

# What do we know about nonprofit mergers?

**An increasing number of nonprofits are considering a strategic restructure or merger to leverage resources, enhance services, or become more cost effective. This report defines mergers and restructuring, outlines the three stages of a merger, and identifies 30 factors that affect its success**



There are a variety of reasons organizations consider merging, including preserving the mission, improving existing services, and expanding services. Sometimes external events trigger a merger. Today's difficult economic climate has adversely affected funding and services for many organizations. These organizations may consider a merger to develop greater organizational efficiencies related to programming, administrative capacity, or fundraising.

An organization may believe a merger will engage community leaders or board members, or increase their community profile. One of the most frequent events that trigger merger considerations is the loss of an executive, especially if it is a long-serving executive. In this case, an organization may consider a merger to benefit from the leadership of another organization.



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## **About this study**

To help organizations and their funders assess merger as an option, MAP for Nonprofits has joined with Wilder Research to conduct a multi-phase study to identify factors that influence merger outcomes and characteristics of successful mergers.

A literature review, key informant interviews, and a focus group were conducted to inform the first phase of this study and findings are summarized in this report. Key informant interviews were conducted with executive directors, funders, and key leaders in mergers. The focus group included attorneys and consultants, financial professionals, foundation representatives, and nonprofit leaders who have been involved with merger activities. Forty-two research articles and books, including studies based on a systematic collection of data through surveys, secondary data, focus groups, or key informant interviews, were reviewed.

The findings build on work previously done by MAP for Nonprofits which published *MergeMinnesota* (Reed & Dowd, 2009). They will be used to help frame an in-depth study of 40 merged nonprofit human service organizations.

## **Joint research project of MAP for Nonprofits and Wilder Research**

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## *Methods for classifying and defining mergers and strategic restructuring*

Structural realignments of nonprofit organizations are often grouped into **alliances**, which do not involve change to the corporate structure, or **integrations**, which do. They include management service organizations, joint ventures, parent/subsidiary relationships, and mergers. For purposes of this research study, **a merger is defined as an integration or combining of two or more separate organizations into one legal entity. Under this definition, program, administrative, and governance functions are all combined.**

## *Factors thought to affect merger success*

Factors are classified in three stages: pre-merger, merging process, and post-merger.

### **Stage 1: Pre-merger**

The pre-merger stage is a time of internal assessment and consideration of which other agencies might be viable merging partners. There are **twelve** factors identified in this review that are associated with the pre-merger stage. They can be grouped into four categories:

#### **1A. Financial soundness of the merging organizations**

Many nonprofits **explore mergers to improve their financial standing** for short-term survival or long-term viability. However, organizations need a certain level of **financial stability prior to a merger** in order to be a successful merger partner. Experts warn that it may be too late for organizations to consider a merger if they are in a desperate financial crisis. In addition, agencies and boards need to be aware of the **monetary costs of considering and implementing a merger.**

#### **1B. External conditions**

External conditions, including **environmental changes** (e.g., the current unstable economic environment) and **increased competition for resources**, change the operating environment so **nonprofits favor restructuring or choose merger for stability or survival. Funder pressure or encouragement to consolidate or merge** is also a factor within this stage.

#### **1C. Organizational structure**

Factors related to organizational structure include **physical characteristics** such as size, budget, and life span. In addition, it is important to be aware of factors related to **compatible values** in terms of mission, strategy, and culture. The literature also suggests that mergers will be more successful when there is a **positive pre-merger relationship among executive leadership of the organizations.**

#### **1D. Leadership**

One factor associated with leadership during the pre-merger stage is the presence of **strong and committed leadership** who can visualize and articulate the importance of merging. Another factor is **absence or turnover in leadership.**

## Factors related to nonprofit mergers

	Total citations	Type of study		Prospects for measurement
		Quasi-experimental, survey, or simulation	Case Study (N of cases)	
<b>Stage 1: Pre-merger</b>				
<b>1A. Financial soundness of the merging organizations</b>				
1A1. Fiscal stability as a motivation to merge	8	2	6 (27)	High
1A2. Fiscal stability of pre-merger organizations	3	0	3 (15)	High
1A3. The monetary costs of considering and implementing a merger	5*	0	4 (72)	High
<b>1B. External considerations</b>				
1B1. Motivation for organization to stabilize and survive to meet community needs	5	5	0	Med
1B2. Funder pressure to consolidate	11	6	5 (28)	Med
1B3. Increased competition for resources	12	5	7 (41)	Med
1B4. Environmental changes (Including technology, government policies and vouchers)	12*	3	9 (38 )	Med
<b>1C. Organizational structure</b>				
1C1. Characteristics of organization (size, operation time, budget)	6*	4	2 (7)	High
1C2. Compatibility (mission/strategy/values/culture) of each organization relative to the other(s)	8*	4	6 (75)	Med
1C3. Positive pre-merger relationship between/among executive leadership	5*	2	3 (7)	Med
<b>1D. Leadership</b>				
1D1. Presence of strong/committed leadership (individual or group)	8*	3	5 (29)	High
1D2. Executive turnover and the need for skilled leadership is a motivation for merger	8*	3	5 (18)	Med

\* Includes practice observation.

## Factors related to nonprofit mergers (continued)

	Total citations	Type of study		Prospects for measurement
		Quasi-experimental, survey, or simulation	Case Study (N of cases)	
<b>Stage 2: Merging process</b>				
<b>2A. Key stakeholder involvement</b>				
2A1. Executive staff champion	19*	4	12 (105)	Med
2A2. Board commitment to the merger process	11*	2	7 (22)	Med
2A3. Client, consumer, and funder involvement in planning	4*	1	2 (67)	Low
<b>2B. Role of staff in merger process</b>				
2B1. Staff involvement in planning	5*	1	5 (21)	Med
2B2. Communications with staff throughout process	15*	4	9 (84)	Med
2B3. Staff's perception of the effect of the merger	9*	2	6 (22)	Med
<b>2C. Integrating formal and informal structures</b>				
2C1. Attention to cultural integration	17*	4	12 (111)	Med
2C2. Attention to board and mission integration	7	2	5 (18)	Med
<b>2D. Providing due diligence to the process</b>				
2D1. Clear decision making process	16*	3	9 (41)	Med
2D2. Clear and realistic time frame	9*	1	6 (84)	High
<b>Stage 3: Post-merger</b>				
<b>3A. Funding and support</b>				
3A1. Merger strengthens the financial stability of the organization	10*	5	3 (20)	Med
3A2. Merger improves the image, reputation, or public support for the organization	5*	1	3 (21)	Med
<b>3B. Services</b>				
3B1. Merger saves or helps to expand services	5*	2	3 (22)	Med
3B2. Merger improves the quality of existing services	4*	2	2 (4)	Low
<b>3C. Climate and culture</b>				
3C1. Organizational identification	10	3	7 (28)	Low
3C2. Conflict and morale issues following a merger	8*	0	7 (29)	Med
<b>3D. Organizational capacity and structure</b>				
3D1. Operational efficiencies and increased economies of scale	3	1	2 (2)	Med
3D2. Structural changes in staffing, management, and governance	3*	1	1 (1)	Med

\* Includes practice observation.

## Stage 2: Merging process

The merging process focuses on how and under what conditions an organization might work with another and which organizational characteristics they wish to preserve. There are **ten** factors identified in this review that are associated with the merging process stage. They can be grouped into four categories:

### 2A. Key stakeholder involvement

Key stakeholder involvement begins with an **executive staff champion** committed to the merger's success. Research indicates **board commitment**, possibly through a joint merger committee, is important and lack of board involvement can be detrimental to the process. Also, **organizations should consider how clients, consumers, and funders can be involved.**

### 2B. Role of staff in merger process

Because the success of the daily operations of a nonprofit organization is so dependent on the work of the front-line staff, it is logical that **staff involvement in planning** can increase the likelihood of a successful merger. Likewise, **communication with staff** throughout the process can build buy-in and good will and help diminish **staff's negative perceptions of the effects of the merger.**

### 2C. Integrating formal and informal structures

As organizations engage in the merging process they often consider factors related to **cultural integration**-how the merging organizations will bring together operational philosophies-which can be divergent. Similarly, **board and mission integration** is important to consider for moving forward.

### 2D. Providing due diligence to the process

A **clear decision-making process** and a **clear and realistic time frame** provide due diligence to the merger process. They help all parties involved gain a clear picture of the legal and financial status of each organization. An independent, unbiased consultant can add leadership to the decision making process by helping to develop a plan and identifying issues to be addressed.

## Stage 3: Post-merger

During the post-merger stage, the merged entity begins to operate independently. Because nonprofit merger studies often end at the actual merger, there is limited information about the post-merger process and the effect that merger has on services provided by organizations. There are **eight** factors identified in this review that are associated with the post-merger stage. They can be grouped into four categories:

### **3A. Funding and support**

Once the merger has taken place, the focus turns to **the financial stability of the newly-formed organization**. Research is contradictory about whether the financial status of an organization improves post-merger. Another focus of post-merger is **whether the organization improves its image, reputation, or public support**.

### **3B. Services**

Two factors relevant to the post-merger phase related to services are the **preservation of services, or the expansion of service types** or service areas. Another consideration is whether the merger has **improved the quality of existing services**, either through more effective service delivery, more comprehensive services, or both.

### **3C. Climate and culture**

There are two distinct post-merger organizational culture and climate factors. The first is post-merger **organizational identification** which describes how the staff and stakeholders relate to the merged organization. A second is the **conflict and morale issues** organizations experience following a merger.

### **3D. Organizational capacity and structure**

Following a merger, organizations need to consider whether they have **increased operational efficiencies and economies of scale** including reducing overhead expenses or employing higher-skilled employees in more efficient ways. Another consideration is whether they better support the mission **because of structural changes within staffing, management, and governance**.

## *Summary and conclusion*

This review has identified a wide range of factors thought to influence the outcomes of nonprofit mergers and has demonstrated that there are significant challenges to the systematic study of nonprofit mergers. In particular, the factors thought to affect nonprofit mergers have not been measured in uniform ways.

To address these challenges, the factors identified here will help guide study design and data collection in a forthcoming 40-case demonstration study of merged nonprofit human service agencies which emphasizes:

- The clear operational definition of the key factors thought to influence merger outcomes
- Triangulation of methods using source documents, administrative data, multiple key informant interviews for each organization, and analysis of pre- and post-merger financial statements
- Survey instruments that build on the best strategies of previous research studies.

## **NEXT STEPS**

The next planned steps of the research study include: finalizing the sample of merged entities; collecting and reviewing documents such as financial records, 990 forms, and filings with the Secretary of State's Office; completing the data collection protocols; obtaining agreement to be a part of the study; and interviewing key individuals associated with mergers from the original organizations as well as the merged entities.



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