

Mergers and Acquisitions - Nonprofit Style

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Most people understand mergers and acquisitions (M&A for the uninitiated) as something for-profit companies do to enhance shareholder value, grow profits and consolidate operations – and improve services, products and value for consumers. A merger or acquisition may also be undertaken by not-for-profit organizations as a way to enhance services provided to the community, share limited resources, and leverage assets, including good will. Although not been widely undertaken in the past, the number of not-for-profits considering such an undertaking is increasing.

It may be helpful to define “merger and acquisition” as distinguished from a “strategic alliance”. A strategic alliance is an agreement between two or more entities that endeavors to maximize resources to reach a common goal. A merger is the union of two or more organizations into one new entity, while an acquisition is one organization taking over (acquiring ownership of) another. In the case of both strategic alliances and M&As, these transactions may occur between not-for-profits or between not-for-profits and for-profit businesses.

Why would a not-for-profit consider an alliance or M&A? Obviously, a severe recession that impacts an organization’s ability to maintain daily operations could drive these discussions. Funders who provide support to organizations with similar missions in the same market may recommend consolidation as a way of promoting sustainability while better utilizing limited dollars. Market changes, new competitive factors and changes in management leadership may also drive M&A and alliance discussions.

Across the country, many nonprofits are relooking at their structure, partners and competition and undergoing major strategic reorganizations. In reviewing the finalists of The Collaboration Prize, which is described below, one finds solid examples of the benefits mergers, acquisitions and alliances among not-for-profits. One “alliance” in Chattanooga resulted in the consolidation of human resources, technology, finance, marketing and retail from three museums under one, providing revenue to the Tennessee Aquarium and savings of more than \$1.5 million for the Hunter Museum of American Art and the Creative Discovery Museum. The collaboration has also led to increased community visibility, and promoted more shared programming between the museums.

So when should an organization consider the M&A path versus a strategic alliance? For a few lucky not-for-profits, such discussions have evolved over time due to careful business planning and strong partnerships with the entity being merged, acquired, dissolved or aligned. However, many not-for-profits must consider these options under duress due to a number of factors, the primary ones being a significant loss in funding and/or insufficient working capital. Rather than view talk of consolidation or

shared services as a negative, not-for-profits should view such conversations as an opportunity to provide a better service, retool basic operations and eliminate any “non-core” functions and expenses. Whether you are a senior manager or a board member of a not-for-profit, now might be an opportune time to look at these options.

How does one begin the M&A or alliance process? Too often, not-for-profits look only at the bottom line when beginning a discussion. Rather, not-for-profits should regularly undertake a broad business audit, or, a “due diligence” survey of organizational, legal and financial matters – including human resources, operating procedures, programming, outreach and promotion, governance, fundraising, finance and administration, compliance with state and federal laws, real estate, and intellectual property assets (including web-based content and services), among other things. Such a due diligence survey should be a tool used by not-for-profits on an annual basis for basic operations, but too often, it is developed during a less-than-opportune time. In the event of a merger, acquisition or alliance, the measurements and results of a recent due diligence assessment will speed up the process of evaluating and valuing an organization’s assets, liabilities and business processes and save valuable time for organizations that must move quickly. Preparing such a survey should be a key goal of not-for-profits as part of regular business planning, and should be undertaken with board members or consultants experienced in not-for-profit matters.

Additionally, not-for-profits should create an ad hoc committee of the board of directors and key staff to identify potential partners and evaluate mergers, acquisition or alliance options. This committee can oversee the due diligence survey, and more easily reach out to community leaders, funders, organizations with similar missions and constituents, and other key stakeholders to allow for conversations, focus groups and brainstorming. Important questions to ask include: (i) How can we provide a better service to the community, and what resources do we need that we do not have to do so? (ii) What other organizations in our community provide overlapping and/or complimentary services to our own, and with which ones do we work well? (iii) How can we best compete for a finite pool of donors, grants and charitable dollars? (iv) What do our funders expect of us now, and what will they expect and support in a merged or aligned structure? (v) What core competencies do we have that we can share and that have value? (vi) How can we improve the financial health of our organization? (vii) Are financial resources available from funders or internally to cover the costs of an assessment and organizational merger or alliance? Although it is tempting to shy away from disclosing business practices, financial matters and trade secrets, when assessing a new structure, transparency, honesty and facts are critical for the success of any new business relationship or structure.

There are many introductory resources, surveys and case studies available to assist not-for-profits considering a merger, acquisition or alliance, with particular emphasis on the current economic climate faced by not-for-profits. The Nonprofit Finance Fund recently surveyed 1,100 nonprofits nationally and issued a report in April, 2009, that noted 50% of respondents fear that the recession will have long term or permanent negative impacts on their organizations. Furthermore, the report states that only 12% expect to operate at or above break-even this year, while 31% have only one month of operating cash in hand for expenses. Surveys at the local level tell a similar story. “Passion and Purpose – Restructuring, Repurposing and Reinventing: Crisis in the Massachusetts Nonprofit Sector” published by the Boston

Foundation recently noted that more than two-thirds of respondents were anticipating a drop or delay in funding, and a combined 15% of respondents had either undertaken a collaboration with another nonprofit or merged with another organization. The report “Partnering with NonProfits in Tough Times” resulted from research undertaken by the San Francisco Community Based Organizations Task Force convened by Mayor Gavin Newsome. The report contains six key recommendations for the city and the not-for-profit sector, including: consolidation of nonprofit administration, supporting nonprofit mergers and closures, aggressively pursuing funds to maximize revenue, improving management and oversight, promoting financial sustainability measures, and developing a strategic plan for delivery of the most vital community-based services.

Of particular interest is The Collaboration Prize, created by the Lodestar Foundation and the AIM Alliance, which promotes cooperation among nonprofits and seeks to recognize collaborations – including mergers – among nonprofits. In 2009, The Collaboration Prize received 600 nominations, and recognized two new nonprofits that were the result of mergers - the Museum of Nature and Science in Dallas (resulting from a merger of three nonprofits: Dallas Children’s Museum, The Science Place and the Dallas Museum of Natural History) and the YMCA/JCC Integration (the merger of the Jewish Community Center and WMCA of Greater Toledo). The case studies from this one competition alone reflect a new acceptance by nonprofits to not only collaborate, but merge when doing so enhances services, better utilizes assets and scarce funding resources, and results in a stronger, better positioned entity.

Whether to merge or align with a key partner is a question many nonprofit organizations may need to ask in the coming months. Undertaking such an assessment should ideally occur prior to any crisis – not during one – and will require discipline, honesty, transparency and a relinquishing of some power and authority. Nonprofits in crisis will face even greater obstacles – making payroll or debt payments, retaining a board, and maintaining basic state and federal requirements for tax exempt status, all while trying to assess the value of consolidation or a very different business structure. The availability of funds to undertake such an assessment may be limited unless a foundation or other donor understands the long-term value of funding such an assessment, and the potential to preserve and better utilize existing assets for which an investment has already been made. That said, mergers, acquisitions and alliances among nonprofits will likely increase in number during the next year, and offer better options and sustainable business models that may not exist for organizations planning to go it alone.

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