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The Merger Proposal

Go Ahead – Pop the Question. By Kevin T. Kirkpatrick

Before You Say "I Do." By Denise L. Gammal

Case Study: Uniting for Survival. By Don Haider

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the MERGER PROPOSAL


IT'S SUMMER. THE WEDDING SEASON is upon us, and many nonprofits are likewise feeling the urge to merge. But should nonprofits couple up, take the plunge, and get hitched? In this *SSIR* special, three articles explore whether, why, and how nonprofits should undertake mergers or other alliances.

In "Go Ahead – Pop the Question," Kevin T. Kirkpatrick, executive vice president of Metropolitan Group, argues that the nonprofit sector is so overrun with organizations that funders, clients, and the general public have a hard time telling them apart. Meanwhile, nonprofits are so busy competing with each other for money and attention that they lose sight of their missions. To improve the lives of nonprofits and the clients that they serve, he says, the nonprofit sector needs more mergers, acquisitions, and consolidations.

But in the second article, "Before You Say 'I Do,'" Denise L. Gammal, managing director of the Stanford Project on the Evolution of Nonprofits (SPEN), warns that most organizations, like most couples, underestimate how much time, money, and cultural understanding it takes to make a merger work. Using SPEN's findings, she suggests that nonprofits must closely examine their motivations, assets, and communities before taking that risky walk down the aisle.

The third article, "Uniting for Survival," is a case study that follows four suburban cancer support centers in the Chicago area as they try on different kinds of alliances. Author Don Haider, a professor at Northwestern University's Kellogg School of Management, explores the different ways that nonprofits can combine forces besides mergers, just as many couples explore alternative ways of sharing their strengths besides marriage.

We look forward to hearing about your experiences with nonprofit mergers at www.ssireview.org.

Go Ahead – *Pop the Question*

Why more nonprofits should merge by KEVIN T. KIRKPATRICK

When Tamara Guy and her husband, Mark, adopted their first child, Tamara thought she knew how to get the best help for their new baby, who had special needs. A veteran employee of the Illinois child welfare system, she felt ready to navigate the state's sprawling network of nonprofit agencies. But she now sees that she was as unprepared as the clients she serves.

"Every agency you work with has its own mission and philosophy, and every agency pushes its programs on you," says Guy. "I know a lot of them are fighting for their survival, and every referral they make to another agency or program potentially costs them in grant dollars. But this is my family we're talking about."

Five years later, Guy balances raising her three adopted children and new baby boy with developing programs for Prevent Child Abuse Illinois. She tries to help other parents work through – and sometimes around – the state's tangle of organizations. Too often, she says, the sheer number of nonprofits, all competing for the same clients and funders, makes it difficult for people to see the differences between them.

"This isn't OK," she says.

After a decade of marketing and consulting to nonprofits that serve children, youth, and families, I agree. The nonprofit field is not structured to meet families' needs. Although marriage might not be the solution to all social problems, I do think more marriages between nonprofits, in the form of mergers, would be good for the sector as a whole. If done right, nonprofit mergers would improve service delivery and broaden the range of needs that nonprofits can meet.

These unions would also make the lives of nonprofit organizations easier by reducing the competition between them for financial support, legitimacy, and political power. And by consolidating voices, mergers could help nonprofits build public will and motivate sustainable change in both policy and behavior. Although my observations come primarily from working in nonprofits serving the children, youth, and families of this country, I've seen enough to surmise that more mergers could help other nonprofit market segments as well.

PHOTOGRAPHS BY MIKE KEMP/GETTY IMAGES

Too Many Singles

A cursory surf of the Internet uncovers more than 35 national nonprofits focused on child, youth, and family issues. And that's just what's happening at the national level. When state and local organizations are added to the mix, the list grows even longer. According to GuideStar, the number of nonprofit organizations in this domain grew more than 250 percent from 1999, when the total was 21,393, to 2006, when the total was 79,713. That's excluding religious and educational organizations. The growth has been fueled primarily by the creation of smaller nonprofits of modest capacity.

"When I think of the resources that are consumed in trying to operate these programs that serve thirty families and have one hotline, it's very hard for me to see the upside, since none of them can go to scale," says Anne Cohn Donnelly, who served as executive director of the National Committee to Prevent Child Abuse for 17 years and is now a professor at Northwestern University's Kellogg School of Management.

Failure to scale isn't the only downside to single life in the nonprofit sector. As resources become scarcer, many organizations resort to cosmetics to make themselves more attractive to potential suitors. For the last six years, for example, nonprofits have been falling all over themselves to redefine their services to emphasize fatherhood involvement, "healthy marriages," and faith-based initiatives, per the current administration's proclivities. Two years from now, a new administration will likely identify new priorities and send these organizations scrambling once again.

"If you know one thing about nonprofit organizations, know this: They always follow the money," explains Deborah Daro, associate professor at the Chapin Hall Center for Children at the University of Chicago.

Following the money is leading many organizations away from supporting all families in need and toward supporting only populations considered to be at risk. "Everyone talks about the need for universal service delivery to all families, but nobody does it because that's not where the money is," says Virginia Mason, who was executive director of Family Support America for 10 years. When nonprofits focus on at-risk populations, Mason says, the public increasingly perceives that the only people who need help are those who conform to certain racial, ethnic, social, and economic stereotypes. And that makes it harder to see family support as a broadly relevant issue.

Courting donors likewise leads many organizations to try to differentiate themselves by specializing in ever more specific niches. For example, organizations devoted to child abuse separate themselves from those devoted to spousal and elder abuse, despite the overwhelming evidence that these problems are connected. And among child abuse organizations, those for preventing child abuse often try to distinguish themselves from those focused on intervention or treatment.

This differentiation loses meaning at the local level, where competing programs are often offered side by side. This duplication can frustrate local service providers, who feel pulled in multiple directions at once. The Parenting Network, for example, struggles to pay the affiliation, credentialing, and materials fees required by the half-dozen national programs in its portfolio, says Jan Buchler, the organization's executive director. Buchler is also overwhelmed when it comes time to select which conferences to attend. This year, for example, she had to weigh whether to attend the Together for Children Wisconsin Conference on Child Abuse and Neglect or the National Conference on Child Abuse and Neglect, as both conferences were held on overlapping days. "I almost don't go to [conferences] anymore," she says. "To be honest, I find that I'm learning the same basic things at all these conferences, and it's getting harder to justify airfare and fees and hotel expenses."

But national organizations are the ones who suffer most from competition between nonprofits. "The most visible work is being done at the local level," says Mason. In 2006, her organization was forced to close its doors after 25 years in operation. "We just couldn't compete for dollars against our own constituencies anymore," she says.

Ultimately, the voices of competing nonprofits drown each other out on Capitol Hill. "Most of us have one or two champions in Congress who feel very strongly about our organizations," says Susan S. Stepleton, president and CEO of Parents as Teachers. "But by and large, Congress doesn't care about the differences between the home-visiting programs offered by Parents as Teachers, or Healthy Families America, or HIPPY [Home Instruction for Parents of Preschool Youngsters], or any other program model. So we come in and talk about the benefits of our own programs, and right behind us is someone doing the same thing about their program, and we leave it to the legislators to sort it all out."

It's the nonprofit equivalent of speed dating.

Melding Well

Although Parents as Teachers had done very well during its years as a single, it recently decided to take the marriage cure. Twenty-five years ago, the organization started in Missouri, where its home-visiting services aimed to support parents, aid children's development, and prevent child abuse. In 2005, the steadily growing organization identified the need to serve culturally diverse populations better. At the same time, the board of a Minnesota-based home-visiting program called MELD (formerly an acronym for Minnesota Early Learning Design) realized that the organization's excellent reputation – particularly for its services in African-American and Latino communities – was not enough to ensure its financial sustainability. The MELD board sent letters to a dozen organizations, including Parents as Teachers, asking whether they were interested in a possible merger.

The letter intrigued Stepleton. "MELD really spoke to our strategic goals, including our intention of becoming more culturally competent and [improving] our ability to serve diverse populations, including Latino and African-American communities," she says.

The positive response from Parents as Teachers began a cautious courtship. MELD's board wanted to know whether Parents as Teachers had the vision, infrastructure, and resources that MELD lacked. And Parents as Teachers wanted to be sure that MELD's mission, programs, and internal culture would mesh well with their own. Once the organizations got to know each other better, they decided to take the plunge.

Adding up the costs associated with the merger, including legal consultants, accountants, and moving expenses, Parents as Teachers confronted a bill of about $200,000. Considering the organization's annual budget at the time was $5.9 million, the merger was not cheap. "It's not that we have extra bucks

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Mergers would make the lives of nonprofits easier by reducing the competition between them for financial support, legitimacy, and political power.

lying around," says Stepleton. "But we saw it as our venture capital investment in a strategic opportunity in support of our mission, so we allocated the funds to do it." Several funders, including the Bush, General Mills, and McKnight foundations, were also quick to help underwrite the ongoing costs of the merger.

Like a good marriage, says Stepleton, the merger is working because the two organizations communicate well and share common goals, namely, increasing the level and quality of services to families. Less than two years into the merger, she reports that Parents as Teachers' $7.7 million-plus budget has given MELD the stability and sustainability it lacked when its budget was less than $400,000 per year. "Prior to the merger, the infrastructure and programmatic arm of MELD was so weakened by a long fight to survive that the excellent work they had done was starting to fall away," she says. At its most successful, MELD had been serving approximately 5,000 families, but it was down to just a couple of hundred at the time of the merger. Eighteen months into the merger, they're back up to serving 5,000 families, and they expect to add about 1,000 more this year.

Marrying Fortunes

In some respects, the merger of Parents as Teachers and MELD parallels that of two California nonprofits: the Center for Domestic Violence Prevention and Sor Juana Inés. Both organizations worked in San Mateo County, offering counseling to survivors of domestic violence. Indeed, a staff member from the Center for Domestic Violence Prevention created Sor Juana Inés to address the needs of the growing Latino community in that area.

In 2002, both organizations looked to the San Mateo City Council for financial support. Playing the role of matchmaker, the council raised the idea of a merger. Sor Juana Inés had previously considered merging with its predecessor. The boards of both organizations agreed the timing was right, given

the nearly simultaneous (but purely coincidental) resignation of their staff leaders. The boards agreed to hire consultants from La Piana Associates in nearby Emeryville to facilitate the merger, oversee the move to a new office space, and hire the new executive director, Melissa Lukin. Playing the role of the generous parents of the bride, the Peninsula Community Foundation footed the $63,000 consulting bill, and gave the merged organization, named Community Overcoming Relationship Abuse (CORA), an additional $45,000 to evaluate the merger's results.

As hoped, the merger made the two organizations wealthier. Before the merger, the two organizations' combined annual budget was $2.4 million. In 2003, it grew to $2.9 million. A bequest boosted the budget to $3.7 million in 2004, and in 2006, the budget returned to $2.9 million.

Combining the two programs also made them wiser. "Sor Juana Inés had a wonderful grassroots program designed to serve the Latino community, but it wasn't really thriving," says Lukin. "It was really thanks to the infrastructure we could provide as a combined entity that the program could flourish, and I doubt that would have happened under the single agency." By the end of 2005, CORA had served domestic violence survivors with 1,428 support group sessions and provided emergency intervention, referrals, and follow-up calls in response to more than 2,600 domestic violence cases.

Like Stepleton, Lukin partly credits the success of the merger to getting buy-in from funders. "We were very fortunate because many of our funders recognized the value of the merger and assured us that they would be committed to retaining their funding levels after the merger," says Lukin. "But we also worked hard to keep them engaged." The San Francisco Foundation gave $25,000 a year to Sor Juana Inés before the merger and agreed to maintain that level of support for the merged organization. In some other instances, funders went above and beyond their previous levels of support. The Blue Shield of California Foundation, for example, gave $1,000 to each of the two organizations before their merger, but then gave the merged organization $85,000 to upgrade its technology.

Lukin identifies one other factor that smoothed the organizations' union: "Both organizations left their original brand identities behind and we created something new together. I think that helped create a sense of unity."

The Verge of Merging

The experiences of Parents as Teachers and CORA aside, mergers are not yet the norm in the nonprofit sector. Like jittery bachelors and bachelorettes, many nonprofits fear that mergers will quash their unique identity or hamper their ability to serve the needs of specific communities. Others balk at the high costs of merging, or the energy it will divert from the everyday work of service delivery.

But there's another important reason why organizations refuse to combine forces, says Mason: "Ego. For all the cause-related work we do, there's a great deal of ego involved in 'my way' of solving the problem."

Failure to grow is one of many downsides to single life in the non-profit sector.

Similarly, in my organization's work with nonprofits, we find that disagreements about "the four T's" – turf, terminology, tactics, and trust – undermine many would-be partnerships. All four T's contributed to the collapse of one of the nonprofit sector's more noteworthy attempts at collaboration: The National Call to Action, which aimed to eliminate child abuse by 2020. In 1999, the Chadwick Center for Children and Families at Rady Children's Hospital in San Diego organized the collaboration, which attracted 25 prominent child, youth, and family organizations, including the Child Welfare League of America, the American Academy of Pediatrics, the American Humane Association, and others.

The collaboration started extremely well, says Donnelly, who was one of its original leaders. The partners carefully navigated disagreements about terminology ("How do we define prevention?") and tactics ("Do we focus on prevention? Intervention? Treatment?").

But conflicts over trust and turf ultimately undercut the process. "We were on the verge," says Donnelly. "All the right people were around the table and agreed that it was time to move ahead, to do this very thing.

"And then the heads of the national organizations waltzed in and all they wanted to know was, 'What's in it for me?' That's all they cared about. 'How much money do I get?' Or, 'How much money will this take away from my bottom line?'" says Donnelly. At that moment, she says, the National Call to Action started to die.

More recent collaborations have fared better, although their goals have been less ambitious. The Home Visit Forum brought together a half-dozen home-visiting organizations to address mixed reports about the benefits of their service-delivery model. The forum never asked organizations to sacrifice their own priorities in the service of the collaboration. "We didn't have to talk about whether our boards were in agreement on this policy or that policy," says Stepleton, whose organization was a member of the forum. "We didn't have to deal with all the territorial issues that get involved in all of this whenever you try to formalize a collaboration, let alone consider a merger."

And that was fine with Stepleton, who thinks that the transition from collaboration to merger should not be rushed. Although she believes all collaborations lose their usefulness if not formalized into something more sustainable, she also supports long, thoughtful courtships.

To "I Do"?

So are mergers right for every nonprofit? Of course not.

But more nonprofits should consider merging, particularly as the proliferation of nonprofits everywhere makes sustainability a more pressing and widespread concern. "The smaller organizations just aren't going to survive," concludes Daro. "They may be having a flurry of activity now, but they're just not strong enough."

Organizations should not merge as a last-ditch effort at survival, unless they're willing to assimilate into a larger, more financially viable organization. That's a price many nonprofits are unwilling to pay. And frankly, it's worth asking whether organizations or programs that have been unable to achieve financial stability and sustainability after 20 or 30 years in existence are worth saving.

Nevertheless, it would be a mistake to look on nonprofit mergers as a zero-sum game of who should close so that others can prosper. Rather, the focus should be on advancing a more holistic approach to our most pressing problems. This approach requires visionary leadership that concentrates more on creating positive, sustainable social change and less on promoting the parochial interests of one organization or program model over another. This approach also requires an effectiveness and power of voice that can best be achieved through mergers and acquisitions.

But nonprofit consolidation is only the beginning. To focus on a merger and not on the organization's sustainability is just as misguided as focusing on the wedding and not on the marriage. Mergers and weddings are just the beginning, not the endpoint. Both are risky. Both are seldom easy. And neither is right for everyone.

Before merging, your organization has to answer this central question: Do you think the merger will help you achieve your mission? And whether you're facing your beloved at the altar or undertaking a merger, you shouldn't be standing there unless your answer to this question is "I do." □

Before You Say "I Do"

Why nonprofits should be wary of merging

by DENISE L. GAMMAL

In 1999, HOPE Services of San Jose, Calif., and Skills Center of Santa Cruz, Calif., decided to merge. Both organizations served developmentally disabled people in Santa Clara and Santa Cruz counties, and they had similar values and philosophies. HOPE Services was the larger of the two, with a budget of some $17.4 million, while Skills Center had a budget of some $5.4 million. "We felt we could deliver better services and more long-term stability by uniting the two organizations," explains Joe Campbell, president and CEO of HOPE Services.

The two leaders and their boards knew they would face one-time costs of implementing the merger, including around $40,000 in legal fees. They also anticipated that it would cost an additional $600,000 in ongoing annual costs to raise the salaries of the Skills Center's workers to those of HOPE's unionized staff. But they did not foresee what happened next: the loss of tens of thousands of dollars in grants, as nine out of 10 foundations that had previously funded both organizations dropped their levels of support – most by nearly 50 percent. HOPE had to find new funders to replace the lost support. It also took HOPE more than three years and countless hours of staff time to complete the merger.

In the end, the HOPE/Skills Center merger proved successful. But many other nonprofit marriages don't end so well. When the 1997 merger between the University of California at San Francisco and Stanford University medical centers went sour in 2000, the two organizations had to spend many millions of dollars unhitching themselves, reports the *San Francisco Business Journal*.[1] Other organizations, urged by their funders, expend a lot of resources exploring proposed unions, only to decide that merging is not a good idea. This was the case with Easter Seals Hawaii and the Special Education Center of Hawaii, which in 2003 spent some $12,000 and much time and effort ruling out the possibility of merging, reports the *Pacific Business News*.[2]

With the best of intentions, many funders and other commentators encourage nonprofits to merge, arguing that their integration will help reduce duplication of services, difficulties going to scale, and competition for scarce funding. All too often, however, no one is prepared for the costs and challenges of merging – in part because they do not have enough information about it.

The Stanford Project on the Evolution of Nonprofits (SPEN) is one of the few studies to examine the frequency and outcomes of mergers. Our findings suggest that nonprofits need to save a lot more money, budget a lot more time, and get to know each other a lot better before walking down the aisle. Otherwise, they may face the fates of many couples who rush to the altar: unhappy marriages or costly divorces.

Lots of Knots

Many believe, as *The Chronicle of Philanthropy* asserted in January 2005, that "mergers have been relatively rare" in the nonprofit sector. Yet nobody really knows how many are taking place, much less how to judge how many would be enough. Of the dozen academic articles published on nonprofit mergers, half are about the hospital industry and all are based on case studies, rather than on surveys of representative samples (which give a more accurate, comprehensive picture). One study by La Piana Associates, a consulting group that specializes in nonprofit mergers, and Chapin Hall, a research center at the University of Chicago, found that 24 percent of their sample was undertaking "strategic integration" – a broad category that included mergers, partnerships, and alliances.[3] But I could find no study with generalizable results that focused on nonprofit mergers alone.

At SPEN we interviewed 200 leaders from a randomly selected sample of operating nonprofits about mergers and other management practices. We included all kinds of nonprofits except religious congregations. Organizations in our sample had annual budgets ranging from about $5,000 to nearly $500 million, and were located in urban, suburban, and rural communities across the 10-county San Francisco Bay

One hidden cost of mergers: Many nonprofits in our study were shocked to see that foundations scaled back their funding for their newly scaled-up organizations.

region. Although regions and states vary, we found that the Bay Area nonprofit landscape closely resembles that of the nation as a whole.[4]

Despite popular wisdom, we found that mergers clearly are not rare. Seventeen of the 200 organizations (8.5 percent) in our sample had undertaken mergers and program acquisitions since the 1970s. Seven organizations had been involved in multiple mergers, adding up to 28 mergers in the sample overall. Fifteen of these mergers happened in the last 10 years. Two other nonprofits had attempted mergers that failed or were abandoned. All of the merging organizations provide direct services in the areas of education, health, or human services. Most get their funding from a mixture of philanthropic, government, and fee-based sources.

Difficult Engagements

In our interviews with these veterans of consolidation, we heard over and over again: Mergers are not for the faint of heart. How long a merger takes varies, but the process is always much more time-consuming than expected. For many of the SPEN organizations, the full integration took three or more years to complete, with delays that were usually due to unanticipated problems.

Mergers are also very expensive, starting with the costs of moving and marketing a newly consolidated organization. With careful planning, merging nonprofits anticipate many of these one-time costs. But not all of them. For example, many nonprofits in our sample, including HOPE Services, were shocked to see that foundations scaled back their funding for the newly scaled-up organizations. After all, they thought, isn't a larger organization that delivers better services to more clients a *better* investment than the former, smaller, less-effective organization?

Funders also heap additional costs upon nonprofits by urging ill-advised unions. In an extreme example, several funders pressured the Big Heart Center (not the organization's real name), a Bay Area health services provider, to take over the programs and offices of a failing peer. But neither the funders nor the Big Heart Center realized how much help the newly acquired facilities needed. The 40-year-old center – a stable, $2 million organization – had to invest nearly $1 million in major capital improvements and untold numbers of staff hours to relicense and reopen the sites.

Big Heart's executive director says that funders had committed to paying for the merger in full. Yet "in the end, [the money] didn't materialize," he says. The funders did not cover the income the center lost while it closed down its newly acquired facilities for rehabilitation. They also did not adequately fund the renovations or the staff time diverted to the merger. In one case, a funder even asked Big Heart to return its grant. As a result, Big Heart had to dig into its own assets to survive. Unlike the typical American nonprofit, which has assets of only about $100,000, Big Heart had enough reserves to cover the unforeseen costs. Yet merging without the promised support wiped out the organization's reserves, leaving it – as well as the poverty-stricken residents who depend on its services – vulnerable to future financial difficulty.

Dysfunctional Families

Another issue that blindsides many merging nonprofits is the clash of organizational cultures. The Davis Street Community Center in San Leandro, Calif., learned this in 2001 when it merged with San Leandro Community Counseling, a struggling mental health organization. Davis Street began as the food ministry of a local church in the mid-1970s. By 2000, the center had spun off on its own and grown into a $5 million operation. With its nationally recognized model,

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Davis Street offered not just food, but also clothing, child care, medical care, and other services to low-income working-poor residents.

At a strategic planning session that year, the Davis Street board decided to add mental health services to its portfolio, says Rose Padilla Johnson, executive director of the center. At about the same time, Susan Kleebauer, the board president of Community Counseling, approached Padilla Johnson to discuss the possibility of merging. Kleebauer frankly disclosed Community Counseling's crises: One of the staff members had recently embezzled tens of thousands from the nearly $500,000 organization, and the organization had lost several government contracts. But she persuasively argued that Davis Street should help Community Counseling keep serving the San Leandro community, as the organization had for 30 years.

Urged by Davis Street's board president, Mimi Wilson, Padilla Johnson explored the merger. After carefully weighing the legal and financial risks of taking on Community Counseling, as well as gaining the support of the primary government funder, Davis Street's board approved the merger. "The stars were aligned," says Padilla Johnson. "It was like a puzzle and the pieces just fit." The county immediately transferred its grant from Community Counseling to Davis Street, and the counseling group fully merged with Davis Street over the next two years.

At first, "it was like a marriage," says Padilla Johnson of the merged organization. "Everyone seemed supportive of this blended family. Everyone was hopeful. Clients were excited because they were coming to their appointments and suddenly there were all these services."

But then the honeymoon ended. "It wasn't 'The Brady Bunch'; it was more dysfunctional than that," says Padilla Johnson. She had worked hard to integrate the boards, but had not focused enough on integrating the different staff cultures. The Davis Center staff was an educationally and ethnically diverse group that subscribed to a holistic social welfare model, in which the staff member meets clients wherever necessary, directs the dialogue with difficult questions, and helps the whole family with a wide range of life challenges – not just psychological ones. In contrast, Community Counseling's staff was made up of mostly white male Ph.D.s who were used to a traditional psychotherapeutic model, in which the client comes to the clinic during standard hours and tells the therapist what area he or she personally wants to work on.

"It wasn't 'The Brady Bunch'; it was more dysfunctional," says Padilla Johnson, whose merged nonprofit spent almost $100K on staff training and development.

The Davis Center staff expected the Community Counseling staff to answer phones, deliver groceries, and meet clients in places convenient to them, such as at the Laundromat or in their homes. Yet the Community Counseling staff was extremely concerned about patient privacy issues and unhappy to share equal footing with colleagues who had less education, including some with only GEDs. This culture clash proved costly: All but one of the original 13 counselors and interns left. Over several years, the merged organization spent almost $100,000 on staff training and development to address the issues.

"The things we thought would be challenges were not," says Padilla Johnson. "The things we had no idea about were the challenges. Culture has to be right up there with funding, worked from the start."

HOPE Services anticipated some of the cultural issues that the Davis Center encountered and took great pains to mitigate the consequences. "We needed to spend serious time to come up with a wider perspective and make sure that all our values were in the same place," says Campbell. The nonprofits made a point of integrating at the very top by creating a new position, vice president and chief operations officer, for Skills Center President and CEO John Christensen. They also initially preserved the Skills Center name and identity within the HOPE organization. Ultimately, however, the integrated organization needed everyone to identify with the larger entity, and so Skills Center adopted the HOPE Services name.

Rushing to the Altar

Despite the bumps along the way, HOPE Services and the Davis Street Community Center survived their mergers. The SPEN study shows, however, that many organizations are not so lucky. Funders or leaders pushed at least 10 of the nonprofits in our sample into mergers because one or both organizations were in financial distress. Letting these organizations close might have been better than jeopardizing the stronger nonprofits forced to absorb them. For example, when government funders pushed Big Heart to take on the foundering facilities of its peer, the results were nearly disastrous. The funders' motivations – preserve essential services in low-income communities – were honorable. Yet in their zeal to help four additional communities, they almost killed services to all five.

More broadly, many observers believe that consolidating organizations through mergers and acquisitions will solve problems stemming from too many, too small nonprofits in the sector. For instance, in *Begging for Change*, nonprofit leader Robert Egger argues for "fewer programs getting more of the money" (p. 46). Several big foundations, such as the James Irvine Foundation, agree and have developed grant programs to help organizations merge.

But how many nonprofits are too many? Competition, in this sector as in others, is good for consumers, providing checks and balances and protecting vulnerable populations from being exploited. Moreover, as economist Henry Hansmann points out, the point of nonprofits is to fill the gaps left by governments and markets – gaps in which many marginalized populations and causes are not being served.[5] New nonprofits are also essential for solving new problems. Grassroots organizations are often the first responders to new needs, such as the AIDS epidemic in the early 1980s, or global warming and troop support now.

Even in the business world, mergers often do not increase profits. Buyers overestimate the value of efficiencies and underestimate the costs of combining, and so pay too much for the merger. Nonprofits likewise may incorrectly price the costs of integration and doing business in a new way, especially if one organization brings good programs but financial distress to the deal. And even if they anticipate and can pay the cost of merging, do they really resolve any of the concerns voiced within the sector?

In our study, for example, not one of the merged organizations reduced its need for funding. Instead, every single one used mergers to grow its activities. And so although mergers decreased the number of organizations in the sector, they actually increased its total revenue requirements.

The problem perhaps is not that too many new nonprofits open, but that too few poorly managed or low-impact programs and organizations close. Insofar as funders and leaders use mergers to keep foundering nonprofits alive, then consolidation is not what the sector needs. Instead, we need more of what Joseph Schumpeter called "creative destruction" in his classic *Capitalism, Socialism, and Democracy*.

Uniting for the Right Reasons

Our study suggests that in the nonprofit sector, as in the world of human courtship, money is not the right reason to merge. But mission may be.

HOPE Services merged with the Skills Center to grow to a size that would better guarantee its long-term stability – and ability to deliver its mission. "Mothers and fathers of children with developmental disabilities realize that disability is going to be there when my child is an adult, when my child is 70," says Campbell. "Parents have to be able to look at organizations like HOPE and make a judgment about 'Is this organization going to be around 50 or 60 years from now?'" he says.

Greater scale helped HOPE weather the downturn when its business ventures, which employ developmentally disabled clients, were posting monthly deficits over $1 million. Scale has also made it easier for HOPE to compete for new contracts, as well as to give clients a wider array of better services. HOPE's greater geographic reach also allows its clients to stay connected to a nonprofit they know and trust as they move around and grow older in the Bay Area.

Although financial distress initially drove Community Counseling to approach Davis Street, the two ultimately merged because everyone involved – leaders, boards, and

their government funder – wanted to ensure that citizens of the San Leandro area would have access to mental health services regardless of ability to pay. Before the merger, many Davis Street clients had no access to services such as counseling, parent education, and domestic violence prevention. Similarly, many Community Counseling clients did not know about Davis Street's many offerings.

By merging with Community Counseling, Davis Street gained not only a strong program at a cost far below starting one from scratch, but also valuable volunteers, board members, community contacts, and new perspectives. So although the merger was, in many ways, both harder and costlier than either group anticipated, "it has been a huge value add," says Padilla Johnson.

Yet even when nonprofits want to merge to advance their missions, they must proceed cautiously. Leaders and boards governing the two organizations must work closely together, taking time to ensure that staffs not only take ownership of the new entity, but also learn how to work together to make the most of the potential synergies.

For their part, funders must support the process and the newly merged organization, foreseeing one-time start-up costs as well as unexpected expenses. Rather than viewing merger as an opportunity to reduce grants – an exit strategy – they should instead view the newly merged entity as a better investment of their philanthropic resources, and support it accordingly.

What starts with a courtship and is followed by a wedding eventually must settle into the hard work of sustaining the relationship. Getting it right takes long-term commitment and strong communication at the staff, management, and board levels. Merged nonprofits, like spouses, also need the support of their communities – their funders, government regulators, clients, and neighbors – in order to succeed. □

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CASE STUDY

Uniting *for* Survival

How four Chicago-area cancer support centers created a fifth nonprofit to pool their strengths by DON HAIDER

In 1989, three women in Skokie, Ill., a suburb north of Chicago, wanted to create a center where patients and families living with cancer could receive emotional support. Although more people were surviving cancer because of advances in treatment, hospitals still lacked cancer support programs. In response to cancer survivors' desire for more community-based support centers, the women raised $10,000 from a fashion show and opened the Cancer Wellness Center in a small donated storefront. Five years later, the center moved to a 13,000-square-foot custom-designed building in Northbrook, Ill., and hired its first full-time executive director, a registered nurse named Nancy Laatsch. By 2005, the last year for which we have data, the center was serving 1,500 cancer patients and family members with its $1.3 million budget.

One year after the Cancer Wellness Center opened, two women recovering from breast cancer in Hinsdale, Ill., a suburb west of Chicago, started their own cancer support center: Wellness House. Their community-based nonprofit offers information and support programs concerning nutrition, exercise, stress reduction, and bereavement. In 2000, the center promoted one of its interns, Jeannie Cella, to the position of executive director. Wellness House now provides services to more than 1,500 patients and caregivers on its budget of $1.8 million.

In 1995, several years after the Wellness House opened, two young mothers who had just lost their husbands to cancer wanted to start a center for people like them. They founded the Jennifer S. Fallick Cancer Support Center in Homewood, Ill., a suburb south of Chicago. By 2006 it was serving an estimated 1,500 people on its budget of $947,000.

In 1998, the three centers were temporarily joined by Gilda's Club Chicago, named for "Saturday Night Live" cast member Gilda Radner, who died of ovarian cancer in 1989. Gilda's Club ultimately decided to pursue a different direction. But by 2000, two cancer survivors opened a fourth cancer support center, Wellness Place, in Palatine, Ill., a suburb northwest of Chicago. This center currently helps 1,150 cancer patients and caregivers on its annual budget of $1.3 million.

Cancer Wellness Center. Wellness House. Cancer Support Center. Wellness Place. In slightly more than a decade, these four independent, community-based, nonmedical centers arose in a ring around the city of Chicago, offering free professional resources to 6 million people in the Chicago metropolitan area. Although all four centers were in Cook County, which is home to more than 5 million residents, they were sufficiently far apart that they did not compete for referrals, volunteers, or community support (see map on p. 55). Indeed, the centers were scarcely on the radar of most of the major hospitals in the area.

Nevertheless, the centers did compete for corporate and foundation support. When all four centers applied for funding from the Coleman Foundation, Michael Hennessy, the foundation's president and CEO, encouraged them to consider partnering to increase their visibility to funders, cancer survivors, and the medical professionals upon whose referrals they relied. The centers were initially wary of collaborating. But over the course of almost a decade, they successfully evolved two different types of partnerships: First, they created a consortium that presented the four centers as a single entity to the public, and second, they forged a fifth nonprofit that sought and then distributed benefits for the other four charter centers. The fifth nonprofit, the Cancer Health Alliance of Metropolitan Chicago, now uses its $200,000 to help all five nonprofits pursue their mission: to help people live better with cancer.

In what different ways can nonprofits partner to pursue a common cause?

What are the drawbacks and benefits of forming alliances?

What role can funders play in encouraging alliances?

Cooperating While Competing

Early on, the executive directors of the cancer centers cooperated to develop best practices. For many years, they met

monthly over lunch to discuss their common problems and lessons learned. All were responding to the same trend: Although medical advances were helping more and more people survive cancer, hospitals were not giving patients or their families the psychosocial support they needed to cope with the changes that cancer brings. And all created similar, homey centers that offered lectures, libraries, professionally led support groups for patients, group and individual counseling for families, stress management classes, and healthy-living training.

For all their trust and sharing, however, the centers also competed with each other. With at least 20 percent of their funding coming from local foundations and corporations, they had to vie for money.

The centers also competed for referrals from Chicago's major hospitals and cancer-related caregivers – without much success. "They did not recognize that a suburban [cancer center], acting alone, would not get much attention from, say, multibillion-dollar Chicago-based Northwestern Memorial Hospital," recalls Hennessy. Getting hospitals' attention was all the more difficult because many physicians already had their own alliances and protocols, and so were not receptive to independent, nontraditional centers that work with patients, families, and loved ones.

Operating independently, the organizations were also faltering in their attempts to raise public awareness about how to improve cancer survivors' quality of life.

"They suffered from a neighborhood mentality, a kind of tunnel vision that makes small, neighborhood-based nonprofits lay claim to serving a larger universe and mission," says Hennessy.

Terms of Collaboration

Although the terms for nonprofit partnerships are often used interchangeably, they mean different things. Here are a few of these terms and their definitions:

Collaboration: A generic term for groups or organizations working together
Affiliation: The lowest level of collaboration, which involves meetings, letterhead, and possibly paying a fee to join
Alliance: A collaboration that involves some changes in operations or responsibilities, but not changes in control or structure; also called a network or a coalition
Integrated Service Network: An alliance of organizations that offer complementary services
Service Organization: An alliance that shares operations such as legal, audit, and billing services
Partnership: Two or more organizations that are legally bound to each other
Federation: An alliance of local affiliates that are united by a central headquarters; affiliates share a mission, a brand, and a program model, but are legally independent of one another and of the headquarters
Consortium: Similar to a federation, but members are more independent of each other and of headquarters
Franchise: Like a federation, but usually applied to commercial organizations
Merger: Combining two or more organizations into one; involves change of control

Constructing the Consortium

In 1997, each of the cancer centers approached the Coleman Foundation for funding. The Coleman Foundation is a private, independent grantmaker that focuses primarily on the Midwest and on cancer care, treatment, and research. Hennessy strongly believed that the four centers would be more effective working together. To do so, however, they would need more resources, more professionals, and a better outreach plan. Hennessy asked Laatsch to bring the other directors to meet with him to discuss how the organizations could more effectively leverage their common strengths.

Reflecting on these early meetings, Hennessy says: "At first, they seemed to be speaking in foreign languages. They were not prepared for collaboration and, instead, asked to discuss any closer working relations with their individual boards." Because the centers were independent, community-based organizations with their own contributors, volunteers, and alumni, they were unwilling to relinquish control over their separate centers. And so they quickly dismissed the idea of a merger. Center directors and boards also dismissed as too radical the idea of forming a federation, in which a central headquarters would direct the activities of chapters. Eventually, the centers understood how their small size and geographical dispersion were undercutting their ability to help their stakeholders. And so they agreed to collaborate on advocacy and communications. In the absence of agreed-upon meanings for terms such as partnership, alliance, network, and the like, the centers agreed to call their collaboration a consortium (see sidebar at left for the standard definitions of these terms).

Under the direction of Hennessy, the Coleman Foundation awarded the centers a three-year (2000-2002), $900,000 planning grant to help them develop the consortium. During the first year of the grant, the centers conducted a needs assessment. They discovered that although each organization had a reputation in its own service area, the broader public was generally unaware of the services they provided. They also concluded that they needed "to better understand the needs of the medical community for our collective outreach; to better understand our patient-customer needs to provide the right mix of center-based programs; and to better measure and quantify the same things," says Laatsch. "We needed better messaging" as well, she says.

To begin addressing these needs, the centers decided to market their consortium to cancer professionals and the general public as a single referral, in the form of an alliance. Laatsch explains: "We spoke of an analogy to the Milk Council and individual dairies. Only the Milk Council can talk about the value of milk as opposed to the individual dairies talking about the value of their brand."

Over the next two years, the four developed consistent outreach materials, communications, and advocacy messages for the media, medical specialists, major hospitals and clinics, and healthcare professionals. Their efforts increased referrals from the major cancer hospitals and oncologists. By year three, the centers were working together to raise public awareness about cancer survivors' needs, increase participation in their programs, and raise funds.

Forging the Fifth Nonprofit

In 2002, with foundation funding running out, the four centers began discussing what to do next. Both the Coleman Foundation and their own consultants opined that the centers could move faster and achieve more if they entered into a more formal relationship. Given the centers' aversion to merging, forming a federation, or any other transferring of control, they needed to knit the centers together in a less centralized way. At the same time, they needed close enough ties to allow the

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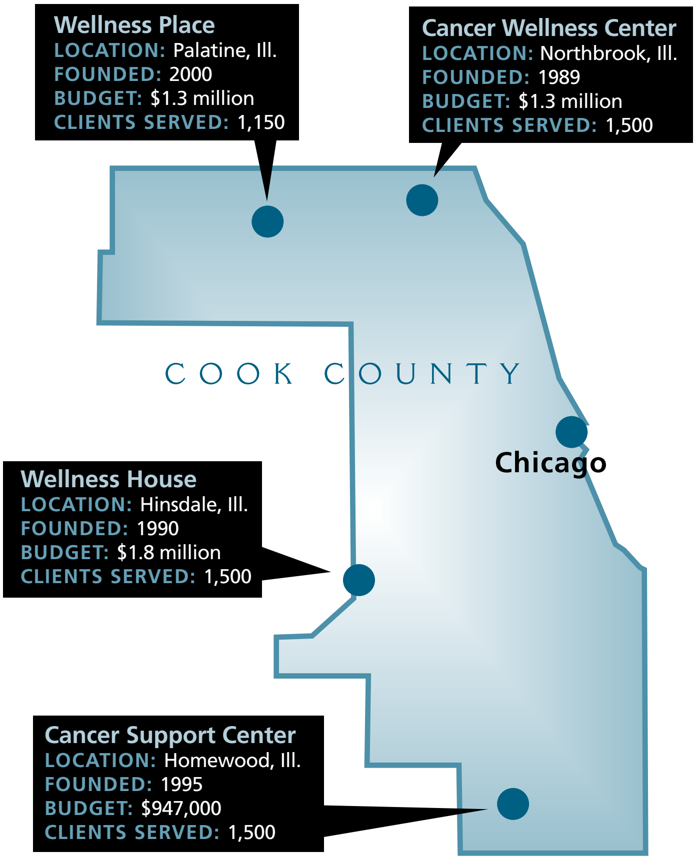

organizations to respond to new needs and coordinate their actions for a wide variety of aims.

Hennessy and the consultants suggested creating a fifth organization – a separate nonprofit – for pursuing the centers' mutually agreed-upon activities. The fifth organization would be incorporated as an Illinois nonprofit with its own bylaws, board of directors, materials, and Internet presence. The alliance would fundraise, gather information about best practices, pursue referrals, represent the centers at conferences and health fairs, and partner with other organizations for cause-related marketing initiatives. It would then distribute the benefits of these activities to the four centers, which would remain independent and community-based as before.

By 2004, the four centers successfully founded the new 501(c)(3). Although the structure they created may more accurately be called a consortium, they named the new nonprofit the Cancer Health Alliance of Metropolitan Chicago. The longest-standing director, Laatsch, headed the new organization, although she hired a temporary independent contractor to run the alliance until the Cancer Wellness Center could hire her replacement. Cella had worked professionally with Laatsch for more than a decade, and the trust between the two directors greatly facilitated the creation of the alliance and the naming of Laatsch as head.

Having financed the cancer support centers for nearly 20 years, Hennessy and the Coleman Foundation continued to

support them with annual grants of $15,000 to $25,000 for project support. With matching grants from Chicago-based Fannie May Candies, the foundation helped fund the Cancer Health Alliance's national networking conference at the Robert H. Lurie Comprehensive Cancer Center of Northwestern University in July 2006. The two-day conference featured the directors of the alliance and its four charter members, and attracted some 100 wellness centers.

Getting More Mission

Over the course of a decade, the cancer support centers and their directors have progressed from the less complex challenges of competing, cooperating, and coordinating a consortium to a far more complex formal alliance. Hennessy notes that many alliances fail because "the wrong people are around the table, hidden agendas drive partners apart, and partners lose sight of the marketplace." The four centers avoided these pitfalls because they kept their focus tightly on their mission and developed trusting relationships with all players. "We still compete at some level for funding our individual centers," acknowledges Laatsch, "but we share and we understand the benefits of using our collective leverage."

The Cancer Wellness Alliance is now in a position to consider its next stages regionally, nationally, and internationally. The center directors and their boards are considering whether to build out this organization into a kind of loose-knit federation that is characteristic of national healthcare organizations in the United States today. They will not be alone. The wellness movement is growing, and more cancer hospitals and systems are coming into competitive play, seeking to provide more support services and programs as part of their total cancer care package. The Cancer Health Alliance will have to make strategic changes if it wants to continue leading its better-financed competitors while continuing to offer high-quality services without charge.

How to get more mission out of their organizations ought to be the central focus of nonprofit leaders and their boards. By pooling their resources, the cancer support centers are better achieving their overall cancer awareness mission. "The alliance has grown because of its accomplishments and through trust," says Laatsch. "We share and we understand the benefits of using our collective leverage." Hennessy simply smiles upon hearing this. "At the onset," he observes, "the center directors did not see the bigger possibility … the whole being greater than the parts." Today, Laatsch and board members not only see the benefit of a collaborative alliance, but also see much further concerning the possibilities of where the cancer wellness support movement can go with the Cancer Health Alliance of Metropolitan Chicago at the lead. □