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Case Study

Common Bonds

**Two Chicago nonprofit job training programs
find strength and stability in a merger**

By Donald Haider

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common BONDS

Two Chicago nonprofit job training programs find strength and stability in a merger

When should nonprofit groups consider a merger?

How can a nonprofit merger work to the advantage of both parties?

What are the pitfalls, and how can they be avoided?

In July 2002, John Plunkett, founder and president of Suburban Job-Link (SJL), a Chicago employment training and placement program, was in a bind. His 33-year-old nonprofit, which provided temporary jobs for poorly educated, chronically unemployed Chicagoans, was suffering from the severe post-9/11 recession that had flattened the city's economy. In the past six months, income had plummeted as hundreds of jobs for low-skilled workers vanished and competitors muscled in on the organization's day labor placement franchise.

Across town, in an old Catholic school on the city's South Side, Steve Redfield, founder of STRIVE/Chicago Employment Services (STRIVE/CES) faced similar problems. STRIVE/CES

was a nonprofit that provided a job readiness training program for hard-to-employ people. Since its founding in 1990 as a spinoff of a New York City job program, STRIVE/CES had relied on foundations and government support, which was now in jeopardy. At the same time, Redfield had been recruited by STRIVE leadership to leave his Chicago post and join its national office in New York. His deputy director, groomed to replace him, instead had to leave due to a family emergency, and Redfield had so far been unable to find a new director. Sensing that STRIVE/CES was heading for a tough transition, Plunkett approached Redfield about a merger.

Plunkett believed that linking job training with job placement would be a net gain for both SJL and

STRIVE/CES. "I'd been thinking for some time about strengthening certain program elements in our organization," said Plunkett. "I wanted to provide classroom training, which STRIVE already did. Also, we wanted visibility in the neighborhoods STRIVE worked in. I thought if we were to merge, we'd automatically solve the problem they had, and we'd bring in the capacity we wanted."

The nonprofit world has long viewed mergers as a sign of failure. Egos and economics get in the way as directors fear loss of control and staffs worry about losing jobs, salary, and benefits. But the SJL/STRIVE story shows that nonprofit mergers can work to the advantage of both groups, and shouldn't be viewed merely as a last-ditch survival strategy. By con-

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firming a shared mission, and ensuring that each group had resources and capabilities the other needed, SJL and STRIVE were able to guarantee a good fit. At a time when funders are pressing nonprofits to show a bigger bang for the buck, the SJL/STRIVE case shows how mergers can enhance mission, eliminate duplication of services, and boost the bottom line.

“The two principals, Steve and I, knew each other and had a basic level of trust,” Plunkett said. “But our staffs were pretty much total strangers to each other, as were our boards. We had to demonstrate the viability of the merger to both sides of the organizations.” Their missions were similar. STRIVE’s goal was to “help chronically unemployed, low-income adults enter the work force and build stable work histories,” while SJL sought to “provide opportunity for a better life through appropriate employment for those disenfranchised from the mainstream economy.

A Tale of Two Programs

Under SJL’s programs, temporary employees could make mistakes and keep their positions as they gradually gained on-the-job training and discipline to adjust to a more permanent employment. It provided job coaches to boost trainee confidence and work with employers as a trusted shield or buffer when employee lapses occurred, thus lessening the risk of turnover for employers. The upside for the employer was a better, more committed employee who was less likely to jump to another job. STRIVE, in turn, provided the training that SJL was missing, with its four-week work preparation/attitudinal training class, plus access to childcare and other support services.

The training programs complemented one another by providing clients more support with the goal of gaining greater access to jobs. One organization emphasized preparation for work, while the other stressed on-the-job support.

SJL’s transitional employment service – called CoreTemp – targeted a population that few employers wanted to touch: the homeless, recovering substance abusers, former convicts, and those from low-income communities. SJL had worked with more than 36,000 Chicagoans, and had a \$4.7 million operating budget, 23 employees in its sole office in downtown Chicago, and spent 90 percent of its resources on programs (chart, below).

Redfield arrived in Chicago in 1990 to launch an affiliate of STRIVE’s East Harlem Employment Service, a storefront training center. The STRIVE model embraced a unique multiweek training program combining a “tough love” approach with confrontational exercises, much shared support, and basic job skills. Twelve years later, STRIVE/CES had graduated more than 4,000 people from its job readiness workshop and assisted 2,800 of them in finding employment. With offices on the north, south, and west sides of

	12 Months Pre-Merger		Projected Post-Merger Organization
	Suburban Job-Link	STRIVE/CES	
INCOME:			
Earned income	\$4,560,000	\$0	\$4,500,000
Grant support and other	\$190,000	\$1,530,000	\$1,300,000
Total income	\$4,750,000	\$1,530,000	\$5,800,000
EXPENSES:			
Program	\$4,230,000	\$1,275,000	\$5,237,000
Administrative and fundraising	\$470,000	\$260,000	\$540,000
Total expenses	\$4,700,000	\$1,535,000	\$5,777,000
Income spent on program services	90%	82%	91%
Average staff size	23	17	35
Board size	16	8	24
People receiving classroom and/or on-the-job training	470	384	520
People placed in jobs and retained for at least 30 days	695	340	750

Chicago, STRIVE worked with and through community organizations, targeting adult clients with little or no work experience or long periods of unemployment. Nearly half its clients lacked a high school diploma and one-third had felony convictions. STRIVE developed partnerships in training and placement with leading employers in the restaurant, hotel, healthcare, education, and social service fields. Its services were free, with financial support coming from foundations and government contracts. STRIVE/CES had a \$1.5 million annual operating budget, 17 employees, and spent 82 percent of its resources on programs.

Do the Missions Match?

Redfield was enthusiastic about the merger from the start, although he and Plunkett both predicted that some board members and staffers might not approve. Plunkett and Redfield exchanged relevant information about their organizations, such as budget and staffing figures, which Plunkett summarized in a confidential memorandum for board members in August 2002. The memo proposed the merger and offered various structural options such as a management services contract between the two; a form of interlocking boards; and a new parent-subsidiary relationship.

Redfield's eight-member board operated as a committee of a whole, while Plunkett's 16-member board used a committee structure. They had one board member in common, Robert Wordlaw, who was executive director of the Chicago Jobs Council, a civic group devoted to improving job opportunities for low-income Chicagoans. Wordlaw, as Plunkett and Redfield had anticipated, was enthusiastic and supportive, suggesting that various funders would "jump at the opportunity" to offer financial support.

In contrast, Redfield knew that his board chairman, Leroy Kennedy, would



John Plunkett proposed a merger with another Chicago job service, run by an old friend.

be far less enthusiastic. Kennedy had been an early STRIVE board member and had served as its current chair for almost two years. A veteran community activist, he was employed as associate vice president for community development at the Illinois Institute of Technology. While personally attached to Redfield and STRIVE, he disliked getting involved with day contract labor, which was SJL's core competence. "These people [laborers] are stereotyped, rightfully or wrongfully, as those who work briefly to get enough money to get a drink or a place to stay," Kennedy said. He believed that a job may be what his organization produced, but supporting an individual's commitment to personal

Plunkett initiated merger discussions with his board chairman, Larry Suffredin, who had worked with Plunkett since the 1970s when he was an assistant public defender seeking jobs for ex-offenders. Plunkett arrived at Suffredin's law office with STRIVE's annual report and financials. Suffredin eagerly supported the merger and advocated immediate disclosure to preempt leaks within the boards. He also advised Plunkett to assemble a merger subcommittee to review the idea, while he and Suffredin would meet with their counterparts, Redfield and Kennedy.

Plunkett, Redfield, and their respective boards began their merger discussion over the issue of whether the two organizations' missions were the same, similar, or sufficiently different to be incompatible. STRIVE's board was far more concerned about mission compatibility and preservation of its name and training program than SJL's board was. While such concerns were not immediately resolvable, both boards arrived at a comfort zone where they agreed that their missions "paralleled" one another closely enough to continue talking.

Some SJL board members felt that their programs were more successful

The CoreTemp transitional employment service targeted a population that few employers wanted to touch: the homeless, recovering substance abusers, former convicts, and those from low-income communities.

transformation was more important to its mission. STRIVE changed people's lives – which was better than just getting them a job. Nevertheless, he encouraged Redfield to proceed.

in mission attainment than STRIVE, while some STRIVE board members held equally strong views regarding their own organization's success. As discussions developed, it was clear that

How to Sabotage Your Nonprofit Merger

- Begin negotiations without knowing what you want to get out of the process.
- Dive into merger discussions without board approval.
- Focus too much on details, such as a new name or logo, at the expense of strategic issues and those involved in weaving the organizations together and presenting them to constituents.
- Replicate strategies and processes that existed in the previous entities – which didn't work well then and likely won't work well for the new organization either.
- Fail to recognize and address management or staff resistance as it surfaces.
- Neglect honest and frequent communication within the groups and with the public and other external stakeholders.
- Ignore staff or volunteer fear of change.
- Withhold potentially embarrassing information from your prospective partner.
- Break confidentiality by talking to the press prematurely.
- Bring in additional stakeholders (i.e., board members or staff) after the negotiation process has begun.
- Fuel rumors by failing to keep your staff adequately informed of developments.
- Stop all work on the merger as soon as it is negotiated; don't put any effort into implementation.
- Implement changes slowly so you keep everyone guessing and anxious about what may change next.
- Fail to appoint the leader of the merged organization in a timely fashion, leaving everyone unsure who is in charge.

Adapted from "The Nonprofit Mergers Workbook: The Leader's Guide to Considering, Negotiating, and Executing a Merger" and "The Nonprofit Mergers Workbook Part II: Unifying the Organization After a Merger," by La Piana Associates, Inc.

and leaner scale, experienced the employment drop-off much later. While both had to adjust their activities to deteriorating economic conditions, STRIVE dealt with the vagaries of donations, grants, and contracts while SJL had to deal with employer contracts and an unpredictable fee-income system. STRIVE considered pursuing additional sources of revenue during boom periods, while SJL longed for foundation grants during bust periods. Redfield agreed to continue to be an adviser to the new organization, and Plunkett promised to stay for at least three years. Leadership continuity was considered essential, as was the overriding belief that the merger would be an arrangement between equals.

The thorniest issue remained how best to preserve STRIVE's name and unique training programs under a new relationship with SJL, which had its own concern with keeping the CoreTemp name. After months of discussion weighing the benefits of a possible merger versus a partnership or an agreement in which SJL would manage STRIVE for a fee, the parties agreed that an outright merger would be the best arrangement within the context of STRIVE's name and programmatic constraints. Mutual benefits of joint programming were widely accepted: stronger mission pursuit; better marketing position; expanded product offerings for clients and companies alike; more efficient service delivery channels and locations. Both boards unanimously approved the merger in April 2003, and it took effect on July 1 of that year.

The merger called for SJL to retain its name, and keep the STRIVE brand and logo on its training, job development, and other services. SJL would retain its articles of incorporation, bylaws, staff, and employment policies. Each group would indemnify the

the strong emotional attachment of several STRIVE board members to their organization could only be modified by a firm understanding that STRIVE programs would continue under a merged organization. Each organization had to believe that the other was important to successful job placement and mission attainment.

Facing Reality

In viewing the merger, board members on both sides noted the changing U.S. job environment and its impact on the organizations. SJL – in the face of a rapidly deteriorating post-9/11 market where its customers could not ship products and inventory piled up – lost \$100,000 in contracts over the next six months. Finding itself overstaffed, SJL temporarily cut payroll by 20 percent. STRIVE, which operated on a smaller

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other against loss of income in the first year. The union permitted each organization to get what it most valued: the core competencies of the other. SJL had a more businesslike structure, while STRIVE had a well-known brand, a distinctive program, and a strong outreach operation. Consolidation would centralize basic functions in SJL's West Loop office: general management, fundraising, public relations, human resources, and finance/accounting and business development. Those functions to be decentralized largely reflected STRIVE's stronger outreach operations: recruitment and training, case management and retention services, and client support services – plus SJL's CoreTemp on-site supervision and coaching.

Governance and corporate management were settled creatively. The new board of directors (16 from SJL and eight from STRIVE) would be elected within 30 days post-merger to a term of three years on a staggered basis so that one-third turned over each year. At the initial meeting of the new board a lottery would be held to determine directors' terms, with former STRIVE and SJL directors evenly distributed across the three-year intervals. SJL's mission statement and bylaws would apply to the merged operation with STRIVE given three of the seven corporate officer positions. Redfield would be slated for board membership and as a corporate officer with the title of Senior Advisor, STRIVE Training Services.

As with corporate mergers, a team of attorneys conducted due diligence on liabilities, litigation, and any pending suits filed by current or former employees of either organization. No legal problems emerged.

Keeping the Best of Both

The more difficult problem involved organizational cultures, compensation,

and benefits. SJL was larger and more entrepreneurial. It dealt with business customers on a daily basis in filling orders. It paid employees more than STRIVE and was less flexible in employee scheduling and time off.

visors and the director of human resources to review their positions and responsibilities. In addition, an outside survey would be done to benchmark employee compensation. The human resources departments would

Redfield was enthusiastic about the merger from the start, although he and Plunkett both predicted that some board members and staffers might not approve.

STRIVE focused more internally on its training programs, interacted with donors and public agencies, and could offer paid leave and flexible work schedules based on training schedules. Both organizations agreed to provide the same wages and benefits, which would be phased in over the 2003-2004 fiscal year. The plan would require raising the salaries for most STRIVE positions, while reducing paid leave time and allowing for unpaid leave. Several additional steps would be taken to assure compensation fairness. First, every employee of SJL and STRIVE would be interviewed by their super-

visors and the director of human resources to review their positions and responsibilities.

The merger would be phased in gradually, with each organization functioning separately for one year, maintaining its own programs while testing some joint projects. "The board wanted to go slow," Plunkett said. "I would have preferred to move more swiftly."

Plunkett and Redfield touted the benefits of the merger as follows: (1) Increased potential for both groups to respond to clients with services that meet their needs. STRIVE is in neighborhoods; SJL is downtown. Those coming to STRIVE might need a job while those coming to SJL might need more support; (2) An immediate job placement while clients are waiting for a STRIVE class; (3) Clients can participate in STRIVE before starting assignments or when they are having trouble keeping jobs, and use STRIVE training to improve performance; (4) Rapid placement into temporary jobs after STRIVE where permanent jobs are not avail-



This Chicago woman got a manufacturing job 16 years ago through Suburban Job-Link. She now owns a home and three cars.

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able; (5) STRIVE clients who aren't fully ready for a job after the training class can participate in SJL's supported-work assignments; and (6) SJL workers can use STRIVE computer labs in their neighborhoods for basics.

No more than \$100,000 of the two organizations' pre-merger aggregate \$6.2 million in revenues overlapped from a programmatic perspective. Post-merger combined assets would be \$810,000. An estimated 92 percent of the \$5.8 million budget in 2003-2004 would be spent on program services. Funding was projected at a ratio of 78 percent earned income to 22 percent grant support. While some economies would occur in combined payroll, banking, insurance, software, and legal services, the major benefits accrued from enhanced services both for job seekers and employers. Merger expenses totaled about \$300,000. Some funders

had policies that did not permit picking up the tab for the merger, but two local foundations, the Steans Family Foundation Fund and the Chicago Community Trust, chipped in.

A year after the merger got under way, the board changed the name of the group from Suburban Job-Link Corp. to Harborquest, Inc., effective November 1, 2004. The decision reflects the group's new mission. Instead of placing trainees in jobs, and losing touch with them, as often happened,

Harborquest will be a membership organization. Members would not have to pay for services, but would receive incentives (such as discounts on car maintenance and coupon books) for staying in touch and coming back for advanced training. In return, they'll be asked to provide job leads for other Harborquest members. "We could see going in that there were big-time programmatic things that could come out of this," said Plunkett. "The clients are thrilled. □

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