

Business Strategies

Mergers, alliances act as tools to strengthen organizations

Thomas McLaughlin never expected to become an expert in nonprofit mergers and alliances, but from his first appointment as an executive director, he quickly learned the processes and benefits they provide nonprofit agencies.

“I did my first merger by accident,” the vice president for consulting services for the Nonprofit Finance Fund and author of *Nonprofit Mergers and Alliances*, said. “I was hired as regional vice president of a youth-serving organization. I started on April 28, and on April 30, we found out that two out of three of our state contracts were going to be moved to another entity within 60 days.”

McLaughlin said he scrambled, moving the two programs, staff, consumers and virtually everything connected with the service system to the other organization—which was strong and growing—on July 1.

“It looked virtually no different than it did the day before, and most importantly, the programs were stronger,” he said. “But the best time to think about collaborating is when you don’t have to, because once the bad stuff starts happening, you’re in crisis management and you don’t have time.”

The nationally recognized expert said the time is ripe to use mergers and alliances as tools, because the sector is on the verge of restructuring due to nonprofit capacity and strength that was not present 30 years ago. McLaughlin said the ideal merger strengthens programs, makes service delivery easier, provides consumers and employers opportunities they didn’t have before and may be less expensive.

McLaughlin describes the different collaborations this way:

- **Merger.** Mergers involve change in the corporate structure of the participating organizations.
- **Alliance.** Typically, the corporate structure of participating organizations does not change and the alliance is undertaken through contractual means. The CEO, board, by-laws, etc., do not change.

The benefits of a merger or alliance will vary from organization to organization. For instance, at small to medium nonprofits, executives usually go it alone during their day-to-day activities, where in many other parts of the economy, people of like minds run together, McLaughlin said. “By building larger organizations—where the need is demonstrated—the executive’s circle grows larger, as well as the ability to grow business and social connections. Much more professional support is possible,” he said.

Another advantage in mergers may be the improvement of employee benefits, since the larger the organization, the better the organization’s chance of gaining respect in the marketplace and a bigger discount, McLaughlin said.

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The bill, if passed, would create a bipartisan United States Council on Nonprofit Organizations and Community Solutions, and establish the Interagency Working Group on Nonprofit Organizations and the Federal Government to improve policy coordination among agencies in their dealings with nonprofit organizations. It would also direct the Department of Commerce to begin compiling data on the sector and create metrics for performance, establish reporting requirements, and expand information so legislators are able to make optimum decisions concerning nonprofit legislation.

Frosch said that an excellent example of how the U.S. Council on Nonprofit Organizations and Community Solutions would assist nonprofits concerns the health care reform bill. At one point during a House review of the legislation, several nonprofit organizations e-mailed legislators to let them know that their sector was not addressed in the bill, even though small businesses had been provided subsidies for providing benefits to their employees.

“Here’s the largest federal reform bill in a generation, and nonprofits were not included,” Frosch said.

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Yet even as these benefits may sound promising, McLaughlin said it’s a process that should only be undertaken after serious consideration. And he urges nonprofit executives and board members that are familiar with corporate mergers to forget everything they’ve learned about them when working on a nonprofit merger. “[Corporate mergers] are largely undertaken for efficiencies,” the author said. “But when you bring two \$2 million nonprofits together, the scale of efficiencies—if they exist—may not be as meaningful.”

The consultant said that if nonprofit organizations engage in a merger with the idea of creating savings, they are probably going to be disappointed. “But if you come together for the mission and for strategic purposes to do something you couldn’t do individually, you have a much higher chance of success than if you looked solely at the dollars and cents,” he said.

In response to those who may criticize an organization for taking on a merger, or suspect “the worst,” McLaughlin said the stigma is unfair. “Of course if your organization is seeing red flags like program deterioration or problems with cash flow, it’s probably too late. But the majority of successful mergers happen when two organizations bring their strengths

“If the Council had existed, the issue would have come up at the table during discussion. It was a near miss.”

The director said the Interagency Working Group would also be helpful by creating a dialogue that would identify and streamline programs that are federally funded and working efficiently, as well as help in beginning a long-overdue overhaul of federal rules and regulations regarding funding.

Frosch said data collection through the Department of Commerce would be useful in helping the Budget and Appropriations Committee make responsible policy decisions.

When asking for money, he said, it’s not helpful to “have no idea” about the actual numbers involved.

Frosch said his office is currently working to gain support and draw awareness for the bill, and it will most likely be reintroduced in the next congressional session.

For more information

For more information about the Nonprofit Sector and Community Solutions Act (H.R. 5533), go to http://mccollum.house.gov/index.php?option=com_content&view=article&id=944&Itemid=146. ■

to the table. Keep an open mind when thinking about mergers, because there are fewer tools and ways to create incentives available in this sector, and I’d like not to see one precluded from consideration,” he said.

For more information

Thomas McLaughlin is a nationally recognized expert in nonprofit mergers and alliances and is vice president of consulting services for the Nonprofit Finance Fund. He is also the author of *Nonprofit Mergers and Alliances*, second edition. To contact him, e-mail tom.mclaughlin@nffusa.org. To learn more about *Nonprofit Mergers and Alliances*, go to <http://nonprofitfinancefund.org/nonprofit-mergers-alliances>. ■

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or story idea you would like to share?**

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