Seven Reasons Nonprofit Mergers Make Sense

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Whenever we note (e.g., in Merging Wisely) that mergers are not necessarily a path to cost savings (at least not to immediate cost savings), we invariably get a few frustrated responses demanding, “Well then what’s the point?” Given the high-profile nature of mergers in the for-profit sector, where financial motivations are paramount and cost savings an immediate and important goal, this question is understandable. Mergers in the nonprofit sector are different, however. Nonprofits are mission-driven, and the ultimate goal of a merger — like any other strategy — is an enhanced ability to advance the mission.

Cost savings can certainly help with that; every dollar not spent on administration and overhead is a dollar more for program. In general, however, most nonprofits are “making due” with minimal infrastructure and staffing and do not experience significant financial savings through the consolidation of administrative functions. This is not to say there aren’t administrative efficiencies to be gained, and there may well be cost savings in specific areas, particularly when both or all partners are strong and fully staffed in a particular area. Typically, however, such savings offset much-needed improvements in overall capacity. A merged entity might be able to support a more robust financial accounting system, for example, or an enhanced human resources function. At the same time, the act of merging — and integrating the organizations after the merger — costs money.

When we say mergers don’t necessarily save money, people may wonder whether we think mergers are a good thing. Our answer: they most definitely can be, and often are, if done for the right reasons. While a merger may present opportunities to save money, this should not be the primary motivation, and the absence of clear and immediate financial savings should not dissuade an organization from considering merger as a strategy. Why else consider a merger?

1. To develop a more coordinated community response. Example: STAND! for Families Free of Violence, a merger of STAND! Against Domestic Violence and the Family Stress Center in Contra Costa County, provides a single point of entry to a range of services that had once been accessed and provided separately.

2. To create a comprehensive, holistic, integrated continuum of services. Example: The Domestic Violence and Child Advocacy Center, a merger of the Domestic Violence Center of Greater Cleveland and the Bellflower Center for Prevention of Child Abuse, offers a continuum of family violence prevention, treatment, and advocacy services.

3. To respond to a changing environment. Example: The Colorado AIDS Project brings together the resources and expertise of four previously independent regional AIDS service organizations, each of which was trying to determine how to sustain services in an increasingly uncertain funding environment.

4. To develop a stronger or more effective “voice.” Example: ArtServe Michigan’s merger with the Michigan Association of Community Arts Agencies was prompted by both organizations’ recognition of the pressing need for a single statewide entity with the credibility, capacity, creativity, and clout to effectively support, strengthen and build awareness of arts, culture and creativity in Michigan.

5. To share skills, resources, and expertise. Example: Prior to its merger with Recovery Resources, Community Challenge was a small provider of prevention services without the programmatic income to justify or cover the costs of the infrastructure necessary to support its work. Post-merger, that infrastructure and expertise was provided by Recovery Resources, which itself benefited from the programmatic capacity of Community Challenge.

6. To increase operating capacity and efficiency. Example: The 2006 merger between Cascadia Revolving Fund and ShoreBank Enterprise Pacific into ShoreBank Enterprise Cascadia (now Craft3) was driven and sustained by the “shared recognition… that they could do more together than they ever could apart” — and the recognition that the ability to operate at greater scale would be critical for long-term success.

7. To seize upon new opportunities. Example: In 2008, upon hearing that Oregon Water Trust had started a search for a new executive director; Oregon Trout approached the Oregon Water Trust Board about how the two organizations might work more closely together, up to and including merger. The timing was right, and the two merged later that year.

Clearly there are many reasons to consider merger, and many benefits to those that approach it strategically and execute well. The key is to think of merger as an “additive” strategy. The goal is to do more — whether the investment required is less than before the merger, or not.