

# MERGERS AS A STRATEGY FOR SUCCESS:

2016 Report from the Metropolitan Chicago  
Nonprofit Merger Research Project

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Commissioned by: Mission+Strategy Consulting

Sponsored by: Polk Bros Foundation, Chicago Foundation for Women

[www.chicagonpmergerstudy.org](http://www.chicagonpmergerstudy.org)

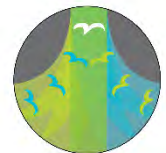
Presented by Kate Cooper

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# WHY MERGERS?

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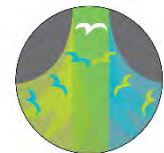
- Trend
- Context
  - Sector: Nonprofit
  - Timeframe: Pre- and post-recession
  - Circumstances: IL state budget
- Strategy



# GOALS OF THE STUDY

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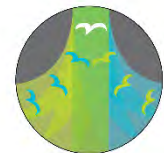
- To explore mergers as a strategy to achieve mission goals and increase impact.
- To raise awareness about different kinds of merger strategies.
- To identify specific ways foundations, intermediaries, and other resource providers can better support successful merger strategies in the nonprofit sector.



# WHAT'S NEW IN THIS STUDY?

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- Greater use of the participants' perspective in identifying challenges and offering keys to merger success.
- More attention and analysis to uncompleted or dissolved mergers.
- Combination of small statistical sample of Chicago-area mergers with in-depth case studies.
- Analysis and exploration of market forces within merger situations in arenas such as health care, adoption, job training, and literacy.
- Identification of a greater variety of types of mergers in a wider range of nonprofit sub-sectors.
- Examination of mergers as strategic.



# RESEARCH METHODOLOGY: CRITERIA

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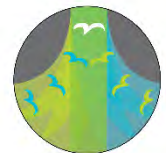
- Mergers occurring between 2004-2014.
- 8-county Chicago metropolitan area.
- Revenue ranging from \$250,000 to \$70 million.
- Range of missions: health and human services, education, advocacy, management support, etc.
- Not included due to variations in revenue/mission: Hospitals, places of worship, universities, and professional associations.



# RESEARCH METHODOLOGY

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- Interviewed 25 of 60 mergers that fit the criteria.
- Conducted over 100 interviews with key participants.
  - Represent both “acquiring” and “acquired” organizations.
  - Multiple representatives (2-5 people/merger).
  - Board and executive leaders.
  - Five in-depth case studies.
  - Additional cases to combat survivorship and positivity bias.
  - Organizations that pursued mergers, but did not survive.
  - Organizations that pursued mergers, but did not complete.



# MERGER CASES

Acquirer Name (pseudonyms)	Budget: Acquirer \$	Budget: Acquired \$	Post-merger Service Area	Year
A Child, A Home	\$55m	\$8m	Foster Care	2012
AdoptWell	\$25m	\$2m	Adoption Services	2014
Art Ed	\$2.5m	\$1.1m	Arts Education	2004
Books and More Books	\$2.3m	\$400k	Literacy	2013
Discover	\$16m	\$500k	Intellectual/ Development Disability Services	2013
Families 4 Health	\$68m	\$1m & \$4m	Health Care	2012
Health Bridge	\$21m	\$3.4m	Health Care	2011
Home and Heart	\$15m	\$600k	Homelessness	2011
House Serve	\$15m	\$6m	Housing	2005
Jobs Inc.	\$6m	\$3.8m	Job training	2013
Legal Serve	\$2.3m	\$400k	Legal Aid	2014
My Choice Chicago	\$60m	\$10m	Fundraising	2004



# MERGER CASES, continued

Acquirer Name (pseudonyms)	Budget: Acquirer \$	Budget: Acquired \$	Post-merger Service Area	Year
Neighbors Action	\$2.3m	\$300k	Community	2013
Revitalize	\$3.4m	\$400k	Advocacy	2014
Salute to Girls	\$4m	\$8m	Youth Development	2008
Train Inc.	\$4.7m	\$1.5m	Job training	2004
Vitality	\$8m	\$700k	Adoption	2011
Votek	\$1.3m	\$650k	Job Training	2005
We're About Health	\$28m	\$400k	Health Care	2007
Works for You	\$1.3m	\$1.3m	Capacity Building	2005





# MERGER CASE STUDIES

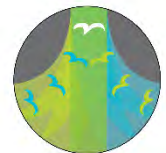
Acquirer/Acquired Name	Budget: Acquirer \$	Budget: Acquired \$	Post-merger Service Area	Year
<b>Big Brothers Big Sisters Metro Chicago/Big Brothers Big Sisters Lake County</b>	\$2m	\$500k	Youth Mentoring	2010
<b>Chicago Foundation for Women/Eleanor Foundation</b>	\$2.3m	\$1.1m	Empowerment	2012
<b>JourneyCare/Horizon Hospice &amp; Palliative Care and Midwest Palliative &amp; Hospice Care Center</b>	\$35m	\$13m (Horizon) & \$33m (Midwest)	Hospice	2014
<b>Seguin Services (United Cerebral Palsy of Greater Chicago)</b>	\$27m	\$9m	Intellectual/ Development Disability Services	2013
<b>Working in the Schools (WITS)/Boundless Readers</b>	\$1.4m	\$500k	Literacy	2014



# MERGER PROCESS: Interview questions

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- Why the organizations sought to merge.
- How the participants located appropriate partners.
- How participants conducted negotiations.
- How participants addressed merger challenges.
- What their post-merger organizations look like.



# WHAT'S IN A NAME?

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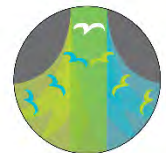
## Terms we heard...

- combination of equals
- union of affiliates
- conditional gift transfer
- change of control
- strategic alliance
- acquisition
- absorption of programs
- financial stress merger
- shotgun merger
- trading vs. pooling

...though they didn't always like it:

*"Our lawyer said that legally, we have to refer to it as such..."*

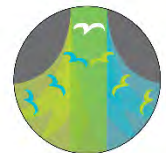
*"They're always acquisitions, in my view..."*



# KEY FINDINGS (Slide 1 of 2)

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**In 88% of the mergers studied, interviewees from both the acquired and acquiring organizations felt the organization was better positioned to achieve organizational goals and increase impact.**



# KEY FINDINGS (Slide 2 of 2)

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



# CRITICAL ISSUES

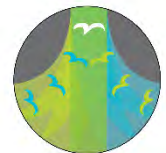
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- Finding the right partner is a challenge.

*“Make sure you really understand what’s going on in the other organization. Make sure you really understand the terms of their program. Make sure you really understand how they do finance and how they will treat assets. Make sure you really understand the costs of being inside the business, because none of those were transparent [to us] and we said, ‘Well, I’m sure it’s fine.’ It could have been better and we could have negotiated it better, but we didn’t know.”*

- Staff retention issues arose in almost all cases.

*“We didn't really think it through... you're decentralizing [but] what does that mean? Are you going to be losing your job, are you going to be leaving, what's happening with your position, what does this mean culturally for organization and your leadership?”*



# CRITICAL ISSUES

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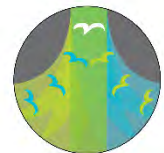
- Program retention and legacy issues can be difficult.

*“[Our acquired organization] remains a program of [acquiring organization], it still maintains some of its identity. I think that has helped, from a cultural perspective, not to radically shift things.”*

- Board member retention is almost always an issue.

*“I think some of the maybe the board members, maybe the older board members that maybe weren't used to that sort of a culture, kind of took note.”*

*“They ran into the woods.”*



# CRITICAL ISSUES

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- Liabilities must be carefully addressed.

*“It’s more of a fire sale...”*

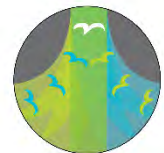
- CED/ED succession can be contentious.

*“The reality is mergers happen where there is a CEO who’s willing to let it happen and lose that job.”*

*“If you don’t have an ED, that’s better.”*

*“It does hurt to let them go, it definitely does. It’s a process of grieving and having to let go that we have to go through, but when you love something you have to let it go, and that’s what’s best for it.”*

*“I felt like I was on a year-long job interview.”*





# CRITICAL ISSUES

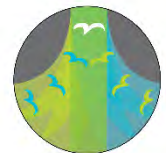
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- The naming and branding of the new organization is often a difficult issue.

*“We viewed it as a merger because we felt the staff was retained, the name did not change. I think the name should have changed. As the acting Executive Director I pushed very hard for a name change, but that didn't happen. Although, who knows? It still might.”*

- Integration requires careful planning.

*“The board's role is key but you have to have a staff person that you can really depend on to lead it. Because at the end of the day it is the staff person that's really leading it, even if it's absolutely a board decision, there has to be somebody who is making stuff happen and getting forms in place and going to all these meetings and figuring out what the inventory is going to be that goes over to the new organization and then cleaning out the space...”*



# CRITICAL ISSUES

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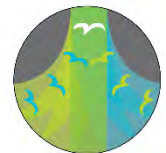
- Funder involvement produced mixed responses from participants.

*“Funders are pro-merger, for better and for worse.”*

*“We need an open rolling process to bring dollars together so people don't have to go around and do multiple requests, so when organizations need a merger strategy the resources are brought to bear as soon as possible to make that happen.”*

*“We thought that one plus one equals two.”*

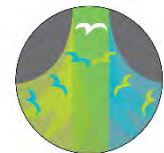
*“[We shouldn't be] punished for merging.”*



# KEYS TO MERGER SUCCESS

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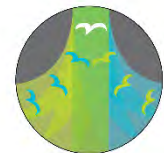
1. Trust is the glue that holds together all other issues in merger negotiations.
2. Mission, mission, and more mission.
3. In the most successful mergers, all parties are clear about their organization's overall goals and use the merger as a strategy to achieve these goals.
4. Know yourself and know your counterpart.
5. The role of the CEO in prompting discussions about merger can be critical, especially when the CEO position is in transition.



# KEYS TO MERGER SUCCESS

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6. Boards/board chairs have to be merger advocates for mergers to succeed as a general rule.
7. Staff involvement is vital to the success of a merger and certainly to post-merger integration.
8. Leaders must pay attention to organizational culture for the merger to succeed.
9. Most successful mergers rely on outside experts. These may include attorneys, accountants, merger facilitators, and others.
10. As a resounding takeaway, participants strongly encouraged merger participants to do their homework.



# PARTICIPANT RECOMMENDATIONS

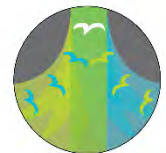
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*...for board members*

- Adhere to mission.
- Clarify merger purpose.
- Be prepared to lead and manage the merger process.
- Seek outside expertise.
- Look for “trigger events” to explore merger strategies.

*...for CEOs/EDs*

- Prep your board on the critical issues before and during the merger process.
- Work with the board to find the right partner.
- Set merger objectives and expectations.

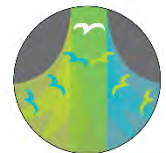


# PARTICIPANT RECOMMENDATIONS

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## *...for funders*

- Offer more transparency and greater clarity regarding funder policies on mergers and merged organizations.
- Offer greater financial support to help merging organizations.
- Coordinate funders and merger supporters.
- Offer leadership experience and wisdom of those who have gone through a successful merger with those who are new to the strategy or tangible help to smaller organizations.
- Consider playing a more active role in mergers, including networking among merger partners.
- Celebrate successful mergers.

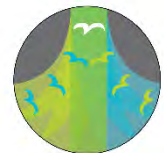


# PARTICIPANT RECOMMENDATIONS

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*...for the nonprofit sector*

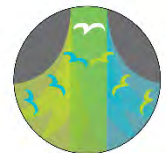
- Better practices for/more coordination in engaging in merger advisors.
- Facilitate sharing of merger experiences.
- Promote positive associations for mergers.



# STUDY LIMITATIONS

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- Excludes orgs with budget <\$250k.
- Eliminates some organizations for which there is an extensive record of mergers (e.g., hospitals).
- Limited geographical context.
- Study offers no claim of causality.
- Study offers limited generalizability.
- Leadership bias.

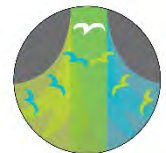




# IMPLICATIONS FOR HEALTH PROVIDERS

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- Impact of Affordable Care Act and Medicaid expansion on nonprofit mergers
  - Changes in care provision and management.
  - Infrastructure (records and billing).
  - Geographic reach.



# PARTNERS/RESOURCES

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- Mission+Strategy Consulting

<http://www.missionplusstrategy.com/>

- Center for Nonprofit Management, Kellogg School of Management

<http://www.kellogg.northwestern.edu/socialimpact/academics/faculty-and-research/nonprofit-management.aspx>

- Network for Nonprofit and Social Impact

[nnsi.northwestern.edu](http://nnsi.northwestern.edu)



# MERGER REPORT

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- Access the report: [www.chicagonpmergerstudy.org](http://www.chicagonpmergerstudy.org)
- Merger Resource Toolkit: Anticipated January 2017
- Forefront, Mission Sustainability Initiative:  
<https://myforefront.org/mission-sustainability-initiative>



# QUESTIONS?

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*Thank you!*

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