WALTON FAMILY FOUNDATION

Nonprofit Mergers

SUPPORTING ORGANIZATIONAL RESILIENCE AND EFFECTIVENESS

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Background

Organization mergers represent a complex process requiring careful planning, assessment and execution. Foundations and philanthropic entities play a vital role in supporting nonprofits through this process, providing financial, strategic and capacity-building assistance. As part of our commitment to fostering organizational resilience and effectiveness, SLED and the Home Region team have undertaken a comprehensive review of merger grants made since 2020.

This research documents lessons learned from local mergers, scanning existing philanthropic, legal and nonprofit resources for merger guidance, and synthesizing these insights into a set of actionable recommendations.

By understanding the conditions conducive to successful mergers and the critical role of philanthropy in facilitating them, we aim to enhance our support for nonprofits seeking to merge and maximize impact in their communities.

Overview

In the wake of the COVID-19 pandemic, an economic recession, and a changing political and legislative landscape, nonprofits continue to face challenges that may be alleviated by choosing to merge operations with another organization. Philanthropy can play an instrumental role in supporting nonprofits to assess the benefits, drawbacks and possibilities of a merger, as well as through the complex merging process. When all other options for independent sustainability are exhausted, or in settings where duplication of services or geographies collide, mergers can be an option that funders and nonprofits explore. Mergers present a strategic avenue for organizational growth, longevity and increased impact.

Foundations can play a crucial role in facilitating and enhancing these mergers by providing financial, strategic and capacity-building support.

Conditions for Nonprofit Mergers and Acquisitions

Mission, Vision and Organizational Culture Alignment

Mergers are more than a combination of assets. Among nonprofits, alignment of mission, vision and organizational culture are critical to a successful merger. Competition within the local funding landscape and the opportunity to drive organizational effectiveness may influence mission-aligned organizations to merge, thereby sustaining programming and services. Likewise, organizations that have an overlap of target communities or focus areas may be able to support one another more effectively together than alone.

Financial Sustainability

Consideration should be given to the combination of assets during any merger. The pooling of resources should enhance the functionality and sustainability of organizations and necessitates financial due diligence, such as conducting audits to assess the financial health of both organizations. In addition to financial sustainability, organizations should secure one-time funding to support merger-related costs during the transition period (e.g., technical assistance, legal costs, staffing, infrastructure development, facilities, technology integration, etc.)

Legal Diligence

Organizations should exercise prudence to ensure continued operation within relevant legal parameters. Legal due diligence ensures ongoing compliance with federal, state and local regulations throughout the merging process. This includes scrutinizing contracts and agreements negotiated during the merger and ensuring proper filings with regulatory bodies within the new organization post-merger. Legal compliance support may help determine the route of sunsetting a merged EIN, review articles of incorporation for the newly merged organization, review political and substantial lobbying activities, and ensure completion of all respective filings with the IRS.

Governance Support

Strong governance is critical to the success of a merger, both before and after it is complete. Prior to a merger, each organization had its own board responsible for overseeing the organization's operations, strategy and adherence to its mission. Without the willingness of the organization's leadership and board, effective decision-making, strategic planning and alignment of goals and values may be compromised. Governance structures provide the framework for accountability, transparency and ethical conduct throughout the merger process. Therefore, the board's active involvement and commitment are crucial for ensuring the merger's success and long-term sustainability.

Once merged, two boards of directors will need to be consolidated into one. The new board of directors will need to be positioned to support the healthy functioning of the newly merged organization. This transition requires careful planning and integration of the board's governance structures, policies and practices. The new board will set the strategic direction, ensuring financial stability and upholding the merged organization's values and objectives.

How Philanthropy Can Help

Philanthropic support can be pivotal in ensuring the success of nonprofit mergers. By directing resources towards financial, capacity-building and strategic needs, philanthropies can play a role in creating stronger, more resilient and impactful organizations.

Dedicated Support for Merger-related Costs: Early-stage grants can be used to support the diligence needed to explore if the merger makes sense, such as legal, strategy and communication planning. Implementation/integration grants can support staffing, operational alignment and cultural integration. Consideration should be given to phased funding or milestone-based grants to ensure resources are aligned with the progress of the merger. Recognizing the fluid nature of mergers, grantmakers should consider building added flexibility into these grants, which can allow for adjustments based on the evolving needs of the merging organizations.

Organization and Staff Capacity Building: Mergers often necessitate a reassessment of organizational structures, staff roles and programmatic strategies. Grants aimed at building the capacity of the merging organizations can include funding for leadership training, staff development, board development and organizational culture alignment to ensure a cohesive and effective post-merger entity. Thoughtful consideration of capacity-building needs could result in expanding the time horizon to account for the time it takes to merge and build capacity. Funders should be mindful of the time and resources it takes for such capacity building to not overwhelm grantees with opportunities, as a merger can require significant time and effort on the part of the organization.

Technical Assistance: Providing technical assistance in the form of expert consultants who specialize in guiding nonprofits through mergers is the most common type of support foundations provide. This can encompass legal expertise, financial analysis, change management and strategic planning to help merging organizations navigate challenges and optimize their operations. Technical assistance can support the development of a comprehensive integration plan, which may involve support for creating a shared vision, mission and values for the newly merged organization, as well as aligning programmatic goals and operational structures.

Communication and Outreach Support: Foundations can provide resources to manage external communications during the merger process. The new organization may exist under a new name and brand, which could require the need for new marketing resources and materials. In addition, funding can support stakeholder engagement and community outreach to ensure that the merged entity retains the support of its key constituencies.

Monitoring and Evaluation: Foundations can help support the establishment of robust monitoring, evaluation and learning mechanisms for the new, merged organization to assess and advance progress toward the new organization's mission. Foundations can also include additional funding to conduct third-party impact assessments of the new organization's effectiveness in the years after the merger as part of the implementation grant budget.

Staffing, Infrastructure and Facilities Support: Newly merged organizations will sometimes need additional staff and infrastructure. To fill any operational gaps, foundations can cover the costs of hiring new staff to fill new roles or to lead the merged organization. Foundations can also allocate funds to cover the costs of facility upgrades or renovations needed to accommodate the merged organization's expanded operations, such as office space renovations, technology upgrades or equipment purchases.

Lessons Learned

1. Consider a Phased Approach:

Distinctly fund three phases: inception, implementation and impact. Funding in phases allows for ongoing reflection and course correction. The inception grant can initiate the merger by offering coordination and management support, and assessing conditions for a successful merger such as organizational mission alignment, organizational sustainability, and stakeholder engagement and buy-in. A discovery grant should allow for the possibility that one or both organizations could decide not to go through with the merger. The implementation grant could support the technical assistance needed to ensure a successful merger, such as strategic planning, change management consulting, legal and accounting support, cultural integration, capacity assessment and planning, work plan transition, and communication planning. The scope of the implementation grant can be informed by the discovery grant, ensuring that needs identified in discovery can be fully covered in implementation. The last grant, the impact grant, should be considered after the merger is complete to ensure successful "lift off" of the new organization and assess its effectiveness.

2. Understand the Dynamics and Motivations Behind the Merger:

Approaching a merger in phases allows time for thorough and thoughtful due diligence and the opportunity to right-size timeline, grant dollars and intended outcomes. This phased approach allows for early engagement with the organizations undergoing a merger and active participation in the due diligence process to assess the viability and potential impact of the merger. This understanding goes beyond the surface level of change initiatives and involves delving into the strategic goals, leadership dynamics and organizational cultures of the entities involved. A nuanced understanding of these factors is instrumental in tailoring grant support to effectively address both the anticipated challenges and unexpected opportunities that arise throughout the merger process.

3. Plan and Set Realistic Timelines:

Failing to plan is planning to fail. Proactive planning and setting realistic timelines are critical for a successful merger. There are inherent risks to merger completion that should be planned for, such as sufficient funding, clear communication channels, and addressing integration obstacles. Proactive planning mitigates delays and allows for some adaptation to unforeseen factors. Although strategic plans do not guarantee flawless execution, a well thought out plan allows grantees and grantmakers to embrace adaptability and learning through strategic shifts and data-informed decision-making.

4. Be Agile:

A key lesson for grantmakers is that organizations must remain agile—willing to make strategic program shifts based on their professional judgement and data. Maintaining this nimbleness positions nonprofits to address evolving internal and external circumstances for maximum effectiveness, resilience and sustainability.

5. Address Preexisting Organizational Challenges:

Mergers can reveal preexisting organizational challenges that need to be addressed. These challenges are not indicative of imminent failure; instead, they can offer areas for improvement within the merged organization. For example, grantmakers can provide a grant to the lower capacity organization to keep them engaged and committed to the merger.

6. Capacity Building is Critical to Success:

It is imperative to invest in organizational capacity during and post-merger, encompassing leadership development, staff training and infrastructure optimization. Beyond the integration of an organization's systems and structures, successful mergers also lay the groundwork for sustainable growth and success by identifying and filling key capacity gaps. This can include examples like cultivating leadership skills or developing and training staff. By strategically investing in the capacity of the merged entity, grantmakers contribute significantly to its ability to navigate challenges, adapt to change and thrive. For more ideas about grantee capacity building, visit **WFF Grantee Capacity Building Resources.**

7. External Facilitation and Merger Expertise Provide Fresh Perspective and Technical Assistance:

External facilitation and merger expertise provide valuable support and guidance throughout the merger process, increasing the likelihood of a successful outcome. External facilitators bring objectivity, offering impartial assessments and insights that internal stakeholders may overlook. Their experience in navigating the complexities of mergers enables them to guide organizations through common challenges and pitfalls while also mediating conflicts and disagreements that may arise. Moreover, external facilitators can assist in strategic planning, helping organizations develop a clear roadmap for achieving merger goals and objectives. They bring valuable knowledge of promising practices from other mergers, enabling organizations to implement strategies more likely to bring success.

Conclusion

Our review underscores the indispensable role that philanthropy plays in shepherding nonprofits through the intricate process of merging. Through documentation of lessons learned, exploration of existing resources, and synthesis of best practices, we've gleaned invaluable insights into the conditions conducive to successful mergers and the pivotal role of philanthropy in facilitating them. By leveraging these insights, we can enhance our support for nonprofits seeking to merge, thereby amplifying their impact within their communities.

The journey of mergers reveals challenges and opportunities for organizational growth and effectiveness. From aligning missions and cultures to addressing preexisting challenges and building capacity, mergers demand careful planning and strategic investments. Grantmakers emerge as crucial partners in this journey, offering financial, strategic and capacity-building support to bolster the success of merging entities. Looking ahead, we are committed to continuing our support for mergers as a strategic avenue for nonprofit growth and impact.

Resources for Grantmakers

Philanthropy News and Publications

- **Lessons from a Merger:** *Sammy Moon, The Chronicle of Philanthropy*
- **Charities Trying Mergers to Improve Bottom Line:** *Stephanie Strom, The New York Times*
- **Buy to Build: Nonprofit M&A as an Impact Enhancer:** *Gil Pereg, Stanford Social Innovation Review*
- **Mergers and Acquisitions Between Nonprofit Organizations:** *Stephanie A. Mattoon, Nonprofit Association of the Midlands*
- **Nonprofit Mergers & Acquisitions: More Than a Tool for Tough Times:** *Bridgespan Group*
- **Collaborations and Mergers: Insights and Case Studies:** *The Foundation Center*
- **Nonprofit Mergers:** *Council on Foundations*
- **How to Discuss Merger Exploration with Grantees:** *Grantmakers for Effective Organizations (GEO)*
  - **Transition support for nonprofit staff/board members:** *GEOList Summary*
- **National Council of Nonprofits** *produces a range of tools and resources, including in the area of mergers, collaborations and strategic alliances.*
- **Nonprofit Support Programs Technical Assistance Grants (TAGs)** *may be used to explore or plan for a variety of collaborations, partnerships, alliances and mergers.*

Resources for Grantmakers

Guides and Toolkits

- **Mergers That Make a Difference:** *Bridgespan Nonprofit Mergers and Collaborations*
- **Nonprofit Mergers Workbook:** *La Piana Consulting*
- **Board Source Blog:** *National Center for Nonprofit Boards (BoardSource)*
- **Merger Toolkit:** *Mills Oakley Lawyers*
- **The M Word: A Board Member's Guide to Mergers** *by CompassPoint is designed as a practical guide to help nonprofit board members, executives and funders think through a merger.*

Legal Guidance

- **Nonprofit Organizations:** *American Bar Association (ABA)*
- **Pro Bono Partnership** *provides non-litigation, no/low-cost legal services to nonprofits in Connecticut.*
- **Nonprofit Merger Essentials:** *Wagenmaker and Oberly*
- **CliftonLarsonAllen (CLA):** *Nonprofit merger and restructuring advisory*