Three Best Practices for Successful Nonprofit Mergers

By Fran Brown, Managing Partner

While a lot has been written about the benefits of strategic nonprofit mergers and acquisitions, they can be challenging to accomplish.

Fortunately, there are several best practices nonprofit leaders can follow to successfully guide their organization through the merger process.

1. Identify the Benefits

It is helpful to start by identifying the ways the merger can benefit your organization and those you serve.

Reduced overhead is often the most recognizable benefit of a successful nonprofit merger. Although this can be substantial, it's rarely enough to justify the move. Additional benefits might include:

- A larger service area
- Additional resources available to both organizations
- Better staffing through shared resources
- More effective and professional management
- Economies of scale across the organization
- Better name recognition
- Reduction of ineffective board members
- Reduction of underperforming staff and management

You may pinpoint other benefits — these are just some of the most common ones. It's worth noting that the most successful nonprofit mergers often occur when the organizations have complimentary services, with some overlap. The ability to cross-promote and provide your client base with a broader range of services is a significant benefit.

2. Keep the Focus on Mission and Outcomes

It's natural for emotions to run high during talk of a merger. Board members and senior leaders who have dedicated their time, talent, and passion to your organization may feel apprehensive about change. They may also be concerned about what role, if any, they might play in a combined organization.

Leaders who understand these concerns will be well equipped to address them. A strong board chair can help other board members and senior leaders keep sight of why the organization exists. Explain how the benefits you identified will help the organization better accomplish its mission and increase its outcomes.

3. Identify Solutions

Many times, board members and executive directors feel that the cost of a merger is prohibitive. Sometimes both organizations are struggling and can't afford a merger even if it makes sense. While this is a significant challenge that can't be ignored, there are potential solutions.

In this situation, I usually recommend that the development teams at both organizations provide a list of the top five donors who support their organization on a regular basis. Many times the two lists will have some overlap. The two organizations can then put together a business plan for the merger and present it to the top donors. This helps the donors see how a larger one-time gift to help fund the merger will allow them to support one larger and stronger organization going forward.

It also can be helpful to involve a third party such as a consultant or lawyer. This objective outside perspective can help both organizations work toward a successful merger. CapinCrouse offers services to help guide nonprofits through a merger or acquisition, including due diligence. Please contact us to learn more.

Success Story

Several years ago I was the president of the board of a struggling inner-city day care. The service we provided was critical for young mothers who needed to be able to leave their children in a safe environment while they pursued an education or a job, or dealt with life circumstances. Unfortunately, the nonprofit was entirely dependent on government funding and as our costs rose, the funding did not.

There was another nonprofit across the city with a mission to help families. We had little overlap in our client base and services, and great overlap in mission. After meeting with the other nonprofit's president and executive director, we were able to pursue a merger (actually an acquisition) in which the day care nonprofit was merged into the other organization and became a strong-performing service line.

The merger meant that I was out as president. The executive director of the day care was brought into the new organization as a vice president, which was a big change in how she operated, and all but two of our board members were out of a position. Despite these changes, I presented the merger opportunity to our board and executive director in a simple, straightforward manner: it was about the families and the children we served. Focusing the discussion about a potential merger on the core reason for your organization's existence helps to overcome objections.

Today, a few of the original day care employees are still employed by the new organization, the executive director has found a new and more challenging position, and I have one less meeting to go to each month. But the good news is that the combined nonprofit is financially healthier, serves a larger share of the population, and is achieving more of its mission since the merger. There are many opportunities for success stories like this.

> The key is to keep the focus on the potential outcome.

Mergers require hard work and a sustained effort from all involved, but successful strategic mergers can help nonprofits further their mission. The key is to keep the focus on the potential outcome and how that will benefit those you serve.

About the Author

Fran Brown, Managing Partner
fbrown@capincrouse.com
o 617.535.7534

As Managing Partner, Fran leads the firm and guides the implementation of strategic plans and objectives. He is also involved in client acquisition meetings, significant board meetings, and representing the firm nationally. Fran has more than 30 years of experience providing audit and management consulting services to a variety of nonprofit entities, including colleges and universities. Fran previously led the New England Higher Education and Not-for-Profit Practice at Grant Thornton and was partner-in-charge of the not-for-profit practice at CCR LLP. His expertise includes strategic planning, budgeting, financial statement preparation, exempt-organization tax filing, real property sales and leases, board training, and enterprise risk management (ERM) training.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

CapinCrouse is an independent member of the BDO Alliance USA.

AN INDEPENDENT MEMBER OF BDO ALLIANCE USA