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STANFORD SOCIAL INNOVATION *review*

The Merger Proposal

Go Ahead – Pop the Question Why more nonprofits should merge

By Kevin T. Kirkpatrick

Stanford Social Innovation Review
Summer 2007

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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.

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

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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

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." □