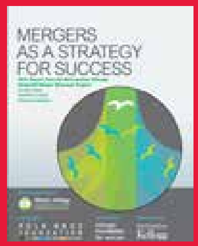
10 KEYS TO MERGER SUCCESS

Excerpted from *Mergers as a Strategy for Success: 2016 Report from the Metropolitan Chicago Nonprofit Merger Research Project*

Nonprofit organizations use mergers as an effective and powerful tool to achieve their goals, advance their missions, and increase their impact, as illustrated in a report recently released by the Metropolitan Chicago Nonprofit Merger Research Project. The study analyzed 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.

In presenting their findings, the team of leaders behind the study and report aim to help nonprofits and their partners in the foundation world learn how to better utilize merger strategies. With continuing fallout from the recession and the poor economic health of the state of Illinois, they believe the timing of their report is right. 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.



Mergers as a Strategy for Success

To read the full report and learn more about the 25 merger cases, visit chicagonpmergerstudy.org.

Through interviews with merger participants, the study offers a qualitative analysis of the entire merger process. Above all, it reveals that mergers don't follow a set course: Each one is unique. The participants did offer many observations regarding how organizations can ensure a successful merger, however. The following are their top ten pieces of advice.

1. TRUST IS THE GLUE THAT HOLDS TOGETHER ALL OTHER ISSUES IN MERGER NEGOTIATIONS.

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 — a 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 and 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.

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, 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.

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

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 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.

“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 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.

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.

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 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.

Noting that integrating staff after a merger "is far more of an art than a science," La Piana Consulting 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. As SeaChange's John MacIntosh observed, "Collaboration is like marriage; if you can't celebrate, don't consummate."

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. In the corporate world, culture is often cited as the key reason mergers fail. An organization needs a self-assessment of their own culture, and they must attain a sense of compatibility with the values and culture of the organization with which 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 its 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."

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.

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 Consulting, Thomas McLaughlin, and others in the field. 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. 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.

The Chicago study features a detailed bibliography and a merger toolkit that has valuable information that can be used to help guide a merger process.