, particularly from the view of increasing our assets and sharing our expertise in some of our key areas," she concluded. Andrea Kramer, outgoing Chair of the CFW Board, offered that some mechanism or network should be created for "those who have led or been deeply involved in nonprofit mergers so that they might share their experiences and advice with those who might otherwise avoid or resist the idea of a merger out of concern that their legacy would be forgotten or lost."



III. JOURNEYCARE

Horizon Hospice & Palliative Care (\$13m budget) and Midwest Palliative & Hospice CareCenter (\$35m budget) Merge with JourneyCare (2015)

Horizon Hospice
& Palliative Care

Midwest
PALLIATIVE & HOSPICE
CareCenter™

JourneyCare
Expanding horizons in palliative, supportive & end-of-life care

Industry

Hospice Care: Palliative, supportive, and end-of-life care.

Mission

JourneyCare: “Make every moment count for those touched by serious illness and loss.”

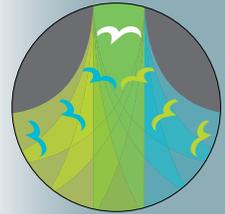
The merger created the largest nonprofit hospice provider in the state of Illinois (\$81 million combined budget) and the sixth largest in the United States. The new organization, JourneyCare, serves nearly 3,000 patients daily across ten Illinois counties through home-based services, five inpatient hospice centers, and six offices to support patient care and services.

Significance

Strategic Growth in Response to Industry Forces

This case demonstrates how powerful industry forces can shape merger. In 1982, government funding of hospice through Medicare and Medicaid made nonhospital end-of-life care available to previously uninsured persons. More recently, the 2010 Affordable Care Act caused a restructuring of the health care industry. With all the disruptions in the health care marketplace and with transition in the industry to risk-based payments, hospices must have scale to take on risk. Growth in scale (number served) and scope (service area) has become necessary for independent, nonprofit hospice providers to remain relevant.

The case also demonstrates a well-managed merger process: an experienced health care consultant helped guide a step-by-step progression that enabled three boards to arrive at a successful outcome. The case further shows how, one year post-merger, the merged entity is dealing with the challenges of integrating three organizations into one and establishing a new brand while simultaneously responding to the challenge of



servicing more patients and families efficiently and effectively in a highly competitive hospice provider market.

Background

Trends and Forces in the Hospice Industry.

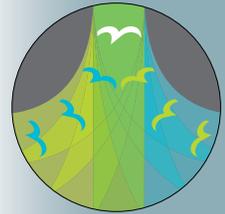
The goal of hospice is to maximize quality of life and comfort for those dealing with serious illness, not to cure. Hospice care has gradually gained acceptance as a more humane, personal, and cost-effective alternative to curative care at life's end. After Medicare began covering hospice care in 1982, support for hospice progressed throughout the health care and insurance industries. By 2010, 48 percent of Medicare dependents received hospice care compared to 22 percent in the 1990s. Hospice expanded further under the Affordable Care Act, which provided benefit eligibility and coverage to millions of uninsured.

Access to government and private insurance, increased acceptance of hospice, and a growing population of the elderly caused the industry to expand, growing from \$10 billion in revenues in 2006 to more than \$16 billion by 2015. Religious, hospital-affiliated home health agencies and nursing homes once dominated the industry, but no more. Between 2000 and 2015, the number of for-profit hospices tripled to almost 2,200; the for-profit share of the hospice market increased from 25 percent in 2000 to near 60 percent by 2016. It is a highly fragmented market: in 2012, the four largest hospice chains had 13 percent of the market, with no single provider greater than 5 percent.⁴⁵

Market turbulence accompanied industry growth. From 1999 to 2009, more than 40 percent of hospices experienced one or more changes in ownership. The entry of private equity, hedge funds, and entrepreneurs into the market increased mergers and acquisitions and accelerated expansion and turnover. Capital influx also enabled private hospice firms to invest heavily in technology and in marketing, making them more efficient than less-capitalized nonprofit providers. Meanwhile, palliative care (for those with longer-range conditions) became a growing market for hospitals and insurers because of the lower cost and higher quality services.

As government became more involved in the industry, greater regulation followed, including reimbursement rates ("caps") based on level of care provided (e.g., routine home care, continuous home care, inpatient respite care, and general inpatient care). Medicare is the dominant payment source for U.S. hospice care and accounts for 90 percent of reimbursements. States determine the number of hospice licenses and the territories in which they operate. In recent years, rapid changes have prompted public and regulatory concerns about hospice standards and service quality.

⁴⁵ Harris Williams & Co., "Hospice Industry Overview: A Research Report" (October 2013).



Pre-Merger

The three parties to this merger had much in common. Founded at roughly the same time (1978 to 1982), they were among the first to open Chicago-area facilities when hospice care was largely volunteer based. The Midwest Palliative & Hospice CareCenter was among the nation's first 50 hospices; Horizon Hospice was the first hospice in Chicago; JourneyCare was the metro area's largest and fastest-growing provider. Founders and early leaders still served on all three boards, which shared a common mission of exceptional, compassionate care. As nonprofits, all were committed to serving anyone, regardless of their ability to pay. Two of the three provided pediatric hospice, which is not reimbursed in the manner of adult hospice.

The three hospices had previously worked together, forming a collaborative purchasing affiliation in 2006 and sharing best practices on a continuing basis. All had similar patient referral characteristics: 50 percent from hospitals, 30 percent from doctor referrals, and 20 percent from other sources (human service agencies, religious organizations, and community care operators). JourneyCare primarily served northwest Illinois. Horizon served Chicago and four southeastern Illinois counties. Midwest Palliative, which earlier had purchased Northwestern University Hospital's hospice operations, had a more fragmented service area. Some footprint overlap of service care existed between Horizon and Midwest, but little existed with JourneyCare.

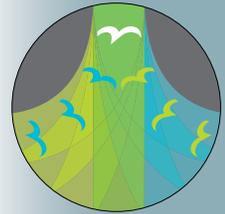
These hospice providers recognized that once the Affordable Care Act of 2010 went into effect, their organizations would be transformed. The opportunity to expand their collective impact through a broader and more customer-focused footprint prompted collaboration discussions.

Profiles of the Merger Candidates (2013)⁴⁶.

Company	Revenues	Employees	Volunteers	Market Share
Midwest Palliative	\$33.2m	383	589	6%
JourneyCare	\$34.8	295	601	6%
Horizon Hospice	\$12.9	172	148	2%
Total	\$80.9m	850	1,338	14%

Seeing a mutual need to better understand what would be required of their organizations under a more regulated, resource-constrained environment, the three CEOs began meeting in 2012. Horizon CEO Mary Runge had worked 38 years in the business, mostly with Horizon. Jamie O'Malley, CEO of Midwest Palliative, joined Midwest in 2010. Sarah Bealles became JourneyCare CEO in 2012 after serving as COO. The three CEOs began merger conversations ahead of engaging all their boards. They received their

⁴⁶ Ellen Jean Hirst, "Merger To Form Largest Hospice," *Chicago Tribune*, March 31, 2015, B1.



boards' approval to jointly hire a consultant, so that they could scan the health care/hospice future together. In response to an RFP, the boards selected well-respected, Skokie-based health care consultant Kaufman Hall. The consultant provided critical advice on planning for the health care future and prospects for the hospice industry under the ACA. These discussions brought board conversations around to merger as an option to consider.

Merger Process

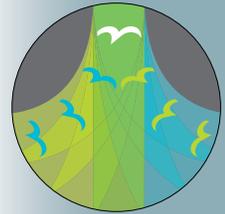
Board members did not start with merger in mind, but the concept gained momentum as the conversation progressed. All three boards understood the risk that small community-based models of hospice care confronted in the new health care environment. Insurers were pressuring them to expand as a means to become more efficient and reduce risk. Not only would growth enable them to achieve economies of scale, but more critically in the new environment, it would enable them to manage risk. Health care reimbursements were changing from fee-based service to risk-based service. To offset risks associated with limited pools of participants, health care providers needed to acquire a larger base of participants. This could be achieved by acquisition, internal growth, and merger.

Hospices primarily receive patients through referrals. Each of our the partners had its own referral base consisting of lead hospitals and senior living centers. Joining together constituted a critical risk-mitigation step because it enabled them to protect this referral base. For-profit providers were picking off market segments and attracting paying customers from nonprofits. For community-based providers who offered their services regardless of ability to pay, the challenge was to navigate through a new marketplace in which for-profit providers had greater capital and often provided more cost-effective services.

Moreover, a new model was emerging that would be an industry game-changer. Accountable Care Organizations (ACO), known as payer-run markets, emerged out of the Affordable Care Act and would likely become the dominant model for managing set population groups. Payers would develop their own health care networks, including hospice care providers, who would compete to participate in these networks. Merging would help the organizations compete.

However, as merger discussions progressed, the boards also came to understand the issues and challenges they faced:

- Three organizations with various levels of financial strength
- Integration of different cultures, accounting systems, and IT
- Deeply committed legacy founders still involved with boards
- Attachments to their accomplishments and brand equity after decades of operation
- Single CEO position; two or all three CEOs would lose their jobs



- Considerable legal and regulatory costs
- Lengthy merger process that would take many months
- Board representation decisions in the new organization
- Selection of location of new headquarters and main offices
- Naming and branding of new organization

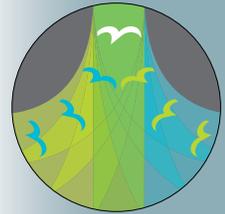
The three organizations created a joint merger committee consisting of 12 members: the three board chairs plus another board member from each organization and the three CEOs plus another executive staff member from each organization. Each had its own legal team. The administrative teams talked weekly; the full 12-member committee met less often. The consultant, Kaufman Hall, moved the merger process through three stages, each three months in length. Each stage produced agreement before moving to the next.

Merger risks were identified. For example, one of the merger partners was acknowledged to be relatively financially weak. Also, a merger would result in some service disruption and possible referral loss. Accordingly, the merger pro forma indicated a prospective financial loss during the first merger year.

At the end of the second stage, nearly six months into negotiations, JourneyCare board representatives introduced a “deal breaker.” They asked that their CEO, Sarah Bealles, be named CEO/President of the merged organizations or they would exit the negotiations. Some Horizon and Midwest board members were surprised by the condition. However, once the boards compared the financial health of each organization, supported by consultant metrics, the stronger financial position of JourneyCare became apparent. The consultant also told the board members that the largest, most financially stable party to a merger often moved to elevate its CEO as a condition of merger acceptance.

Midwest Palliative and Horizon board members, several with merger business experience, apparently understood the condition, and CEO succession did not become an obstacle. From the outset it had been understood that Horizons CEO Mary Runge would be retiring. However, Jamie O’Malley, a well-respected health administrator, who came to Midwest Palliative from the University of Chicago Medical Center, could have been a candidate. In the end, Midwest and Horizon agreed to name Bealles as the merger successor CEO. In addition to her training (in finance and as a Certified Hospice and Palliative Care Administrator) and professional experience, Bealles had compiled an impressive record of accomplishments at JourneyCare.

The decision around the CEO position notwithstanding, the parties proceeded through all three stages in agreement. All saw value in the merger: markets, services, cost structure, and competitive positioning. The parties did their own due diligence under their



respective lawyers' oversight. They also agreed to parity in the new board composition but did not finalize board membership until after the merger. After nine months and three discussion stages, a public announcement of the planned merger occurred in March 2015 with a final agreement three months later.

Before the merger was formally announced, the CEOs and boards started on an integration plan which included a new organization structure and reporting chart. With a sense in the organizations that change may be underway, leaders wanted to come out of the gate with as many organizational questions answered as possible. Given deep emotional attachment to mission and culture—dignity and respect for end of life—no losses were expected among volunteers; however, Midwest's CFO and two vice presidents left during merger discussions (positions were filled on a temporary basis with the help of retention bonuses). Senior management felt that employees needed to know what their new jobs would be and what the organization would look like. It was agreed that there would be no layoffs and, instead, staff reduction would come from attrition over time.

Structurally, Midwest and Horizon merged into JourneyCare. It was structured that way to maintain the tax-exempt status of the existing JourneyCare Foundation.

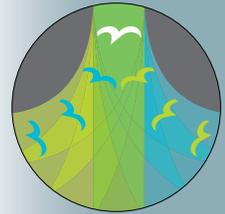
Branding/naming issues would be considered early in the post-merger phase with help from outside consultants. All three organizations were known in their service areas, but not widely known outside of them. They agreed that there was nothing immutable about their current names or identities—"Midwest," "Horizon," or "JourneyCare."

In the formal merger announcement, Bealles stated that the merger was being driven by the Affordable Care Act and ensuing health care consolidation, "Our health care partners are consolidating and at the same time narrowing their networks, looking for those that provide best value, outcomes, and cost... . The ability to be that partner of choice in your community is really what's driving this." Jamie O'Malley (who would soon depart) noted, "The health care industry is not standing still and neither are we." Mary Runge concluded, "We are proud to be part of this merger, which truly forms the premier palliative and end-of-life provider in the region."⁴⁷

Post-Merger

Consultants recommended, and negotiators agreed, that board representation would be equally apportioned among the three parties. Each board polled its members to see who wanted to serve going forward. Together, they compiled a final list and agreed upon methods for apportioning terms of service. The new Board of Directors Chair would be selected either from Midwest or Horizon; JourneyCare's board chair was ready for a transition and agreed to head the JourneyCare Foundation board of trustees. Julia

⁴⁷ Press release, "Three Chicagoland Palliative and End-of-Life Care Organizations Merge to Enhance Care: Horizon, JourneyCare and Midwest Care," July 24, 2015.



Cormier, who had served on Midwest's board since 2009, stepped up to be the new chair. A Northwestern University Kellogg School MBA with private equity experience, Cormier was a 10-year hospice volunteer and had led Midwest's strategic planning committee. All parties were comfortable with the choice.

Naming and Branding a New Organization

Before a new name was chosen, the three legacy names remained visible along with a unifying logo and messaging: Moving Forward Together. The new board began the naming process by eliminating the legacy organization names from consideration, but then the process took an unanticipated twist: members (comprised of equal representation from the previous boards) returned to a familiar name—JourneyCare. The process by which legacy avoidance turned into legacy naming is instructive:

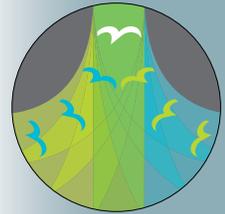
- Board members learned that internal stakeholders cared more about the naming than external stakeholders, who cared most about responsiveness of the new organization and about patient referrals.
- More than 300 names were vetted, including hyphenated mixes of legacy names such as Horizon-Midwest. These options either caused confusion or failed to resonate as hospice-type names.
- A shorter list of proposed hospice names were run through existing trademark designations; most names were eliminated because they already had been trademarked.

Finally, a legacy board member (not from JourneyCare) put the name of JourneyCare back on the table and it was overwhelmingly approved. In November, the newly merged organization announced the JourneyCare name, noting that it conveyed “excellence and innovation in care, expertise and leadership, and a responsiveness that the organization delivers to patients and facilities every day.” The more difficult task of building a new culture lay ahead.

Integrating Three into One

Prominent signs in the major locations of the three legacy organizations reading “Moving Forward Together: OneTeam, One Mission, Same Exceptional Care” aptly captured the task of integration. Twenty to thirty integration work groups operated along with multiple program integration teams. Lists of priorities were worked through: HR and benefit plans; compensation systems; IT-electronic records; common vendor and purchasing lists; financial integration and a single reporting system; common employee communications. There were team-building activities throughout the new organization.

JourneyCare CEO Sarah Bealles worked to overcome legacy issues through a three-part strategy: a communications plan built on transparency; frequent staff meetings with



open question-answer sessions; and representation by each legacy organization on every integration team or task force.

Beginning with intake, JourneyCare methodically began nurturing a culture based on best practices. This did not mean taking the best practice from among the three legacies, but rather the best practices in the hospice field. Important issues emerged; for example, different interpretations of some terms existed among the three. “Same day admit” to one meant that those informed of admission were, in fact, admitted on the same day. To another, it meant that a patient was informed that they would be admitted.

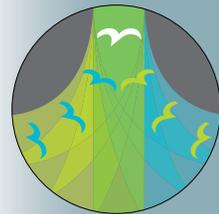
Cultural fit had not been a major issue of concern earlier because boards and leaders knew one another, had experienced positive partnering, and were philosophically and mission compatible. Nevertheless, “there was fallout.” Staff turnover increased in 2016, not by more than industry levels, but enough to suggest that some were not comfortable with the new organization culture. A board member noted that some staff left because they felt they were victims of a “hostile takeover.” Others suggested that turnover increased because some did not fit new expectations regarding performance.

Other issues cropped up. One of the merger partners turned out to be less solvent than originally thought. Receivables turned into a financial challenge. Increased phone volume and electronic record transfers resulted in difficulties in meeting 24/7 customer response. As one observer of the integration/transition period observed, “There is no such thing as a seamless integration.”

Success Indicators

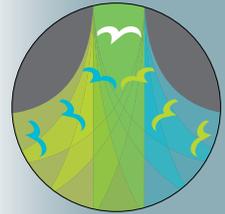
Integration of three volunteer-based organizations with nearly 1,000 employees spread across multiple locations proved to be more challenging than anticipated. The new organization had to simultaneously engage in “cleanup operations” while pivoting to new goals and a new strategic plan. “We had to fly the plane while remodeling it” was how one board member characterized the situation. Nonetheless, only one year into merger integration, JourneyCare showed remarkable stability, with growth prospects ahead:

- Number of patients served remained steady.
- Referrals remained steady.
- Patient/family satisfaction held its own with improvements in sight.
- Employee retention remained above industry averages.
- Business/risk metrics (operating margins, cash, and reserves) on target, with break-even possible for the year (first-year losses had been forecasted).
- Strategic plan updated and a new business plan in place for the fall.
- Designation as one of the nation’s 11 Palliative Care Leadership Centers and as one of 141 hospices nationally to participate in the Medicare Care Choices Model.



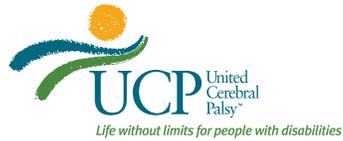
Takeaways

- Vision of an integrated organization is needed before one starts down the merger path.
- Provide a compelling reason for the merger, and create excitement throughout the organization (e.g., “survival” in a new health care industry).
- Create and set board member expectations. Changes and surprises will inevitably occur along the merger path for which the board may not be prepared.
- Assess the risks. The three could have continued in their own limited markets, but they understood and responded to the risks to their longer-term sustainability of standing pat.
- Given emotion of stakeholders attached to organizations that would merge, dedication to mission brought founders and legacies around to merger support.
- Experienced professional consultants helped lead the three to a successful outcome. They provided a template that moved the process to completion.
- Mergers are more expensive than anticipated, especially in highly regulated markets.



IV. UCP SEGUIN CHICAGO

United Cerebral Palsy (\$8–9m budget) Merges with Seguin Services (\$27m budget), creating UCP Seguin Chicago (2013)



The merger also created and spun off a third organization, UCP Seguin Foundation of Greater Chicago (\$4m assets). Service area includes Cook and DuPage Counties. Through a subsidiary, Infinitec, the organization also provides services to 2 million students in 1,000 school districts in Illinois and four other states.

Industry

Disability services, including residential housing, in-home services, training, foster care, consulting services, and income-generating enterprises that offer employment.

Mission

Both organizations serve the age spectrum of people with intellectual and developmental disabilities. Together, their new mission statement became, "...a world where children and adults with disabilities achieve their potential, advance their independence and act as full members of the community. We strive to make this world a reality — in Illinois and beyond, for people at every stage of life — by providing training and education programs infused with technology, family support, employment and life-skills training, and residential services."

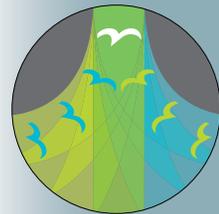
Significance

Strategic Growth and Building Trust

Strategic growth based on trading competencies and resources enabled the new UCP Seguin to substantially increase its size and services. Trust-building among leaders, boards, and staff began in the pre-merger stage and extended over four years to eventual merger. UCP Seguin attained greater efficiencies, increased services, and better quality outcomes.

Background

The two organizations shared a common mission of service to the disabled. Parents in Chicago's western suburbs founded Seguin Services in 1949 to address the lack of



public education options and care models for special needs children. United Cerebral Palsy Chicago began in 1951, part of a national federation founded in 1949. UCP started by addressing the needs of children and adults with cerebral palsy, a mission that expanded to “serve all people with physical and cognitive disabilities, especially the economically disadvantaged.” UCP National works to advance the independence, productivity, and full citizenship of people with disabilities through affiliates such as Chicago.

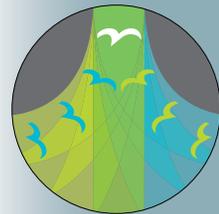
The merged organization’s mission reflects a common philosophy and shared values: “UCP Seguin believes in a world where children and adults with disabilities achieve their potential, advance their independence, and act as full members of the community. We strive to make this world a reality—in Illinois and beyond—for people at every stage of life by leveraging technology to provide innovative training and education programs, family support, employment and life skills training, residential services, and children’s foster care.”

The organizations shared a history of innovative and entrepreneurial programming. In the 1970s, Seguin Services redesigned its residential programs to emphasize community integration and family-like home environments through Community Integrated Living Arrangements (CILA) group homes. It pioneered in-home supportive services based on levels of support needed for adults and those with dementia. In the 1980s, Seguin became the first Illinois provider to provide community-inclusive employment, offering job and life-skills training for the disabled. In the 1990s, it entered foster care, helping find homes for abused and neglected children with special needs. In 2009, Seguin began Building Bridges, now a collaborative of UCP Seguin, as the lead provider for transitioning young people from special education into adult services.

Like other UCP affiliates, UCP Chicago offered a range of services to the disabled. In the 1990s, UCP Chicago launched Infinitec, a multistate venture to provide inclusion and independence for children and adults through the use of integrated technology and access to equipment, information, and training. Infinitec, whose income-generating services are much in demand by school districts needing professional training and services today, serves nearly 1,000 school districts spread across five states.

Pre-Merger

Paul Dulle, CEO/President of UCP (1993–2013), informed his board in 2009 of his future retirement plans. In response, board members proposed to engage an outside search firm to find his replacement. Dulle dissuaded them from this. “We are about creating new wealth by sharing partnerships,” he told them. “Rather than fighting one another over a piece of the fiscal pie that’s available from state government or local foundations, we have always maximized resources, built partnerships.” When asked by board members what he recommended, Dulle responded, “I think we should look for somebody to merge



with who brings something we don't have to the table, and we provide something they don't have." What began as a succession discussion blossomed over time into a merger conversation.

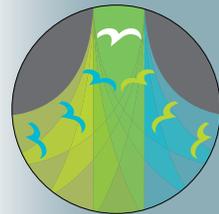
UCP had been through earlier mergers and had come close to merging with Easter Seals/DuPage County. It had a robust, high profile status and ample resources (largely restricted for capital facilities) given by a generous Chicago philanthropist. With the board supportive of a partnership collaboration, UCP turned to Seguin and its leader, John Voit, after brief discussions with another organization. UCP had partnered earlier with Seguin and was familiar with its leaders, programs, and services. As Dulle recalls of their first meeting, "We sat down with John, told him our story, that we were aiming to change leadership in the best way we could, which was to create new wealth by sharing our partnerships—merging." UCP Board Chair Roger Hughes was also in on early discussions. Hughes observed, "How each of us went about our mission might have been different, but what was very common in all of this was shared values, and the understanding that there is a mission to be served."

Merger Process

The journey from discussion and collaboration to actual merger would involve a long, drawn-out process with several stops and starts along the way. The two groups were several years into discussion before setting up an Exploratory Committee composed of members from both boards. Collaboration started at the staff level, where staff from both organizations were encouraged to interact with their counterparts and to learn about one another's programs. They found little or no duplication except at training levels. As Voit noted, "We learned a lot from each other." The development departments found no overlap of grants and funding. Auditors produced pro forma financials so that each board could see how the two organizations compared and the prospective benefits of their combined leverage.

Both organizations were financially healthy and well run. The costs of their respective programs and overhead were compared and contrasted. UCP had been celebrated in a *Chicago Magazine* article featuring local charities with the lowest overhead costs. Both also had high ratings from charitable watchdog organizations.

Having dealt with issues of financial health and stability, Dulle and Voit sought to remove staff "merger fear," assuring staff that should a merger occur, no one would be laid off or lose compensation or benefits. Dulle and Voit notified funders of their discussions, asking foundations such as the Chicago Community Trust and the Coleman Foundation for assistance with merger expenses. They kept Illinois state agencies in the merger loop and were open to guidance they might offer.



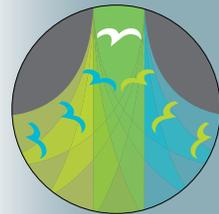
Dulle and Voit had much in common. Besides sharing extensive operational experiences, both approached partnering from a strategic perspective based on industry dynamics and growth. As a result, both organizations embraced the strategic purpose of their combination—trading competencies and resources. UCP had technology, buildings, land, and access to DuPage County. Seguin had housing, job training, and residential services. As Voit put it, “UCP had much cash and real estate; we had programs and services.”

Demographics were working in their favor. As Voit noted, “An estimated 10,000 baby boomers are becoming eligible for Social Security each day, and roughly 1.5 percent of them fit into various disability categories.” Together, UCP and Seguin had “roofs and technology” to serve aging populations at various stages of disability, both mental and physical. They also offered significant costs advantages in partnering with state government. “It costs the State of Illinois somewhere between \$150,000 to \$200,000 annually to institutionalize people,” noted Voit. “We can do it for half the cost, combining home services, housing, and technology.” (Illinois ranks near the top of states in institutionalized care costs.)

Both boards were very deliberate in working through the partnership process before committing to merger. Dulle and Hughes believed that to keep the process moving, they had help the staff to overcome their fear. They addressed the issue of merging two cultures. “No two cultures are ever the same,” observed Dulle, “so you make things work... the people part is really the important thing.” A merger committee was constituted with members from both boards. They met at least six times over the next two years. The message, according to Board Chair Hughes, was that merger is based on opportunity. The merger became more compelling when Hull House declared bankruptcy in 2012 and other human service providers went out of business. The opportunity: this partnership and merger could develop into “something bigger and better.”

Trust Building

“Fear and trust are really tied along the same continuum... . It is trust that pulls people out of the fear base,” Dulle observed, “and that’s powerful.” Having taken steps to remove staff merger fears, the board chairs built support for the merger among their boards. “This is the right organization, the right people, and right thing to do,” noted Hughes. “If the leadership trusts, the rest will eventually get there. If leadership doesn’t trust, [board members] will find all kinds of ways to scuttle the deal.” After first meeting Voit, had some initial conversations with his CEO, Dulle. Hughes recalls, “I asked him two questions: (1) Is this the right guy [to run the merged organization]? and (2) Is this the right organization with which to merge?” Dulle convinced his chair of both. Once assured, Hughes became the merger’s principal advocate.



Bringing board members along was not easy. Hughes recalls that some brought up “nitty natty warts,” issue-by-issue considerations, large and small. He and his counterpart, Don Bartecki of Seguin, were well versed in corporate mergers. All dealings between the two organizations were transparent. Information was readily made available. Some board members were persuaded to support the merger, but others were not convinced. Hughes observed, “These were good people who had been with us in our darkest days.” Sadly, “We could not win them over, so they left.”

Merger Issues

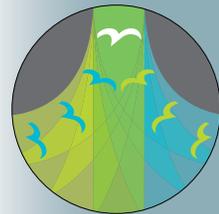
The lengthy merger process produced a series of agreements that covered everything from staff levels and assets to board composition. Two major issues required resolution. The first was what to do with the sizeable wealth that UCP had accumulated. The amount, estimated to be between \$4–6 million in assets, had been raised by legacies for specified purposes. Some members objected to these assets being rolled into the new organization, especially since much had been invested in Infnitec. The second question was what to do with Infnitec, UCP’s flagship program. Did Infnitec belong with the merged organization, or should it be spun off as a separate for-profit or nonprofit entity? As Hughes recalls, some UCP board members were concerned that Infnitec might “be lost in the merger.” Discussion turned on how to protect it and make sure it would grow, and the decision was made to keep it in the UCP Seguin fold.

On the first question, it was decided to create a foundation separate from UCP Seguin, seeded with \$4 million. Paul Dulle, outgoing CEO/Chair of UCP, became the first President of the UCP Seguin Foundation of Greater Chicago. The foundation would provide support for UCP Seguin and other organizations that shared its mission of creating life without limits for people with disabilities.

Post-Merger

UCP Seguin established committees to look at all aspects of post-merger operations. Regarding the composition of the new board, the CEOs and board chairs agreed that a combined board of 28 to 30 members would be too large. The leaders moved to have representation on a new 16-member board based on “board service” (those who were strongest supporters of mission and board activities), and they balanced that with board representation on the new UCP Seguin Foundation Board. Board members were sorted out between the operational board and the fund-raising board based on their skill, with encouragement from the respective board chairs.

What to call the newly merged organization was not an issue. United Cerebral Palsy had greater name/brand recognition than Seguin, but Seguin was larger. When top ten industry names were mentioned—Misericordia Home, Goodwill Industries, and Easter



Seals—UCP ranked well among them. Thus it was decided that United Cerebral Palsy and Seguin should become UCP Seguin.

This merger of equals was complicated by a technicality related to the State of Illinois payments system, concerning UCP’s Federal Employer Identification Number. When this technicality threatened to delay reimbursement payments during the post-merger period, the amicable decision was made to of all the legal choices available to the partners to connect the organizations, simply merge UCP into Seguin to get state payments reinstated. Otherwise, there were no reported post-merger surprises. “We were two healthy organizations, both at the right time in their histories when they could take on a merger partner,” says Dulle. “Whether they merged into us or we merged into them was not the issue. The point is that we put our resources together and created something better.”

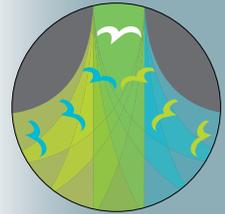
Takeaways

Paul Dulle, UCP CEO, offered advice to boards and organizations considering a merger. “First, have the heart to do this. All the business pieces might be in place, but if you don’t have heart, it is not going anywhere.” He also advised leaders to surround themselves with those who are going to make it work. Two respected board chairs—Hughes and Bartecki—kept the process moving. “The merger probably would have happened had they not been so supportive,” he observed, “but their advocacy made it happen quicker and more smoothly.”

The most important takeaway from the case, according to Dulle, was “trust, trust, and more trust.” Be inclusive and transparent with all stakeholders. Dulle concluded, “Trust overcomes fear, which is the biggest impediment to change and to a merger.”

Three years following the merger, the organization’s revenues exceeded \$43 million, a 14 percent increase. Net assets for the period were \$23 million and, when combined for both organizations, significantly strengthened their balance sheets and cash reserves. They would be better able to confront future cash and funding challenges. All programs have grown substantially: Children’s Foster Care up more than 50 percent, residential up 13 percent, home- based care up over 100 percent, day services up by 60 percent, and work services up by 22 percent.

At a look back during a recent breakfast session, three years following the merger, Voit, Dulle, and Hughes agreed together that the future for UCP Seguin is very bright. They had “done the right thing.”



V. WORKING IN THE SCHOOLS

Boundless Readers (\$500k budget) Merges with WITS (Working in the Schools, \$1.4m budget) in a Transfer of Assets/Programs (2015)



Industry

Literacy/Teacher Development/Volunteering

Significance

Trading Competencies and Honoring a Legacy Program

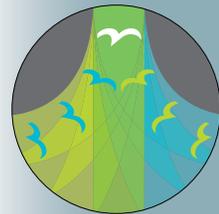
Mission

Working in the Schools (WITS) promotes literacy and a love of learning in Chicago Public School elementary students through a volunteer-powered, outcomes-based portfolio of programs. WITS endeavors to bridge the achievement and opportunity gap for underserved students through building connections with positive adult role models. Alongside our teachers and school administrators, WITS works to provide the critical support that our students need to set them on a path toward academic success.

Background

Boundless Readers (BR) was formed in 1988 as the “Rochelle Lee Fund to Make Reading a Part of Children’s Lives” by a group of visionary parents and colleagues to commemorate the retirement of Rochelle Lee, an inspirational Chicago public school teacher and librarian. Lee became a legend within education circles because of her ability to develop in children a love of books and a lifetime habit of reading. BR’s founders saw both the need and the opportunity to extend Lee’s work to Chicago’s teachers and children throughout the city.

BR worked in schools to ensure that students had access to high-quality children’s books. BR also worked with teams of teachers and administrators to build sustainable literacy and leadership practices. Its signature program, the Rochelle Lee Teaching Awards (RLTA), was bestowed on teachers who wished to develop their knowledge of best practices in literacy instruction. In addition to obtaining high-end professional development, award-winning teachers received a small stipend to stock books in their



classroom. The in-class library enabled students to borrow books as well as to read them at school.

Working in the Schools (WITS) promotes literacy and a love of learning in Chicago public school elementary students through a volunteer-driven, outcomes-based portfolio of programs. These included: WITSummer in the Parks, WITSummer Early Childhood, Classroom Reading Tutors, WITS Kindergarten, Workplace Mentoring, Mid-day Mentoring, WITS on Campus, and WITS on the Weekend. WITS centers its activities around training, placing, and transporting volunteers into Chicago Public Schools (CPS), where most of its programs focus on one-on-one literacy mentorship.

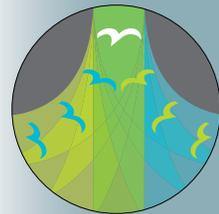
Civic activists Joanne Alter and Marion Stone founded WITS in 1991 at Byrd Elementary near the former Cabrini Green housing projects. Recognizing the importance of individualized classroom support, the two women soon carried their vision of improving literacy outcomes for students all across Chicago. They recruited volunteers from corporate, community, university, and government circles, expanding the volunteer network to 1,850 individuals throughout the Chicago area.

Over the years, WITS generated data showing improved literacy skills and attitudes among WITS students. Partnering with Loyola University, WITS conducted a multi-year assessment of program outcomes. With data collected from teachers, volunteers, and parents and directly from the tutored students, WITS tracked its students' quantifiable and nonquantifiable achievements over time. The resulting favorable outcomes led to endorsements from educators and public officials.

Rochelle Lee led BR until 2003. Her successor, Mary Hicks, built on Lee's training programs by partnering with local universities and expanding teacher outreach. Lee's reputation for raising the reading bar for teachers and children reached sufficient levels of recognition that her methods were adopted by the CPS and its then-CEO, Arne Duncan. Duncan sought to scale up Lee's program and encouraged BR to start its own charter school based on Lee's methods.

Duncan promoted BR by establishing a fee-for-service experimental program, Building Exemplary Schools through Teams (BEST), which engaged entire schools in professional reading development. But the BR model faltered when Duncan left CPS to become Secretary of the U.S. Department of Education. Soon thereafter, CPS budget cuts impacted the public schools where BR was most active. Duncan's successor failed to extend support for the program. In turn, the Chicago Community Trust, whose support then constituted one-third of BR's operating budget, dropped its support.

BR became caught up in a downward financial spiral. Spending on the Rochelle Lee Teacher Awards and teacher training exceeded its annual fund-raising. Key personnel left. The board chair departed, followed by the chairs of finance and board development. BR ended the 2010–11 fiscal year with a deficit of \$391,000. Consequently, a new slate



of board officers led by John Martin took over. Unable to reverse the slide, the organization decided to outsource its fund-raising activities. It also searched for a new executive director to replace Mary Hicks, who resigned in 2012. Dorne Eastwood became the new executive director.

Pre-Merger

Weakened by organization turnover and declining revenues, BR's board faced reality. It would be unable to provide adequate financial support for the annual RLTA, which supported 150 to 200 teachers at an annual cost of more than \$100,000. This program was the heart and soul of the organization. Upon completing a board-led strategic planning process, board members acknowledged that the current business plan, built upon foundation support, was not sustainable. Something had to happen and soon.

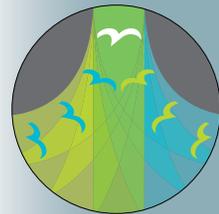
The board's strategic planning exercise included compiling a list of "competitors," which became the list of potential merger partners. Two prospects emerged. The Chicago Foundation on Education (CFE), like BR, worked with Chicago teachers on a variety of projects through application-based small grants made directly to teachers. However, CFE worked with a variety of projects, not just reading. Would BR's mission and its annual RLTA be diluted in a CFE merger? During the exploration, the CFE executive director announced her departure, ending consideration of that prospect.

Working in the Schools was a well-known literacy organization with a similar mission to BR. It, too, was volunteer-driven, with programs operating in many of the same schools as BR. Well before merger discussions, the two groups knew of one another. They worked in the same communities and the same schools, and they were funded by some of the same foundations.

The missions of the two organizations were compatible, but what of their programs and activities? Both focused on early childhood students. WITS served 2,605 students in 31 schools, working with 225 teachers and 1,900 volunteers. Its evaluation process was conducted by an internal, full-time evaluation team. Its measures of success included improved student performance in reading fluency and increased self-confidence. BR's programs included the RLTA and a Summer Institute. Its programs served 5,500 students in 63 schools, working with 198 teachers. Its measures of success included student improvement in reading scores and student motivation.

Merger Process

The BR and WITS merger timeline progressed rapidly, beginning in January 2014 and finishing with signed merger agreements in January 2015. The merger process began when BR Executive Director Dorne Eastwood reached out to her WITS counterpart, Brenda Palm. Three months later, the executive committees of the respective



organizations met over merger discussions. Following extensive conversations regarding mission alignment and other considerations, the boards formally voted to proceed with a merger agreement. As part of due diligence protocol, they exchanged documents and confirmed their sacred “non-negotiables.” Reportedly, a few WITS founding members expressed concern that its mission might change with a BR merger. These concerned members dated from the early Cabrini Green days when board members had assisted teachers by reading to the students who lived there.

Once convinced of mission integrity, the boards formally approved the merger in July 2014. Legal support was provided pro bono to BR by Loyola Law School and, to WITS, by Jones Day, the law firm of its board chair, Jeremy Cole. The merger agreement specified that BR would transfer programs and assets to WITS, and then the corporation would dissolve. The Chicago Community Trust provided support for the merger. The Polk Bros. Foundation, a common funder of both WITS and BR, agreed to stay with the enhanced WITS and increased its funding.

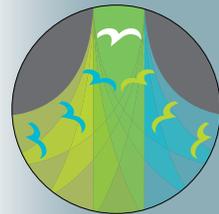
At the start of the merger, BR’s board members were interviewed by WITS. Eight BR members joined the WITS board, and BR’s entire associates board was asked to join the WITS associates board. For those BR board members who did not join the WITS board, WITS created a program advisory committee, which all BR board members were invited to join. All parties signed the final merger documents on January 21, 2015, almost a year to the day that the two executive directors began their merger discussions. BR’s staff knew that merger was likely to occur when they first saw the EDs meeting. Staff was kept informed as the boards progressed to the final merger vote. BR’s staff joined WITS. Dorne Eastwood stepped down as the executive director when BR was dissolved and became a WITS board member. There were no surprises.

Post-Merger

Post-merger planning began well before the final merger agreements were signed. Outgoing Board Chair John Martin, with the help of BR’s executive team, made sure that an integration task force was created to develop and manage the integration roadmap from BR’s perspective.⁴⁸ This included key activities, timelines for major decisions (e.g., mission/vision statements), and a communications roll out. The tasks and activities were taken up by five committees that dealt with operations, program, finance, fund-raising, and marketing. Operations focused on final legal requirements, organization and board structure, space, and IT.

Program integration dealt with strategies for combining BR and WITS programs and sustaining the integrity of RLTA and the Lee legacy. Program integration involved volunteer support and how to use BR’s teachers in WITS programs. A strategy team

⁴⁸. John Martin, “Nonprofit Merger Lessons Learned,” power point and lecture presentation at the Kellogg School of Management, Northwestern University, February 25, 2015.



made up of WITS and BR board, staff, and advisers was formed to integrate BR's programs and operations with WITS' strategic growth plan. The strategy team began integrating WITS programs with schools currently implementing BR programs. Through the integration, WITS programs would proliferate in schools where there were BR teachers and, conversely, teachers in schools where there were WITS programs would be encouraged to apply for BR's RTLA Awards.

Integrating BR into the WITS program portfolio, WITS would maintain its commitment to a comprehensive program evaluation. That included the RLTA program which, when evaluated over a ten-year period, had demonstrated a cost-effective and scalable model for change.

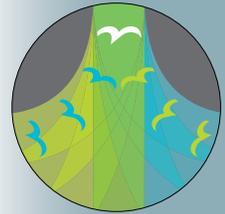
Fund-raising was the more difficult challenge: how to keep BR donors engaged and what to do with their separate fund-raising events. WITS had two major fund-raisers—a lunch sponsored by the board and a gala sponsored by the associates board. BR had one large spring event. WITS decided, in conjunction with its 25th anniversary celebration, to have a large gala in late 2016 with the hope that BR donors would fully support the event.

Marketing developed a communication plan with a merger announcement with the headline, "Two of Chicago's Literacy-Focused Nonprofits Agree to Combine Programming." An Integration Roadmap, a one-year, month-by-month plan, marked activities and events as set by the strategy teams. It was followed from beginning to end.

Success?

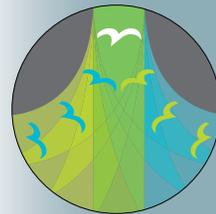
Once BR's board decided a merger was necessary, the process moved expeditiously. Having settled on WITS, the two EDs and board chairs worked together to make the merger happen. Brenda Palm, WITS ED, and Jeremy Cole, WITS Board President, get particular credit from BR board members for being respectful of the Rochelle Lee legacy and keeping alive the annual teacher awards, the program that mattered most to the outgoing BR board, teachers, and donors/foundations. Early feedback from Lee Teacher Awardees and teachers who benefited from WITS mentoring programs indicated that complementary programs were taking hold in 12 to 15 schools where both programs operated.

The new synergy of the combined and integrated programs provided a more holistic support approach within the classroom. It also helped volunteers obtain better professional development and a deeper understanding of student reading problems. Program quality was enhanced. On a financial front, it is too early to tell whether combined resources will lead to more donors and increased foundation support but early indications are that it will. Greater impact and improved programs provide a compelling selling point to attract additional support.



Takeaways

- BR's board members agreed that the merger hunt and process should have started earlier, dating from when the Chicago Community Trust support lapsed. Board Chair John Martin noted that it would have started earlier but for the fact that too many organization changes were taking place at once. BR's financials suggest that the downward spiral, if continued, would likely have depleted BR's remaining assets by 2015–16.
- BR's hunt for a merger partner produced a good cultural fit for the organizations, boards, and staff. Both organizations gave considerable thought and care to promoting mission enhancement and collective impact through the merger.
- Strong leadership kept the boards talking and moved the process to eventual merger. BR's ED Dorne Eastwood had made it clear at the start of merger discussions that she was not interested in being the ED of the combined organization. This removed her from a possible contentious search.
- For BR, the key to the merger arrangement (and its deal breaker) involved continuing Rochelle Lee's legacy and the Rochelle Lee Teacher Awards. WITS leaders were most respectful of continuing these under the merger agreement and clearly saw the long-term benefit for the WITS organization in maintaining this focus and integrating the awards program into WITS. The strategy team, in turn, integrated WITS programs with schools implementing BR's programs and increased the pool of teachers applying for RLTA.
- Both parties agreed "no egos were involved" from beginning to end. Both boards acted to further their missions through the merger process. The takeaway from this merger case is the recognition by all parties involved that a merger would result in more mission and a greater collective impact. The case also provides a testimony to post-merger planning and efforts to expedite a seamless integration of programs, boards, staff, and volunteers.



APPENDIX 2

INTERVIEW PROTOCOL — NONPROFIT MERGERS

Personal Background

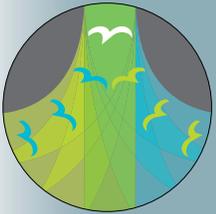
1. How long had you worked with organization and/or board at the time of the merger?
2. What is your current position?

Pre-Merger

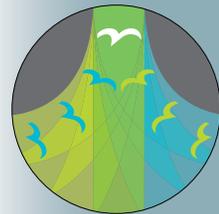
3. Please describe pre-merger organizations in terms of mission, services provided, ages, size, and structure (leadership and board).
4. When was the idea of a merger first raised?
5. What were the major factors or forces in your organization's decision to merge?
6. How did your organization identify partners for the merger?
7. What steps or actions were taken to initiate the merger?
8. To your knowledge, had any of your executive staff or board members been involved in a prior merger? If yes, please elaborate.

Merging Process

9. Did you look to any other mergers as a template or framework for how to complete your own merger?
10. What formal or informal structures or facilitators did you use in the merger (e.g., consultants, lawyers, focus groups, etc.)?
11. How would you characterize the involvement of internal stakeholders (e.g., employees, volunteers) in the merger?
12. How did you communicate the merger process to external stakeholders (e.g., donors, other nonprofits in the field, the public)?
13. What were the most essential issues to each party during the merger? How were these handled?
14. How long did the merger process take?
15. How did you track progress or milestones as the merger progressed?



Appendix 2 Interview Protocol — Nonprofit Mergers



Post-Merger

16. Please think back to the reasons listed for merger (Question #5). How did any of these change as a result of the merger?
17. After the merger, do you think the resulting organization improved in terms of any of the following: mission, services provided, resources obtained, etc.?
18. Did the culture of the organization change post-merger? If so, how?
19. What are the key takeaways from the merger experience?
20. What would you like to share with other organizations (nonprofits or foundations) in considering a merger?
21. Who else would you recommend that I speak with for this project (e.g., names of EDs or lead board members at time of merger)?