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Capacity-Building Digest

Mergers: A Strategic Organizational Tool

4

Introduction

The nonprofit's role in society is much more than the presentation of the arts, the provision of services, the protection of the environment, or the promotion of better housing. Nonprofits are the vehicles through which all citizens connect with and express many of their beliefs about what American society should be. A strong nonprofit sector is as essential to maintaining our society's quality of life as is a good economy.

In the spring of 1998 the Illinois Facilities Fund (IFF) and the Donors Forum of Chicago launched the first-ever financial study of Illinois nonprofit corporations that provide community support and services. The median annual revenue of the study's 500 respondents was $690,000 in 1997.

Published in January 1999, *Illinois Nonprofits: Building Capacity for the Next Century* documented recent financial results, operating issues, key governance and management practices, data about facilities owned and leased, and attitudes about the future. The study provides a wide-angle snapshot of the many factors that make up the operations of a nonprofit corporation, as well as a close-up of the pressure points for change.

Any effort to measure a sector as diverse as that which comprises nonprofit corporations is a challenge. Performance groups and historical societies have built organizations that are different from those managing recreational facilities, caring for people who are elderly, or treating people who are mentally ill. And yet it is because their fundamental structure—governance by a voluntary board of directors—is a common bond of such strength, and the one which determines how problems are solved, that the IFF and the Donors Forum are certain the study knowledge is valued across the sector.

The start-up equity of most nonprofits is the efforts, beliefs and financial contributions of volunteers. Financial growth over time cannot come from issuing stock, but from the long and slow process of building net assets through earnings and savings, and from raising charitable contributions (a requirement of tax-exempt status). This exhausting progress is well documented in the study. While nonprofit corporations have always implemented other strategies to build net assets, in recent years more nonprofits are using direct business principles in their programs; many more have identified the need to be innovative in their financial planning in order to diversify their unrestricted income sources—particularly those with a reliance on government—and they are all asking for help in doing so.

Other key findings include:

- Nonprofits operate in a fragile financial cycle: deficits and cash flow problems plague them, and financial margins are shrinking;
- Private fundraising is more critical than ever as clear bipartisan messages from government indicate a tighter funding future; and
- There are far too many unacceptable facilities, and the lack of capital grants is a barrier to improvement.

Overall, allocation and productivity of resources may well be the primary strategic issue for today's nonprofit board and executive. Many nonprofit corporations are efficient, resilient and adaptive, and many are well positioned for the future. Nonprofit leaders bring tremendous skill, commitment, passion and creativity to their work.

One of the purposes of the study was to identify areas in which the IFF and the Donors Forum could play a larger role in assisting these leaders, through communication, information and skill-building.

This *Digest* is the fourth in a series of issue-specific publications from the IFF which will provide stories, solutions, ideas, facts and figures as one way to assist nonprofits in their financial planning and other capacity-building activities.

Foster Reading Center *merged with* McGaw YMCA

7720 *merged with* Trilogy

Community Emergency Shelter Organization (CESO) *merged with* Heartland Alliance for Human Needs & Human Rights

Rebound Boys Home *merged with* Central Baptist Family Services

Strategic organizational change can be a powerful management tool to help nonprofits meet their mission. Mergers are a dramatic version of organizational change that can be used to reach new markets, meet new community needs, increase capacity or improve fundraising. Sometimes mergers can save irreplaceable services.

This issue of the *Capacity-Building Digest* tells the stories of four mergers, with examples that highlight the basic anatomy of a merger and also describe the roles and responsibilities of staff leaders. In each of the profiled cases, mergers have proved beneficial for managing change for both parties to the merger.

These stories present the points of view from both sides of the merger—that of the organization which initially seeks to merge, and that of the organization approached as the merger partner. In each example, the organizations worked together to find their common goals and shared vision for the future, regardless of their respective motivations for seeking the merger.

In the examples profiled in this *Capacity-Building Digest,* the organizations that sought out merger partners are small groups with budgets under $2 million and the four "merger partners" are significantly larger organizations, with budgets up to $375 million. While this is not the pattern for all mergers in the nonprofit sector, these cases are in direct contrast to the typical private sector merger where larger businesses seek out mergers, often with smaller businesses, with an eye towards increasing the bottom-line profits for the larger organization. In the cases profiled here, the "bottom line" for the smaller nonprofits—Foster Reading Center, 7720, CESO and Rebound Boys Home—is ensuring that their programs continue to serve people.

Overview: The Anatomy of a Merger

Merger is the generic term for a full and final coming together of two previously separate corporations. Legally, mergers often entail one corporation dissolving, and adding its assets and liabilities to another nonprofit—the surviving corporation. David LaPiana, chief executive officer of Strategic Solutions, a firm that supports nonprofit organizations undergoing mergers and documents other strategic reorganizations, defines mergers as "the integration of all programmatic and administrative functions of multiple organizations, to increase the administrative efficiency and/or program quality of one or more of the partners."

The process of merging involves at least three distinct stages:

A Catalyst, A Search and A Negotiation.

The Catalyst

Factors that spark nonprofits to consider mergers are as varied as the nonprofit landscape itself. The catalysts include economics, new opportunities, leadership change and challenges, board issues, a desire to integrate services, the need to maximize resources, and other issues specific to a particular organization. Motivations for mergers can usually be distilled into three elements: improving long-term finances, gaining access to a larger skill set, or enhancing pursuit of mission.

For Evanston's Foster Reading Center, an after-school reading and tutoring program, a significant change in management sparked a series of decisions that led to its eventual merger with the McGaw YMCA, which was seeking to increase its after-school programs. In the mid-90s, Foster board member Janet Reman stepped up as chair after the major donor and former board chair passed away. "We were faced for the first time with the reality of having to do fundraising—and for a number of years we were able to pull it off," states Reman. Then, in the year 2000, another major long-time supporter, key board member and ad hoc bookkeeper since the founding of the Foster Reading Center, decided to move away: the board and organization were faced with a major gap in funding, and were losing an institutional mainstay. The board had not recruited new members and, although board members were loyal and still passionate about the mission of the organization, they were suffering from a lack of energy and resources.

Whatever the "spark," when an organization is asked to assess its work, its mission, its structure and its finances in a strategic manner, a merger decision can result. The catalyst starts a serious organizational self-assessment that might lead to considering itself a good candidate for a merger and to understanding exactly what qualities it seeks in a merger partner. This stage is complete when an organization makes the decision to seek a partner for merger.

Rebound in Waukegan, was a residential program for young men in the juvenile justice system. When government policies meant a significant cut in their funding, Rebound's board and executive staff decided unanimously that the most important thing was to keep the services alive: no one else was serving young men in this way, and Rebound had to keep its doors open. The board did not have the luxury of time to solicit new funders, and bank loans were not feasible to bridge the financial gap until new private funds could be identified. The board decided that the best route would be to package the assets of Rebound—its real estate, its new building, its history of quality services—and market them to other groups that had "deeper pockets" and greater influence with Rebound's main funder, the Illinois Department of Corrections.

Like Foster Reading Center and Rebound, 7720, a residential facility for mentally ill adults, and CESO, a consultant for other organizations serving the homeless, were faced with significant change and both short-and-long term financial concerns. Rebound and Foster Reading Center were in a crisis mode—involving both short-term finances and the ability to survive organizationally—when making their strategic decisions.

"First we heard from the State that they were not going to be able to honor their contracts—due to funding. And then we heard from the County the same story," states Jack Potter, then chair of the board of Rebound. "And all of a sudden, instead of doing all the good work we were ready to do, we had an empty building, 30 staff, significantly reduced funding, debt from the construction, and working capital for maybe a few months. We just did not have the resources to wait the State and County out, nor the time and resources it would take to hustle for the kind of funding we would need to maintain our services."

7720 and CESO had the opportunity to explore the potential of a merger more deliberately and with less pressure than Rebound and the Foster Reading Center. The board and staff were acting on an anticipated decrease in support based on funding trends.

By the mid-90s, 7720 had grown from a volunteer-run organization to a sturdy nonprofit with a solid staff and executive director and board, but 7720 was facing difficult issues: the national push to accredit mental health agencies and the accompanying costs of obtaining accreditation; the State of Illinois' priority to fund organizations with "economies of scale," which offered a comprehensive array of services; and the agency's decreasing ability to raise charitable funds increasing the challenge of raising private monies. The executive director and her board considered strategic restructuring options in order to continue their programs, but they were just too small to withstand these external forces.

CESO, on the other hand, saw a decrease in demand for its service delivery model. In 2000, at the annual strategic planning retreat, the board and executive staff discussed this reduced activity and the related financial sustainability issues. The board and staff decided to survey CESO's customers and explore the idea of changing their services or offering them in a different format. The survey also probed customers about the quality of and need for the services.

The survey reaffirmed that the content of CESO's work was important but that the way these services were delivered could be changed without a loss of the resource to organizations it served.

Self-Knowledge and Assessment

The four agencies profiled here had clear motivations behind the mergers. Jack Potter, then board chair of Rebound, called it the "at the wheel" syndrome. "We—the board and two co-directors—were at the wheel of Rebound. We were not going to let it go 'off the road' under our watch. It was a personal, professional and mission-driven quest to ensure the boys continue to be served."

Karen Helfrich, former executive director of 7720 and now management team member of Trilogy, calls it the "mom factor." She describes the experience in this way: "Principally my voice started the conversation about merging. I was mom. I was worried about 'my kid' [7720] surviving. The board knew that it was hard for me to bring up this issue and they respected me for doing so and for bringing options to the table.

"Far from being a defensive move, our search for a good merger partner was an incredibly aggressive and, in retrospect, wise move on our part to insure that our services would continue to thrive given the trends of the industry," explains Helfrich.

The Foster Reading Center, in Reman's words, was driven by a "What can we possibly do now?" factor that included honestly talking with many allies about the situation.

In the case of CESO, the motivation was about "What makes the most sense?" for delivering their consulting services to a broader range of nonprofits, without decreasing their services to nonprofits serving homeless people. It was an organization that needed to shed its original skin and move into a larger organization which would allow it to grow, broaden and better serve its constituents. The board of CESO recognized the organization's potential while honestly acknowledging its limitations in terms of the existing focus, infrastructure, staff and funding: a perfect rationale to seek a merger.

What do you expect from a merger? Unrealistic expectations of mergers that emerge in this early stage of decision-making often involve finances: leaders may believe that a merger will serve as a short-term money-saving solution. Those organizations considering mergers often hope for outcomes that are immediate: they are seeking a way to address a budget deficit or they may be thinking, "If we merge, we would be able to eliminate upper management and save costs that way." As David La Piana explains in The Nonprofit Mergers Workbook: The Leader's Guide to Considering, Negotiating, and Executing a Merger: "The real benefits of merger are not short-term and tactical, they are medium-to long-term and strategic."

The Search for a Partner

This stage involves a search for a likely candidate for a merger. It includes the conversations, which might be informal or formal, between organizations that lead to an agreement to proceed with negotiations for a merger. Once CESO, 7720, Rebound and Foster Reading Center each reached a conclusion that a merger was in order, they began to look for partners. The search stage is complete when two organizations agree that they would like to merge.

Trilogy and 7720

Karen Helfrich was at the helm of 7720 from 1985 through the merger. "The idea of approaching another organization and discussing merger came to me after a significant time spent discussing options with my board. The critical outcomes we were seeking from the merger were quite basic: we wanted our programs to survive. In fact, we wanted them to thrive. And the price we would have to pay for our organization to ramp up and adequately meet the increasing standards being set by funders was too high. We needed to pair with someone with a complementary set of services, who would benefit from our real estate and programmatic assets and who would respect the 7720 approach."

Karen explains how she searched for a merger partner: "I approached a number of colleagues informally—over lunch, over coffee, on late-night phone calls—to talk about the possibilities. Jim Graham from Trilogy had worked at 7720 in the early mid-80s, was familiar with our work and mission, and was committed to excellence in programming. 7720 and Trilogy were a good match—in some ways it is that simple, and that mysterious."

Jim Graham reflects on the beginning of the merger conversation between 7720 and Trilogy. "To be frank, at first I thought that 7720 must be in some kind of trouble. But as I talked with Karen it became clear that 7720 would benefit from merging and that Trilogy would gain from 7720 staff and institutional experience and knowledge, and that the group homes would truly complement our existing services. The merger helped us do our job better—and more efficiently."

Central Baptist Family Services and Rebound

Jack Potter explains, "We knocked on some doors in our search for help from a 'rich uncle,' and the one that opened real wide, real quickly was Central Baptist Family Services. They had experience with mergers, they had considerable experience with all aspects of serving young men—including relationships with the state criminal justice system as a funder—and our mission fit theirs."

From the Central Baptist Family Services' point of view, the discussions with Rebound were familiar territory. Central Baptist Family Services is a large family services provider head-quartered in downtown Chicago with 31 community-based offices throughout Illinois, Missouri, Wisconsin and Florida. It provides a broad continuum of community-based services for children and families to "stabilize family life." It has a strategic approach to growth and services that includes engaging with other nonprofits, providing management assistance and administrative support and, as in the case of Rebound, becoming a merger partner.

According to Jimmie Smith, vice-president of Central Baptist Family Services, "We had worked with Rebound, knew the board and the staff, and were familiar with both its troubles and triumphs. In fact we had helped them through a rough time before with a management agreement. The merger leveraged these relationships and the trust that we had built with each other."

One of the success factors for mergers, according to Amelia Kohm of the University of Chicago's Chapin Hall and one of the few academics examining nonprofit mergers, is that organizations need to share a vision and recognize and value the different capacities of both organizations. The organizational self-assessment and definition of realistic goals from a merger lay the foundation for finding a suitable merger partner. By defining critical outcomes desired by a merger, an organization is better able to describe what it is looking for in a partner and increase the chances of getting what it wants.

To reduce unrealistic expectations, it is helpful to educate the board and involved staff on the issues of the mergers. Inviting an expert on nonprofit mergers is one tactic that can prove useful, providing a forum for learning and for questioning the process of merging and the reasons for doing so.

Heartland Alliance and CESO

The CESO board and staff took a number of months to conduct an internal assessment process, defining for itself what was wanted in a merger partner. CESO decided it was looking for an organization that could not only maintain the existing services but would also have a commitment to the high standards of services.

Heartland Alliance, one of thirteen organizations that CESO interviewed as possible "suitors" in its desire for a merger, emerged as a prime candidate. One of the reasons it seemed like the best fit for both organizations is that Heartland had already committed to technical assistance for this population as a strategic growth area and was ready to invest resources into this program. This appealed to the CESO board and staff as a kind of assurance that the services would not only be kept but would be nurtured—an assurance that none of the other potential merger partners could provide.

McGaw YMCA and Foster Reading Center

The David and Goliath match of the Foster Reading Center and the McGaw YMCA illustrates how important it is to know what you are looking for: board members and staff of the Foster Reading Center felt that the YMCA team truly valued the assets they brought to the table. "We did not have any 'real' assets like a building, but we had an established program, a respected reputation in our neighborhood, a small but committed donor base, and the vision of helping young children learn to love books. The YMCA shared that vision and respected the assets we brought, even though we were so small," comments Janet Reman, chair of the board of the Foster Reading Center at the time of the merger.

"We just stumbled onto a merger, really. It was a case of good timing and luck," says Reman. Her husband happened to be talking with Christopher Hart, vice president of the McGaw YMCA, one of the largest nonprofits in Evanston, and casually asked him whether the McGaw YMCA would consider merging the Foster Reading Center into its spectrum of programs. Hart stated that the McGaw YMCA had recently decided to expand its educational offerings and would be happy to discuss a merger possibility.

According to Hart, "One member of the board of the Reading Center, came to us and asked if we might consider merging their organization into ours. They needed to fundamentally change how they operated—it was just not working anymore, and they were looking for a strong partner in the community that would keep their programs alive." After a meeting between the McGaw YMCA staff and Foster Reading Center's board, the two organizations agreed to move forward.

"In retrospect, we should have done more education with our board members on this particular merger," comments Hart. The McGaw YMCA is the largest social service agency in Evanston: it has a $9 million budget, membership of more than 10,000 individuals, and offers a range of programs and services, including health fitness, aquatics, youth development, the largest SRO on the North Shore and the largest single-site child care center in Illinois.

"Upon reviewing the organization and looking at one of our goals, which was to expand our after-school opportunities in the community, the merger seemed like a good match. We did, however, struggle with the fears of one of our board members that we were diluting our programs, that we needed to stay focused on what we do well and not continue to expand. It took many conversations to bring that person on board—and we did take her concerns seriously," he explains. "Next time, we will do a little more educating up front on the processes we have in place to look at these offers."

The Negotiation

Trust

A common thread running through each of the profiled merger cases is the issue of trust. Along with the complementary characteristics of the merger partners, the strategic pairing that seemed to make sense for both sides and the matched outcomes, were trusted relationships.

The merger between the Foster Reading Center and the McGaw YMCA was started as a conversation between respected professional colleagues, and the CESO and Heartland Alliance merger process leveraged professional contact and respect based on years of working together. The executive directors of 7720 and Trilogy had known each other for years; in fact, Jim Graham had been a staff person at 7720 during his career. in the late 80s.

These synergistic mergers were built on a basis of trust and positive working relationships. While not necessarily a factor in all mergers, relationships of trust can increase the chances of a merger being successful.

After the internal assessment phase ends in a "yes" to the possibility of a merger and an agreement has been reached between organizations to move forward, the next step in a merger is to complete the details of the agreement. It is at this time that more members of the boards are brought into the process on a formal basis.

Details can include everything from company personnel policies to discussing whose name will live on. Often the negotiations are carried out by an ad hoc Merger Committee, comprising representatives from both groups—the executive directors, board leadership, finance staff, and, in some cases, customer representation. It is this group that develops the merger agreement which will eventually be presented to both boards for approval. This stage is completed with the signing of the merger agreement.

CESO and Heartland Alliance signed an "intent to merge" agreement. A three-month period followed that agreement, during which the organizations worked to combine CESO into the Heartland mix of offerings. Because the CESO board was small, a committee of the whole worked closely with the CESO executive director, the Heartland executive team, and with appointed board members to structure the merger agreement. Leadership on the merger document was provided by a CESO board member who was an attorney.

7720 and Trilogy formed a joint Merger Committee comprised of the executive directors and board members from both organizations. This Merger Committee presented an agreement for both boards that merged the assets of 7720 into Trilogy. In this case, the majority of the work was done by the two executive directors who met intensely over a period of five months to create the transaction, covering issues relating to finances, human resources, communication with staff, administrative elements and fundraising. Additionally, there were numerous legal issues that were handled by a lawyer jointly hired by the two organizations.

"Basically, the negotiation stage is about building a long-term relationship and agreeing to the terms of the relationship," explains Jim Graham of Trilogy. "Many times we likened this whole process to the process leading to a marriage—the courtship, the decision to marry, the planning of the wedding and a life together. And, as is true in the marriage analogy, you must be prepared to reveal and to be vulnerable. If you are not ready to look at your own organizational deficits, do not go there. You will be letting people into your camp to look at what you may not even show to your staff." During the negotiation phase, legal issues are part of daily life for both executive directors, the Merger Committee and the boards. In the case of Trilogy and 7720, the Merger Committee tackled a legal issue important to both executive directors: employment security for 7720 staff.

Helfrich comments, "We wanted 7720 employees to have a safety net, and we came up with the idea of guaranteed employment for six months. Structuring that legally was key."

Graham continues, "From Trilogy's point of view, we had a lot to think about legally and financially: what were the short-term issues? Were there any hidden costs and hidden legal issues? What were the long-term legal issues? The key thing for other executive directors to know is that there are legal advisors out there to help, and retaining counsel jointly can help save money."

The board of the Foster Reading Center hired an attorney to create an agreement with the McGaw YMCA, and the YMCA staff instituted a due diligence process, reviewing all financial, legal and program aspects of the Foster Reading Center. As part of the negotiating process, the board of the Foster Reading Center proposed that they be instituted as part of an oversight committee or advisory council of the Foster Reading Center in the larger framework of the McGaw YMCA.

Key to success during this stage of the merger process, according to Graham, is communication with staff. "It is crucial that you let your staff know what is going on. If possible, appoint a kind of interim merger communications director who keeps this on his or her radar screen and pro-actively distributes information."

During the negotiations phase, both organizations conduct due diligence—a rigorous legal, financial and program scrutiny. In the profiled cases, the larger organizations, with the exception of Trilogy, had existing protocols in place for this stage of the process. These existing protocols accelerated the merger process in each case and the larger organizations helped the "mergees" understand both the negotiation and the accompanying legal and financial issues.

The process of negotiating the merger between Rebound and Central Baptist Family Services mainly involved the Rebound co-executive directors and board president and the executive vice-president of CBFS, Jimmie Smith.

Jack Potter of Rebound details, "We hammered out the deal pretty quickly. In our case, the key was having the right players at the table, those that can make decisions. We did not have a formal merger committee but the small group of us, the executive committee, just kept exploring options until we all agreed. We maintained close communication with our boards and staff so that we would have buy-in too."

A key part of the agreement and a "deal breaker" for the board of Rebound was that Central Baptist Family Services had to agree that Rebound would continue the same core programs and keep the name for a minimum of five years. It is at this phase that organizations need to deliberately plan their communications about the process of a merger. In worst case scenarios, the word gets out that "we are being swallowed by a large organization" and there may be rumors about layoffs and,in the corporate lingo, staff becomes afraid of "hostile takeover."

During the merger process, information must be managed carefully and honestly and consideration given to the pace and meter at which information is communicated: how much is given out, how quickly, what to reveal and how to reveal it.

Graham's advice concerning communications includes appointing an excellent merger communications officer to shape the message to staff, funders, community and constituents. He warns, "Communication is something you have to spend a lot of time on. We included a merger update in our monthly newsletter. Minutes of the ad hoc merger committee were available. And I brought updates once a week to key management which sometimes raised more questions than they answered."

Before and After Snapshots

Rebound and Central Baptist Family Services

Rebound, located in Waukegan, Illinois, is a community-based residential facility for young men who are juvenile offenders. Founded in 1970 by a judge and a minister as a "last chance" for juvenile boys who were in trouble with the law, Rebound opened as halfway house for boys just out of prison. Rebound triumphed over significant challenges in recent years, including a fire, and in 1999 the agency completed a state-of-the-art facility for 25 young men. With signed contracts from both the State and the County committing both referrals and per-diem payments per resident, in mid-2000 Rebound was poised to serve its residents in expanded and significant ways.

At the time of the merger, Rebound's annual operating budget was $750,000 and its staff size was 20 part- and full-time equivalent, including co-executive directors who had a job-sharing arrangement. It was serving eight young men.

Post-Merger

The services and staff of Rebound started the integration process and officially merged with Central Baptist Family Services in January 2001. Central Baptist Family Services processes for human resources, administrative functions, fundraising and program administration were formally adopted and gradually instituted through management and staff trainings, an open door of communication between Rebound staff and Central Baptist Family Service's management, and the experience that Central Baptist Family Services had with integrating other organizations' staff and services into its workplace culture and processes.

As of June 2002, Rebound has an annual operating budget of $1,000,000, a staff of 20 part- and full-time staff, and is serving 17 young men.

Total time from the Catalyst to Merger : 12 months

Rebound started looking for a merger partner in January of 2000 and in January 2001, Rebound was officially merged with Central Baptist Family Services. Initial discussions led to a management agreement through which Central Baptist Family Services worked with Rebound leadership to address major organizational issues. After a period of three months, they entered into merger discussions and negotiations. Leadership of the organizations had worked together in many capacities for over three years and the merger leveraged the trust built over that time.

Karen Helfrich, former executive director of 7720, on the integration of the two agencies: "The details were absolutely mind-boggling—during and after the merger. It was a never-ending task of bringing the 7720 data into the Trilogy systems–Jim and I, the chief financial officer, human resource people, financial services people, we all had to work through merging the financial systems, the fundraising files. We had to look at consistency of job titles, had to blend insurance and other benefit offerings, had to make sure case records conformed. It seemed endless, and thankless. And then it was over! And now I must say that we are running quite efficiently."

7720 and Trilogy

Five years ago, 7720 was a small nonprofit providing residential services to chronically mentally ill adults, with three buildings in the Rogers Park neighborhood of Chicago. Trilogy is a community behavioral health care agency serving Evanston and Chicago's Rogers Park neighborhood, which provides treatment and support to individuals with psychiatric disabilities. The agency's focus is to help clients become self-sufficient and able to live with dignity in the community.

Created in 1979, 7720 embodied the dream of a group of parents who wanted quality homes for their mentally ill adult children. At the time of the merger, 7720 had an annual operating budget of $600,000, a staff of 12, and the capacity to serve 40 clients.

Post-Merger

Now, 7720's residential services are part of the continuum of programs provided by Trilogy: Karen Helfrich is a member of Trilogy's management team, and a former board member of 7720 is about to become the chair of the Trilogy board of directors. From the perspectives of both organizations, the merger has worked to meet their goals: 7720's goal of continuing to provide high-quality residential services; and Trilogy's goal of offering its clients a broader range of quality supportive services. Presently the budget for residential services within Trilogy is $1.3 million, its staff size is 10, and it has the capacity to serve 40 clients.

Total time from Catalyst to Merger : 18 months

Foster Reading Center and McGaw YMCA

Two aldermen in Evanston started the Foster Reading Center in the late 80s as a safe place for children to go: they wanted to keep unsupervised children off the street and create a place where children would learn to love books. Funded by family and friends for the first decade, and with some limited support from foundations, the Foster Reading Center provided after-school reading and tutoring to neighborhood children through on-site programs and the Roving Reader initiative, which provided story-tellers to local home-based child care providers. The total annual budget never exceeded $75,000, and at the time of the merger there were one full-time and one part-time staff. The program served up to 30 young people a day.

Post-Merger

Board members of the Foster Reading Center joined the Learning Center Committee of the YMCA, helping to guide the activities not only of the Foster Reading Center, but of other satellite and on-site learning centers.

The staff person of the Foster Reading Center joined the YMCA staff and soon was offered a management position. Staffing of the Reading Center was shifted to a volunteer corps of teachers from the local school district, augmented by the considerable educational resources, programmatic expertise, fundraising staff and leadership of the YMCA. "The merger has helped increase the quality of the Foster Reading Center program," states former board chair Janet Reman. "It now has education professionals responding to the ever-changing needs of the kids." Foster Reading Center now serves as a model for other reading centers supported by the YMCA. The major difference post-merger is that all the students served by the Foster Reading Center are offered the opportunity to join other YMCA programs such as swimming, health and fitness offerings, transportation programs and more. The Foster Reading Center program now serves up to 40 young people per day.

Total time from Catalyst to Merger: 7 months

The Foster Reading Center officially merged with the McGaw YMCA in January 2001.

Janet Reman observes, "Moving from being an independent board to being a committee of a larger organization was difficult at times. We were used to autonomy and we had to learn how the YMCA system operated. On the other hand, the staff and board of the YMCA are so great that the trade-off was well worth it."

CESO and Heartland Alliance

The Community Emergency Shelter Organization (CESO) was founded in the late 80s by the Eighth Day Center for Peace and Justice with the mission of providing technical assistance to organizations interested in launching shelters for homeless people. In the mid 90s it spun off one of its main programs—The Partnership to End Homelessness, a collaboration for providers of services to homeless people. At the time of the merger, CESO had a budget of $600,000 and a staff of six. In its final year of operation, CESO provided training to 300 individuals.

Post-Merger

The work of CESO lives on inside Heartland Alliance in a newly created division program called CESO—which now stands for the Center for Excellence in Service Organizations. The integration of the CESO programs and staff into Heartland was started during the three-month "intent to merge" period and involved transitioning some CESO staff into Heartland, some attrition of CESO staff, and some CESO staff taking other positions within the Heartland Alliance. CESO presently has three full-time staff augmented by Heartland Alliance's substantial resources in the areas of fundraising, marketing, human resources, accounting and management. Its budget is $400,000 and in the past year it has provided training to 500 individuals from more that 125 agencies throughout Illinois.

Total time from Catalyst to Merger: 9 months

CESO was officially merged with the Heartland Alliance in April of 2001, nine months after the initial discussions began in the CESO board room.

Reflections on Mergers

Mergers work as a solution to organizational issues if the critical mass of board and executive staff engage in strategic thinking and are truly mission-driven as opposed to organization-survival driven. According to leading industry academics such as Amelia Kohm and consultants such as David LaPiana mergers generally benefit from the following factors:

- Staff or board members who champion the merger
- Positive past experience with partners
- Board support and encouragement and a strong board/staff leadership relationship
- A culture of organizational risk-taking and/or growth orientation
- Partners that share a vision and recognize and value the different capacities of both organizations.

Looking back on the process of merging with 7720, Jim Graham of Trilogy comments, "The merger we went through was grueling—it took a lot of planning and a lot of time. It ate up a lot of resources, took an even longer time to implement and, finally, was absolutely the right thing to do. Now we are a stronger organization and we serve our constituents better. I would say to any executive director and board considering a merger that they better have a lot of Scotch and aspirin, that they'll need a lot of late nights, and they'll need the strength and courage to face their own organizational deficits in order to do this well. And, it can be well worth it."

Indeed, the return on this investment of time, money and energy can be substantial: as in the cases of the Rebound and Central Baptist Family Services, 7720 and Trilogy, the Foster Reading Center and the McGaw YMCA, and CESO and the Heartland Alliance, mergers have saved essential nonprofit services from extinction, created new options and accelerated the pace of creative, positive programmatic and organizational changes.

Marty Sinnott, president of Central Baptist Family Services, explains, "The ultimate outcome from a merger is increased efficiencies and better services for the families. Mergers can help you get more resources to the service you provide, can help you realign programs and can reduce duplication. In the case of Rebound, we were able to merge, efficiently apply the Central Baptist management, administrative and financial infrastructure to a smaller group, and thus save critical services in the community, and add a quality residential option for clients."

The exploration of the mergers also reveals that mergers can be a strong tool for nonprofits: a tool that can add depth to the surviving corporations, can mean the continuation of vital programs of the dissolving corporation, and can finally better position nonprofits to advance their missions and serve their constituencies.

"I believe that the merger we experienced is a sneak preview of things to come," comments Karen Helfrich, formerly of 7720. "That more and more nonprofits will be benefiting from the application of mergers as a sound tool to managing the incredible changes facing all facets of the nonprofit world."

An increasing number of resources are available on the issue of mergers in the nonprofit sector. Executives who want to examine mergers as a strategy should seek out additional resources and expert guidance as they strive for the greater good of the organization, continued support for the clients they serve, and dedication to the mission that guides and inspires them.

Defining Financial Health

Selected Resources

Kohm, Amelia, David La Piana, and Heather Gowdy. *Strategic Restructuring: Findings from a Study of Integrations and Alliance Among Nonprofit Social Service and Cultural Organizations in the United States.* The Chapin Hall Center for Children at the University of Chicago. 2000.

La Piana, David. *The Nonprofit Mergers Workbook. The Leader's Guide to Considering, Negotiating, and Executing a Merger.* Amherst H. Wilder Foundation. 2000. Details step-by-step process of a merger. Includes detailed case studies, worksheets for those involved in mergers, and extensive list of resources.

McLoughlin, Thomas. *Seven Steps to a Successful Merger. The National Center on Nonprofit Boards.* 1996.

National Center for Nonprofit Boards. Dedicated to increasing the effectiveness of nonprofit organizations by strengthening their boards of directors. Links to articles on mergers and other strategic restructuring options. **www.ncnb.org**

Strategic Solutions Project, whose purpose is to assemble and disseminate information about strategic restructuring. The site is funded by, among others, the Packard and Irvine Foundation. Emphasis on both the results and process of creating alliances or mergers. **www.lapiana.org**

The IFF and the Donors Forum of Chicago define financial health as a nonprofit's ability to maintain programs without interruption, to meet all financial commitments, and to end each year with positive net assets. In addition, a financially healthy nonprofit has a board of directors that assumes responsibility for the financial stability of the organization and has management that integrates financial and program planning.

Successful nonprofits operate with proactive strategies to define appropriate and balanced relationships with clients and constituents, with the government, with funders and with the community, using dedication to mission as the driving force.

For a copy of *Illinois Nonprofits: Building Capacity for the Next Century,* or to add a colleague to the mailing list for the *Capacity-Building Digests,* e-mail iffmail@iffund.org or call 312.629.0060.

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