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To Merge Wisely, Ensure a Proper Takeoff

A Practice Case Study

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Introduction

As a result of the Great Recession, many nonprofit organizations are facing extreme financial hardships. For many nonprofit organizations, the effects of the Great Recession have been so detrimental that merging or dissolution may be the only options. Therefore, the issue of whether to merge and how to merge has increasingly become a relevant topic of concern for nonprofit boards and executives.

There are several different strategies a nonprofit organization can employ to ensure continued success during challenging times. These strategies may include, (1) forming collaborations, (2) consolidating administrative services, or (3) merging with other organizations.

Collaborations are possibly the most common strategies utilized by nonprofits. Collaborations do not alter the organization's corporate, legal and governance arrangements. Collaborations are more informal and are usually undertaken for a specific occasion or a limited purpose. Examples of collaborations include joint marketing, procurement, and sharing of professional services. These strategic alliances permit organizations to integrate programs and cut costs while remaining independent.

Mergers represent the most extreme form of consolidation, whereby two nonprofit organizations legally combine into one, with governance, staffing, programming, finances, marketing, and administration consolidated into one new entity. Mergers are defined as the "combining of two or more organizations to create one organization, using friendly, rather than hostile strategies" (Benton and Austin, 2010). Acquisitions are similar to mergers in the sense that two organizations are legally becoming one entity; however, with acquisitions one organization is obtained or acquired by another, regardless of friendly or hostile intent.

The following is a case study detailing the merging of two Jewish Federations in New Jersey into one entity. The case study will discuss the lessons learned from the process.

The Merging of the United Jewish Communities of MetroWest and the Jewish Federation of Central New Jersey

Jewish Federations are fundraising organizations for Jewish communities. Similar to the United Way, Jewish Federations conduct an annual fundraising campaign to provide support for its local beneficiary agencies entailing family services, community centers, educational institutions and the like. In addition, Jewish Federations provide support for programs serving Jewish people in Israel, the former Soviet Union and throughout the rest of the world. Therefore, the Federation's scope is local, national, and global.

The critical groundwork for a successful merger resides in the preparations for the "takeoff." If the "takeoff" is not successful, "landing" will not be successful. The following lessons emerged as a result of the merger of the Jewish Federations of MetroWest and Central New Jersey.

Lessons Learned in the Field

1. Focus on merging to achieve better results and greater synergy in fulfilling the agencies' mission

Based on previous literature, mergers are most successful when the merger is mission driven and the organizations involved have sufficient resources to share. As Benton and Austin (2010) state, "The mission driven merger resulted in a more effective process because pro-active decision making and sufficient resources allowed for more time to be focused on program… goals as well as more staff involvement."

Accordingly, it is important to make sure that the missions of both organizations are closely aligned, otherwise ideological disputes may arise. Fortunately, in the case of the Metro West-Central New Jersey merger, the two organizations shared the same mission and values. To reinforce this and establish a platform for the future, the newly merged Federation plans to immediately launch a strategic planning process to guide the organization once the legal merger takes effect.

2. Shared administrative functions and cost and eliminate redundant expenses to achieve positive financial outcomes and increase effectiveness

Mergers themselves may not necessarily achieve cost-savings. As David LaPiana (2010) has written, "in the short term [mergers] actually require new money for one-time transactional and integration costs…merged nonprofits can roll together annual audits, combine insurance programs and consolidate staffs and boards, but they become more complex and require more and better management, or course, that often exceeds the savings from combined operations." If two merged organizations under financial stress do not make the difficult decision necessary to resolve major challenges, the organizations will experience a crisis.

3. Develop and manage a team of leaders who have significant influence who can "check their ego at the doorstep"

From the first instance, organizations involved in merging must project credibility that the merger is a serious and necessary endeavor by charging a quality and high caliber of leadership to lead the effort. The process will require champions who will assume responsibility viscerally, as well as functionally.

4. Use an anticipatory rather than reactionary framework

When going through a merger, it is important that the two organizations involved engage in preplanning efforts, identifying upfront all issues which must be handled. Key areas to be addressed include governance, staffing, funding and fundraising, operations, due diligence and program services.

5. Expect Setbacks

There will be setbacks in the process, therefore it is important to prepare psychologically, as well as operationally. There will be a need to make midstream adjustments as new information or factors unfold, thus taking on a pragmatic approach rather than sticking to a pre-ordained script.

6. Gain quick victories

During the merger negotiation process, collaborating on some important program or issue can be conveyed as a quick victory to the organization's respective constituencies. In the example of the merger of the Jewish Federations of MetroWest and Central Jersey, it was decided that there would be a combined trip from both Federations to Israel. Leading educators from both communities engaged to "spread the word" about the benefits of merger. This early victory helped communicate the benefits of the merger and build confidence in the merger amongst the respective constituents.

7. Communicate, communicate, communicate

Communications should be ongoing for all relevant constituents, both internal and external. Board members, major donors, members of the staff and other key stakeholders of the organizations should be informed on a regular basis of what is transpiring during the merger discussions.

As part of the communication plan, it is imperative that the benefits of the merger be constantly conveyed, building on the complementary strengths of the respective organizations. For example, in the instance of the merged Federation, one of the benefits for Central will be an investment in an underserved geographic area which it did not previously have resources to provide services. Furthermore, there are greater planned giving opportunities for MetroWest within the smaller Federation's service area. These benefits were frequently communicated during the merging process to ensure synergy and solidarity.

8. Create a buzz

It is important that a high level of excitement is generated among the different constituencies to set the stage for the newly merged organization. The Federation did this by having an ongoing series of articles highlighting the benefits of the merger through the New Jersey Jewish News, which publishes a separate edition for MetroWest, as well as for Central.

9. Ensure the smaller organization lived on spiritually, as well as functionally within the new organization

During the merger of the Jewish Federations, there were discussions about whether to continue to retain a physical presence in the headquarters of the smaller organization for the future. It is wise to maintain a physical presence (not only to be more accessible to constituents within that geographic area), but to ensure that its institutional memory is preserved. There will be a significant psychological loss for the smaller Federation. It is imperative that this be acknowledged as part of the merger discussions. Opportunities should be afforded to celebrate the accomplishments of the smaller Federations, even as forces are joined in creating a new entity for the future.

10. Ensure leadership positions for the smaller organizations when merging

Early on in the process, the merging organizations recognized the importance of involving leadership of each Federation after the merger. Accordingly, significant leadership positions were afforded to members of the smaller federations within the new merged Federation. The message conveyed was that the smaller Federation had a great talent pool to draw from that would significantly benefit the newly merged Federation.

11. Build upon prior relationships

Fortunately, both Federations had been actively involved in state-wide activities and collaborations for many years preceding the merger, which served as a positive platform for future merger negotiations. As noted in a study of nonprofits' experiences with mergers, the authors found that awareness and trust between participating organizations is a key ingredient for successful mergers (Benton and Austin, 2010). In this case study, the executives of both Federations worked on state-wide and regional marketing issues for years. Accordingly, with the "chemistry" established for excellent relations, a Central executive will serve as the second ranking professional for the merged Federation, reporting to MetroWest's Chief Executive Officer.

12. Plan to address differences in organizational culture

One of the most ephemeral issues to deal with is managing the respective organizational cultures of both Federations and melding the best of them into the new and even better organization. Organizational culture can be defined as "a pattern of basic assumptions—invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration—that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (Shein, 1985). Examples of organizational culture issues can include: the business environment or strategy; the kinds of skills that are valued; the style of the staff; dress code; communication styles; the organizational structure; differences in core values; decision making; staff and management relations; the management style, among others (MAP for Nonprofits, 2009).

CONCLUSION

The key ingredient for ensuring an effective and successful merger is to institute a "win-win" strategy for merging groups. It is imperative that each merging organizations' best assets and values, are highlighted respectfully, in merger discussions. Communications during the merger negotiating process, on a timely basis, is essential. Successful mergers begin with the best preparation, which sets the table for the long negotiations which will ensue. The goal is to design new merged institutions that reflect the best of the past and the future.

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