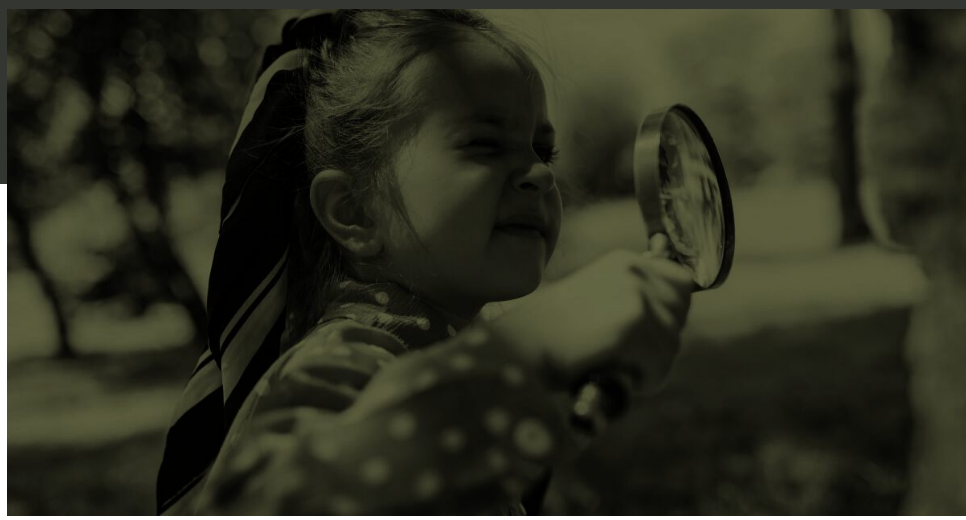
NONPROFITS: BOARD GOVERNANCE

Nonprofit Mergers: A Bit More Exploring

09.14.21 | Linda J. Rosenthal, JD



It's not surprising that the pandemic has sparked a flurry of chatter and activity in our sector about "collaboration" and other creative responses to the extraordinary challenges. From the earliest days, many experts and observers worried that Covid-19 was "poised to become an extinction-level event for America's nonprofits."

A decade earlier, in the wake of the Great Recession of 2008-09, we saw a similar uptick of such interest in mergers as a panacea. But, according to a leading nonprofit restructurings expert writing at that time – "[i[nstead of reflexively pulling out the biggest gun in the partnership arsenal, nonprofits should consider a variety of ways of working together." See *Merging Wisely* (Spring 2010) David La Piana, *Stanford Social Innovation Review*. There are many other types of "strategic alliances" that also "let organizations unite programs and cut costs while remaining somewhat independent."

Such "thinking outside the box," though, is not just for periods of disruption or stress. Over the past two decades or so, scholars and experts have wanted to learn more about whether nonprofit "restructurings" might boost mission success and "scaling up" even for healthy organizations in non-crisis times. See *Nonprofit Mergers that Work* (March 2, 2017) Professor Emeritus Donald Haider, Director, Center for Nonprofit Management, Northwestern University, *Stanford Social Innovation Review (SSIR)*. The answer is "yes."

Nonprofit Mergers 101

We pick up now from our last post, *Exploring the Nonprofit Merger Option* (September 9, 2021). Consider this a continuation of our "look before you leap" glimpse of the "biggest gun" in the panoply of available collaboration possibilities; a "… quick trip through a merger's terrain," giving a "rough guide to expectations, processes and obstacles often encountered in a merger experience."

Welcome to more of Nonprofit Mergers 101. The bottom line is that "[t]here's no such thing as a quick and easy merger."

The syllabus headliner today is a major survey and report from the Metropolitan Chicago Nonprofit Merger Research Project. It was sponsored by Northwestern University's Kellogg School of Management, Mission and Strategy Consulting along with eight Chicago foundations.

Published in 2016, the research team was headed by Professor Emeritus Donald Haider. It's a 103-page PDF download (full-text link here) titled *Merger as a Strategy for Success*. It analyzes 25 nonprofit mergers between 2004 and 2014 from the Chicago metro area; that is, before, during, *and* after the major economic upheaval of that period, the Great Recession.

The excellent Executive Summary in the Report as well as Professor Haider's 2017 SSIR article (see above), make it an easier lift for an interested reader. But a particular benefit of the *full* report are the case studies. Indeed, the researchers have touted, as a critically important and *new* aspect of their scholarship, this view from the trenches by key merger participants.

Fluid Definitions

The researchers emphasize that the term "merger" is *not* a one-size-fits-all catch phrase. It's 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…."

In the Report's case examples, "mergers take many forms. In legal terms, most involved an acquisition, with one party as the 'acquired' and the other as the 'acquiring' organization." But "these terms though used throughout this study can mean many different things: from cases where an acquired organization's assets and liabilities are subsumed into a larger organization to a partnership of coequals. Most fall somewhere in between."

Accompanied by delightful illustrations of different-sized fish jumping in and out of various fishbowls, the researchers settle on a four-category model of common types of mergers, adapted from the above-mentioned David La Piana:

- *Acquisition merger*: Organization A (acquired) dissolves and merges into Organization B (acquiring)
- *Asset acquisition (or asset transfer)*: Organization A transfers its assets to Organization B but its liabilities are not transferred. Instead, Organization A disposes of them "by some other means"
- *Merger of equals*: Organization A and Organization B both dissolve into a new organization
- *Change of control*: This is "not a merger per se, but an arrangement by which control of an organization is transferred to another entity." Examples include: (1) interlocking boards; (2) parent-subsidiary; and (3) management-services contract.

The research team offers these categories as a "guide" to understanding this Report, but notes that "… in a successful merger, the organizations involved will negotiate a structure that is mutually beneficial and helps all parties to achieve their goals."

Study Features

This 2016 Report "uncovers what drives successful mergers and suggests that more nonprofits should consider mergers as a useful tool to increase impact." This is important, according to Professor Haider, because little was known up to that point about mergers in the nonprofit sector. "Even the idea of two nonprofits merging still seem[ed] alien – or worse – to many people in the field." Earlier, an expert had "caustically observed" that to "some in the nonprofit field, the idea of mergers [was] scandalous and distasteful."

The researchers built on the work of the "one existing large-scale study of nonprofit mergers, conducted earlier by the Minneapolis-based MAP for Nonprofits and sponsored by the Wilder Foundation. See *Success Factors in Nonprofit Mergers*, (PDF, 128 pp) (July 2012), covering 41 Minnesota nonprofit mergers from 1999-2010.

But the Chicago researchers broke new ground in methodology: First, they interviewed representatives of the 25 mergers (selected from the original broad-based and diverse sample of 60 that fit the study criteria); second, they followed-up with "in-depth studies of five of those 25 cases." The interviews included at least "three central players from each merger – acquired and acquirer – encouraging participants to share what they had learned from the merger experience." As a new and unique feature, they also looked at four "uncompleted and dissolved mergers, to better understand why some fail to materialize and others fail after the merger occurs."

Key Takeaways

"To our minds," wrote Professor Haider in his 2017 *SSIR* article, "our most important finding was that in 88 percent of the cases we studied, both acquired and the acquiring nonprofits reported that their organization was better off after the merger, with 'better' being defined in terms of achieving organizational goals and increasing collective impact." Of course, he adds, they also encountered some instances of "buyer's remorse and founder regret."

Other key takeaways in over 80 percent of these selected merger cases were: there was prior collaboration between the merging organizations; the merging parties hired an outside consultant or facilitator; and the board chair or a board member from one of the organizations "emerged as the chief merger advocate."

In a (perhaps surprising) finding, in over 60% of the cases, it was the *acquired* organization that " initiated the merger discussions."

Conclusion

That's it for Nonprofit Mergers 101.

What?

You were expecting more detail?

The Chicago report is 103 pages chock full of analysis and merger examples; the Minnesota report is 128 pages long. In last week's post, we linked to four major resource collections.

This is like those 8 a.m. freshman introductory lectures we all vaguely remember stumbling into half-asleep: There are highlights and tidbits to whet the appetite, but the reading assignments (either full versions or shorter summaries) await a visit at your convenience.

— Linda J. Rosenthal, J.D., FPLG Information & Research Director