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## Upfront

# The Incredible Shrinking Donor Base When nonprofits join forces, individuals give less to the cause

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## NONPROFIT MERGERS

# The Incredible Shrinking Donor Base

*When nonprofits join forces, individuals give less to the cause*

In the first empirical study on the impact of mergers on subsequent funding, researchers found that donations to merged nonprofits was less than the total donations to the individual nonprofits before the merger.

Adrian Sargeant and Elaine Jay of Henley Management College in Oxfordshire, England, found that individuals and organizations that supported two nonprofits prior to a merger generally gave the merged entity a gift equal to what they had donated to each group separately.

In other words, if an individual gave \$100 to both groups before, the new organization would get \$100 as well – cutting total giving to the cause in half.

“Previous research among individual donors has shown that they tend to give within a certain ‘comfort zone’ in response to a solicitation,” said Sargeant in an interview.

“It therefore makes sense that they will give at their ‘comfort zone’ level in response to the ask from the new combined nonprofit rather than recalling that they used to give at double this amount when the nonprofits were separate.”

Sargeant and Jay interviewed 12 senior decision makers (five fundraising directors, five chief executives, and two communications directors) from a range of nonprofit sectors involved in nonprofit mergers. The results were published in the *Journal of Marketing Management* (September 2002). The authors focused on the immediate impacts of mergers, and did not offer longer-range data.

The authors report that more than two-thirds of the interviewees noted a decrease in fundraising income immediately following merger – due mainly to significant overlap in individual and corporate donors between the two premerger organizations. Nonprofits reported funding drops of up to 15 percent.

“Individuals who appeared on both of the original databases were

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now largely giving just one gift to the new charity at the same level they would have supported both previously,” the fundraising director at one health care charity told the researchers.

This is what happened when the Conservatory and School of the Arts merged with the St. Louis Symphony. The organizations negotiated with grant funders ahead of time to ensure that postmerger funding levels would stay the same. However, individual fundraising dropped off significantly,

in part because individual donors who had previously given to both organizations now gave only to the merged entity.

Another factor that contributed to the drop-off, the researchers reported, was donor confusion about the identity of new organizations. “Many of our donors are elderly,” the CEO of an international relief organization told the researchers, “and we found that many did not recognize the materials we had sent were from us.”

To minimize the postmerger impact on funding, Sargeant and Jay advise nonprofit managers to talk openly with donors about the likely impact of mergers.

The researchers also recommend clear plans for informing stakeholders of the rationale for and benefits of the merger, careful brand management to minimize donor confusion, and the development of new types of foundation and corporate grants specifically designed to blunt a merger’s financial impact.

In the meantime, the authors conclude that nonprofits considering a merger would be well-advised to lower their postmerger fundraising projections for both individual and organizational donors.

—Rosanne Siano