

## STREETSMART NONPROFIT MANAGER *THOMAS A. McLAUGHLIN*

# Tying The Knot

## *Why associations don't merge, and why they should*

**N**onprofit organizations in general are intermediary entities, called into existence to help deal with some sort of inability, dysfunction, or disinterest of the other two main sectors in our economy, the private sector and the governmental sector. Associations are the ultimate intermediary, often being positioned between other entities and the government sector.

Organizations that do this generally are known by the Internal Revenue Service (IRS) as "business leagues," which is a fancy term in many cases for trade associations.

Typically, nonprofit public charities' trade associations are also public charities, reflecting many things, including a reluctance by managers to think of themselves as a too-commercial-sounding "trade association." For-profit organizations tend to form explicit trade associations. There were almost 90,000 such business leagues reported by the IRS during 2006. Inferring from data analyzed by the American Society of Association Executives (ASAE), it can be concluded that there were probably a roughly comparable number of public charities whose managers consider the groups associations. That represents an enormous number of organizations occupying pivotal roles, whatever the term or the tax code, which is why the reluctance to consider merging is unfortunate.

### WHY MERGING IS SO DIFFICULT

Nonprofit associations are not immune to the forces that are causing their members to consider mergers in the face of a down-turned economy. Yet associations, in general, have been slow to consider mergers in most sectors. There are many reasons for this slowness of response.

Each association is usually a highly unique entity. Nowhere is this element more evident than in their dues structures. Each dues structure is a product of forces ranging from historic practices to calculated marketing to individualized decision-making.

But, more than a roadmap to a major revenue stream, the dues structure is really a reflection of the association's business model. Since two business models are rarely

alike, let alone easily compatible, putting two dues structures together is an exercise in equity, creativity, high-order mathematics, and just plain guesswork. The prospect of smoothing out distinctly different dues structures can be daunting.

Association chief executive officers also can be highly powerful individuals within their groups, especially if the major reason for the association's existence is something inherently not easily measurable, such as political success in advancing an agenda. It is no accident that many association mergers take place right after the departure of one of the executives.

Associations tend to have to be scrappy economic players, building a multi-layered stream of revenues out of the slightest of opportunities. Raising association dues is the third rail of association management – grab it, and you had better be thoroughly grounded in support from the board of directors. As a consequence, association executives know that they must fashion as many different revenue streams as they can. Even in associations that are public charities, such an approach means that thoughtful outsiders, such as philanthropic funders, might not have much leverage. And their role in business league trade associations is non-existent (since donations are not deductible).

Associations are usually small entities, often with improvised back rooms. Many people in this sector still believe the primary reason for merging nonprofits is to reduce administrative costs (it's not), and small back rooms yield only small savings.

Moreover, while there are not stock and ownership barriers to merger in a nonprofit association, there are also fewer material incentives to change. So the impetus must come from leadership vision. Often it is hard for board members or executives steeped in for-profit merger metrics to see the benefits of an association merger.

Finally – let's be candid here – association boards of directors are often social networks in disguise. Unlike many types of nonprofit public charities, it's hard to work up a passion for an organization that exists to serve one's institutional interests, and whose

success at doing so is hard to prove. Moreover, in many cases the board members are also competitors with each other in other spheres of their existence. This leads to a certain distance in their relationship with each other, which in turn can dilute the commitment to the association.

### ASSOCIATIONS SHOULD MERGE

To understand why associations should merge in today's world one needs to go back to the reason that they form in the first place. Put simply, organizations form associations to accomplish things they can't do on their own. Organizations in a particular sector often prefer that a third party articulate their concerns, especially to groups such as funders and government regulators that could hold undue power over each individual member.

Associations also attempt to influence public policy on behalf of their members, an activity which employs many of that universally disdained minority, known as lobbyists. This is where it gets interesting. No matter how homogenous an association's members might be, there are certain to be differing interests among them. Voluntary associations, whether they are called business leagues, membership groups, professional societies or something else, play a major role in facilitating the civic dialog that is indispensable to a functioning democracy. Private individuals and organizations can't play that role, nor can government.

Two vignettes illustrate the opportunities. In one major American city, the mayor has let it be known that the area of the city that has a high proportion of nonprofit educational, health care, and performing arts groups "doesn't have a voice." What he means is that he can rely on the retailers, the financial district and the residential neighborhoods to state their positions loudly and clearly, but that the same thing does not happen in what has become known as the cultural district.

This occurs because the logical association for shaping the cultural agenda has chosen instead to run special events and street fairs. While this is a legitimate choice for any association, the more difficult task of shaping a strong political voice has gone unat-

tended and the various member institutions must participate in political matters individually or not at all. The nonprofit "voice" then becomes fragmented, which to the top political figure means it doesn't have a voice.

In a second illustration, federal officials in some industry sectors in Washington, D.C., today have a seemingly different problem. They look out at the cacophony of trade associations and complain that there are too many of them.

These two situations are really different sides of the same issue. Government at all levels is stretched too thin to spend large amounts of time painstakingly identifying all aspects of major policy questions and then shape a functioning consensus. Officials must look to the private sector for that, and the vehicle for accomplishing this is the various local, state, and national associations that have grown so much in the past four or five decades. They are the ones that have to do the spade work of identifying major interests and synthesizing a "voice" for their members. Doing so requires a political and member service infrastructure that must be explicitly developed and constantly reworked. In effect, associations do a big part of the job government officials would otherwise have to perform.

Associations must change faster than either their members or governmental and funder institutions can, because that's their source of value. The political and cultural environment is demanding that the private sector play a greater role in shaping public policy. The only large-scale vehicle for doing so is associations.

In the past, that meant creating new associations and membership groups. Today it requires stronger private representative entities with deep-rooted abilities to sort through the complex needs of respected institutions. For the foreseeable future associations in many sectors will need to merge. *NPT*

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