A STUDY

41 Minnesota nonprofit mergers
1999-2010

Success Factors in Nonprofit Mergers

July 2012

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Success Factors in Nonprofit Mergers

A study of 41 direct service organization mergers in Minnesota, 1999-2010

July 2012

Joint research project of MAP for Nonprofits and Wilder Research

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Executive Summary

Mergers have become a common topic of discussion among nonprofit leaders, boards, and funders. They are often seen as a way to preserve and strengthen needed community services. However, organizations have been challenged by the lack of research based information about what factors influence the outcomes of a merger. This study was done to add to the body of knowledge about why direct service nonprofits decide to merge, how the process is completed, what happens following a merger, and what factors most influence merger outcomes. The resulting information is intended to help guide nonprofit leaders, staff, funders, board members, and other stakeholders to make decisions and assess the potential for success in nonprofit mergers.

Background

This presents the results of an analysis of 41 mergers of direct service nonprofit organizations based in Minnesota. It is intended to help nonprofit leaders, staff, funders, board members, and other stakeholders make decisions and assess the potential for success in nonprofit mergers. It is part of a larger study effort that began with the publication of ***MergeMinnesota: Nonprofit merger as an opportunity for survival and growth*** (Reed & Dowd, 2009), designed as a toolkit for organizations considering mergers and based on advice from nonprofit leaders and consultants. This was followed by the publication of ***What do we know about nonprofit mergers?*** (Owen, Martell Kelly, Pittman, Wagner, & Reed, 2011), which presented findings from a literature review of research articles based on data collected to answer specific research questions. It also reported information from a focus group and key informant interviews with executive directors, funders, attorneys, consultants, financial advisors, and others involved in nonprofit mergers. Both of these reports have shed light on factors that influence merger outcomes, and have been used to shape the research presented here.

Study approach and methods

To learn more about nonprofit mergers, the study team reviewed a comprehensive list of nonprofit mergers from the Office of the Minnesota Secretary of State to identify potential cases for this study. To be eligible, a merger needed to include direct service organizations and have occurred between January 1999 and June 2010. For purposes of the study, a merger is defined as an integration of two or more separate organizations into one legal entity in which at least one organization ceases to exist. In addition, eligible mergers had to include a transfer of programs or services, and a transfer of assets or staff. Of the 66 potential mergers identified, 46 were determined to be eligible for study participation. Of those, 41 agreed to participate resulting in an 89 percent participation rate.

Study participation was secured through telephone contact with executive directors by a former executive director who was also a lead member of the study team. Each executive director contacted was in turn asked to identify board members, financial managers, and other staff or volunteers who would have detailed knowledge regarding the merger.

In-depth phone interviews, lasting between one and two hours each, were conducted with 201 individuals. The number of respondents representing each merger ranged from three to eight. All 41 mergers were represented by at least the current executive director, a board member, and one representative from an organization that ceased to exist following merger. In order to fully use information from all 201 study respondents, the research team constructed case-level files for each of the 41 mergers. This construction was based on the level of consensus among respondents on each study measure. Each measure was classified based on whether or not there was consistent agreement among respondents. In this analysis, merger cases for which there was consistent agreement were compared to those cases in which there were inconsistent or contradictory responses. Based on these groupings, pre-merger and merger process related questions were cross tabulated with responses to questions related to post-merger success and tested for statistical significance.

In addition, financial data were obtained from publicly available 990 tax forms accessed from GuideStar. When available, forms were collected for the three years prior to the merger for all organizations involved, the first year of merged operations, and the three years following the merger. Analysis involved calculating financial ratios that were used to assess the financial health and stability of merged organizations.

Indicators of merger success

This research is unique. It is the first to comprehensively look beyond the merger process to assess what happens after the merger, especially in the operations and functioning of merged organizations. For purposes of this study, the following outcomes are regarded as key indicators of success for merged organizations:

- Improved image, reputation, or public support
- Improved, expanded, or preserved services
- Increased quality of operations
- Increased efficiency of operations
- Improved financial stability
- Development of a positive organizational culture

The study focuses primarily on the question of which factors predict success in nonprofit mergers. In particular, the study examines how the preservation of services and the administrative operations of newly-merged entities are affected by what happens prior to the merger.

Study results

Merging is a complex and sometimes arduous process. It requires the successful negotiation of a wide range of relationships and sensitivities, as well as clarity about the ultimate social good that one is striving to achieve through the combining of services. An analysis of the 41 mergers in the Minnesota study sample reveals the following:

Reasons for merging

Most mergers are pursued for a combination of strategic and survival motives.

- Strategically, organizations pursued merger to increase service delivery (93%), because the organization had a strategic vision that included merger (66%), or to improve what was already regarded as a reasonably solid financial status (61%).
- Primary survival motivations for merger included an interest in increasing long-term financial viability or solvency for at least one pre-merger organization (93%), a chance to save services that would otherwise be lost (75%), or a way to avoid imminent financial crisis (37%). However, few of the organizations studied reported a struggle to meet payroll (12%) or a need to sustain daily operations with a line of credit prior to the merger (7%).

Respondents also said the merger was done with the hopes of improving programs and providing better services. Sometimes they sought to acquire characteristics of another organization.

- Just over a half (56%) of the mergers sought to expand services to new market areas or populations. About one-quarter (29%) sought to expand the types of services offered to consumers.
- Respondents for 17 organizations reported the merger was motivated in part by a desire to expand their donor base. Eight organizations wanted to achieve greater staff expertise through merger, and five intended to expand physical space through the merger.

The role of the executive director and board

The presence of a leader committed to merger or the recent departure or retirement of an executive director can significantly influence an organization's approach to merger.

- Respondents from 95 percent of the mergers agreed that if not for one of the executive directors, the merger would never have happened. In addition, for 80 percent of the mergers, an executive director had recently left or was soon to retire in at least one of the pre-merger organizations.

Typically, an organization's board of directors also has significant influence on the decision and approach to pursue merger.

- In 61 percent of the mergers, having a board member from at least one of the pre-merger organizations pushing for merger was a primary reason for pursuing the merger.
- In 46 percent of the mergers, a board member was identified as a "champion" of the merger. In 78 percent of the mergers the decision to merge had strong support from board members.

Mission alignment and prior organizational relationships

Contrary to conventional wisdom, study results show that just over half of all mergers in the sample were closely matched on mission and vision, and only about one-third had previous collaboration or partnership arrangements.

- Fifty-four percent of the mergers studied were consistently reported to share a similar vision and mission. Fewer pre-merger organizations shared client or member populations (44%) and program focus (34%).
- Respondents for 32 percent of the mergers consistently agreed that the pre-merger organizations had previously collaborated or partnered, and 24 percent of the mergers were reported to have pre-merger executives who had a strong working relationship.

External environment

Conditions outside of the organization's control, such as the general economic climate or increased competition for resources, can also play a key role in an organization's decision to merge. Funders may also influence the process.

- Competition for funding was a primary motivation to merge in almost one-half (46%) of all mergers. Less than one-third (29%) of the mergers identified increased competition for providing services as a primary reason for merging.

- Respondents for one-third (34%) of the mergers said the economy influenced the decision to merge, and respondents for about one in eight mergers (12%) identified funder pressure as an important influence.

Merging process

Mergers typically involve a variety of tasks which may include establishing goals; identifying organizational participants; pursuing due diligence related to fiscal, legal, and administrative matters; engaging consultants and stakeholders; and integrating organizational systems. This study looks at the extent to which each of these tasks is considered and completed in pursuing the goal of a successful merger. Results indicate:

- Seventy-eight percent of merger partners had agreed on a defined process for the merger.
- Sixty-three percent of the mergers had specified one or more outcome goals such as financial stability, service preservation, improved operations, and/or reduced expenses.
- Eighty percent of mergers represented in the study were completed according to a time frame set forth in the planning process.

During the merging process, “due diligence” includes the identification or mitigation of risk in an attempt to increase the potential for success.

- In 68 percent of mergers there was consistent agreement that key merger leaders were given adequate time to develop relationships and negotiate the merger process, which for some was considered a part of “due diligence.”
- In 76 percent of the mergers there was consistent agreement that each organization was able to examine financial and legal information about the other organization. Respondents from 32 of the mergers consistently reported that financial due diligence was one of the most important aspects of the merger process.

Consultants played an integral role in the majority of mergers. They did so by facilitating plans, meetings, and discussions or providing expertise and a third-party perspective.

- Eighty-five percent of the mergers studied used a consultant in some capacity. When consultants were involved, respondents for more than one-half (57%) of the mergers reported that the consultant performed tasks that the organization’s staff or board members could not have done on their own.
- Respondents for 51 percent of the mergers that involved a consultant reported that the consultant was critical to the success of the merger.
- Respondents for 96 percent of the mergers would involve a consultant if they were doing another merger.

Involving key organizational stakeholders such as organization executives, board members, leadership and administrative staff, clients, funders, and the public-at-large is critical to the success of any merger process.

- In 88 percent of the mergers, an executive committed to considering strategic restructuring was present. The executive was described as the chief proponent of the merger process in 61 percent of cases.
- In open ended comments, respondents for 22 mergers said that the merger would likely have not happened without the commitment of the boards of directors.
- While non-administrative staff members were kept informed about the progress of merger (78%), they were not usually included in merger planning and processes (29%).
- About one-quarter of the mergers gave funders the opportunity to provide input (24%) or provided funders with regular updates on their work (22%).

As organizations engaged in the merging process, the integration of board and governance structures received significantly more attention than the integration of organizational cultures.

- Respondents for almost all of the mergers reported that there was a plan for how the board and governance structure would be affected by the merger (93%) and how the operations of the two organizations would be combined (90%).
- Far fewer (17%) said there was a plan to integrate the cultures of the merging organizations.

Financial analysis

An analysis of aggregate financial information available for each of the organizations involved in the 41 mergers shows that there was a slight decrease in short term fiscal stability and a slight increase in long-term fiscal stability. Looking at the three years before each merger and the three years after merger, there was a:

- Fourteen percent improvement in the overall aggregate debt ratio (total liabilities divided by unrestricted assets).
- Seventeen percent decrease in the current ratio (current assets divided by current liabilities).

Analyzing the 21 mergers for which complete financial data are available shows the complex and mixed financial outcomes of merger. Forty-eight percent of these mergers were determined to have strong post-merger financial stability while another 33 percent showed moderate financial stability. The remaining 19 percent of the mergers were determined to have weak financial stability.

To help understand the fiscal stability of these post-merger organizations, the study analyzed their financial data from the year of their merger (baseline) and three years after the merger (follow-up).

- Fifty-two percent increased their days cash on hand (the number of days a nonprofit is able to cover their budgeted operational expenses with their liquid assets), but only 38 percent of the mergers had 90 days cash on hand at follow-up.

- Forty-eight percent improved their debt ratio, and 86 percent of the mergers met the standard 2:1 debt ratio at follow-up.

- Thirty-eight percent improved their current ratio, but 86 percent of the mergers met the standard 1:1 current ratio at follow-up.

Furthermore, analyzing revenues and expenses for these mergers three years after the merger shows the complexities of post-merger financial stability.

- Fifty-two percent of organizations experienced decreased revenue from contributions and grants, but total revenue from these sources increased by 9 percent for the 21 organizations.

- Sixty-two percent of organizations experienced increased program service revenue, and total program service revenue increased 12 percent.

- Sixty-seven percent of organizations experienced increases in total expenses, and total expenses increased 8 percent in aggregate (total revenue also increased by 8%).

- Seventy-one percent of organizations experienced increases in accounts payable and accrued interest (short-term expenses), with a total aggregate increase of 18 percent.

Overall, these findings indicate reasonable strength in the long-term financial picture and some weakening in short-term financial positions. These results suggest there may be a short-term need for cash to cover merging expenses, new costs, or more operational expenses. These results may also reflect a strategic decision to pay down long-term debt.

Success factors in nonprofit mergers

The majority of findings in this section are based on cross tabular analyses of pre-merger and merger process measures in relationship to post-merger outcomes and indicators of success. When such relationships are reported in this section, findings are considered statistically significant using probability criteria of .06. This criteria is used (rather than the standard .05 value) in order to call attention to relationships that are likely to be meaningful but which would not have otherwise been reported using the more stringent standard. In this context, findings mean that the relationship between pre-merger and merging process measures are statistically associated with post-merger outcomes and that there is a low probability of these relationships occurring by chance.

Executive leadership

- The study finds that there is a clear and significant relationship between the presence of strong working relationships among executives prior to a merger and the preservation of services following merger.
- When an executive is a champion for the merger there is a statistically greater likelihood that the organization's image, reputation, or level of public support will be greater following merger.
- A strong working relationship among executives prior to the merger is also positively associated with greater financial stability and improved post-merger integration when the merger is complete.

This suggests that significant attention must be paid to the executive leadership participating in any merger and that funders and other stakeholders must take the presence or absence of these leadership characteristics into account when considering how and when to best support the pursuit of a merger.

Board involvement

As indicated earlier, board involvement and encouragement appears to be an important element in the majority of mergers described in this report.

- When respondents consistently report that the board of each premerger organization was integrally involved in the merger process, they were also more likely to report that the merged entity had improved its image, reputation, or public support in the three years following the merger.
- Open-ended comments indicate that boards are seldom unanimous in their willingness to consider merger and it is often the financial position of the organization that motivates board members to urge consideration of such an option.

It appears from a governance standpoint that it may be useful to educate board members with evidence-based information regarding nonprofit mergers so that they will be informed by the best available knowledge and resources.

Shared vision of benefits associated with merger

It was somewhat surprising to find that respondents for just over half of the mergers consistently agreed that the pre-merger organizations shared a similar mission and vision. This is not to say, however, that there was not significant overlap in these areas. Specifically the study finds:

- When organizations were able to identify potential mutual gains that could be realized in the merger there was a statistically greater likelihood that staff would integrate well into the new organization and be better aligned with the needs of the new organization and those whom it intended to serve.

This finding suggests that similarity of (and not necessarily identical) focus is likely to be important, but that it is not the only thing to be considered when looking at the compatibility of two or more agencies as potential merger partners.

Merger consultants

The vast majority of mergers described in this report (85%) engaged a consultant to assist with the merger. Moreover, in the majority of mergers, consultants performed functions that could not be performed by staff or board members on their own.

- Consultants especially added value as experts, including the specialized knowledge they could bring regarding organizational structure and function, finances, and legal aspects of merger.
- Consultants were also seen to have value as facilitators and third-party observers who could take a more objective view of the issues being faced by the organizations considering merger.

- In a few cases, consultants served in a more specialized role, serving as an interim executive director. In these circumstances, consultants become leaders within the organization to manage change, assess current issues, and engage boards in considering a range of possible actions including restructuring, reorganization, and merger.

Overall, it appears that consultants help to steady the process of merger because of the experience they bring and the reassurances that they can give during difficult transitions. They also appear to be critical in helping organizations take the appropriate steps at the appropriate times, and in avoiding or at least mitigating pitfalls that can come from limited experience with such major structural changes.

Financial distress

In at least one-third of the mergers described in the study, one of the organizations seeking merger was experiencing some type of serious financial difficulty. In two-thirds of all mergers, at least one of the partners reported that the goal of long-term financial viability was a primary motive in considering merger. In this sense, financial concerns are quite often an important motivator of those considering merger.

Interestingly, the study also shows that some level of financial distress may not only encourage merger, but may also mitigate difficulties related to the integration of organizational cultures following merger. In particular, the study shows:

- There is less likelihood of looking back at the pre-merger organizations with a sense of grief and loss when the pre-merger organizations struggled to make payroll or pay expenses.
- In contrast to this, when the pre-merger organizations had adequate assets to collateralize loans prior to the merger, respondents were less likely to report that staff from the pre-merger organizations integrated well following merger.

  Stated a different way, when pre-merger organizations are in difficult financial straits, staff may be somewhat more flexible in adapting to a new organizational climate or culture.

It is clear from study results that significant attention was paid during the merger process to the financial conditions of each potential merger partner. In fact:

- Having an opportunity to examine the financial and legal information of each organization in detail was associated with improved reputation and public support following merger, as well as expansion or improvement in the quality of services following merger.

Finally, while it is clear that some organizations experienced financial difficulties that motivated their merger work few organizations in the sample were at imminent risk of closing. In general, it seems likely that there is a point that may be reached in an organization's financial status where things have become so distressed that the organization can no longer be seen as a viable merger partner by any other organization. This suggests that it is important for an organization to consider the potential role of merger during early points of financial difficulty or even during times of financial strength.

Involvement of non-administrative staff

One finding of particular interest is the fact that the communication with, buy-in from, and involvement of non-administrative staff prior to merger are all associated with a significant number of positive outcomes following merger. Specifically:

- Financial stability, service quality and/or expansion, organizational reputation, and the alignment of staffing with client needs, are all positively associated with one or more elements of communication with and involvement of non-administrative staff.

This is a compelling finding because most often it is the executive leadership and board members who are most deeply involved in the actual planning and execution of a merger. Nonetheless, this study indicates that careful attention to how other staff members are informed, involved, and brought along during the process of a merger is likely to yield significant beneficial results when the merger is concluded.

Funder involvement

Similar to the findings regarding the involvement of non-administrative staff, funder involvement is also positively associated with important beneficial merger outcomes. In particular:

- The participation of funders is one of the few measures that predict the preservation of services following a merger.
- Funder involvement is also associated with improved financial stability and the better alignment of staff with the needs of the organization and its clients.

Based on this finding, it is safe to conclude that funder involvement, particularly involvement that gives funders an opportunity to give input into the plan and process of merger, can result in outcomes that would be widely regarded as beneficial to the community including organizational stability and service preservation.

Financial stability and service preservation following merger

The study began with the hypothesis that mergers could be beneficial in strengthening the financial stability and preserving the services of nonprofit direct service organizations. Study results indicate that the best predictors of financial stability following merger are:

- Strong working relationships among executives prior to merger
- Collaborations or partnerships between organizations prior to merger
- The inclusion and support of non-administrative staff in planning and implementation
- Opportunities for funders to participate and give input into merger planning

In addition, study results indicate that the best predictors of the preservation or expansion of services following merger are:

- Strong working relationships among executives prior to merger
- Opportunities for organizations considering merger to examine the financial and legal information about their potential merger partner(s)
- The development of cost sharing agreements for expenses related to the merger process
- The support and inclusion of non-administrative staff during the merger process including the use of staff meetings to address merger tasks
- Opportunities for funders to participate in and give input into merger planning

Conclusions

Taken together, these findings suggest that significant benefit can be achieved through the exploration and careful consideration of merger as an option for many types of nonprofits. Study respondents have made it clear that, although this is both challenging and sometimes stressful work, it may be worth pursuing in the interest of a greater community good.

Study results clearly indicate that mergers may work best when organizations have some history of partnership and openness, when non-administrative staff members and funders have input and involvement in the process, and when there is transparency in both legal and financial matters.

In difficult economic times, and in times when the demand for health and human services is expanding, it appears that mergers can contribute to the stability of the nonprofit environment and, at the same time, preserve and sometimes expand services.

Considerations for future research activities

This study attempts to add to the current body of knowledge about the reasons organizations decide to pursue merger, the merging process, and the success of mergers. It also examines relationships between the pre-merger motivations, merging process activities, and outcomes for the merged organization.

However, there are still gaps in the body of knowledge regarding nonprofit mergers that future research could address. Among topics that should receive attention:

- Financial analyses. Additional years of follow-up using accurate and detailed financial data could provide the information necessary to assess long-term financial effects of merger.
- Analysis of perspectives. Better understanding of how the perspectives of executive leadership, boards of directors, program administration, front line staff, and "merger champions" differ depending on the role they play would be a substantial contribution to the field.
- Analysis of failed mergers. There is a significant gap in knowledge regarding merger attempts that did not make it through the process. There would be significant benefit to be gained from a deeper analysis of the factors that influence a retreat from merger as a viable option for nonprofits, or the failure of nonprofits following a merger.

Finally, it is important to disseminate the results of this study in order that they can be discussed by those interested in nonprofit mergers and other types of realignments. Among the most important audiences are business leaders who sit on boards and support the decision making process, funders who are asked to support the merging process, nonprofit organizations that can use the information to make more educated decisions about merging, and other social science researchers looking to better understand the internal workings of nonprofit mergers.

Introduction

Mergers have become a common topic of discussion among nonprofit leaders, boards, and funders. They are often seen as a way to preserve and strengthen needed community services. However, organizations have been challenged by the lack of information about what influences the outcomes of a merger.

Previous research about nonprofit mergers has often depended on case studies or point-in-time surveys, making it difficult to determine if the results are isolated occurrences specific to those cases only, or useful for drawing more general conclusions. Existing research has also focused more attention on the process of the merger and has not typically collected information about the success of the new organization following a merger.

This study was done to provide more complete information about the merger process and what happens after a merger. This rigorous research of 41 mergers of nonprofits providing direct services in Minnesota included interviews of current and past executive directors, board members, staff, and consultants, as well as financial information gathered from tax forms. For brevity and clarity in wording, these representatives are referred to throughout the report as “the organization” when interview results are reported.

This report seeks to answer the following research questions:

- Why do nonprofit organizations consider merging and what factors and conditions influence the decisions to merge?
- What are the processes and activities associated with merging?
- How is a successful merger defined?
- What decisions and activities contribute to a successful merger?
- Are services preserved or expanded through a merger?
- Do mergers result in administrative efficiencies or cost reductions?
- What factors in the planning and execution of a merger most impact the outcomes of a merger?
- What are the significant challenges encountered by merged organizations?
- How can nonprofit staff, funders, and other stakeholders use the results of this study to guide decision making and assess the potential for success in nonprofit mergers?

Background

To build on previous work, add to the current body of knowledge, and provide information that is useful to both funders and nonprofit organizations, MAP for Nonprofits and Wilder Research jointly conducted a multi-phase study of nonprofit mergers. This study stemmed from Project ReDesign, MAP for Nonprofits' initiative to encourage, guide, and support nonprofits to improve their sustainability through mergers and other types of realignment. This initiative led to a MAP publication *MergeMinnesota: Nonprofit merger as an opportunity for survival and growth* (Reed & Dowd, 2009), a toolkit for mergers based on advice from nonprofit leaders and consultants.

In 2011, MAP and Wilder Research jointly published *What do we know about nonprofit mergers?* (Owen, Martell Kelly, Pittman, Wagner, & Reed, 2011). That report which represents the first stage of the study provided findings from a literature review of research articles in which there was a systematic collection of data through surveys, secondary data, focus groups, or key informant interviews designed to answer specific research questions. It also reported information from a focus group and key informant interviews with executive directors, funders, attorneys, consultants, financial advisors, and others involved in nonprofit mergers. The report sheds light on factors that influence merger outcomes, and has been used to shape the research presented here.

Study timing

The timing of this study, specifically its co-occurrence with the most significant recession since the Great Depression of the 1930s, posed some unique challenges to the plans for the analysis of financial data. Specifically, measures of pre- and post-merger financial status could not provide a reliable picture of how organizations fared following merger because most pre-merger data was also pre-recession data and most post-merger data was gathered in the post-recession time period. Additional analyses are used in later sections of the report to adjust for this fact.

Definitions

Because nonprofit organizations can be restructured in a variety of ways and the terminology is sometimes inconsistent, a definition of a nonprofit merger is helpful. For purposes of this research study, a merger is defined as an integration of two or more separate organizations into one legal entity in which at least one organization ceases to exist.

Much of the research literature about nonprofit mergers identifies success as completing the merger process. This study looks beyond the merger process to assess what happens after the merger, especially the effective operating of the merged organization.

For purposes of this study, the following outcomes are regarded as key indicators of success for organizations that complete a merger: improved image, reputation, or public support; improved, expanded, or preserved services; increased quality of operations; increased efficiency of operations; improved financial stability; and development of a positive organizational culture.

Results from previous phases of this study

This section provides findings from the literature review, key informant interviews, and focus group conducted to complete *What do we know about nonprofit mergers?* (Owen et al., 2011). The findings were incorporated into the present phase of the study as hypotheses to be scientifically tested.

Reasons for considering a merger

There are a variety of reasons organizations consider merging, including basic survival, preservation of mission, or the improvement or expansion of services. Sometimes external events trigger a merger. Today's difficult economic climate has adversely affected funding and services for many organizations. Increasingly, organizations may consider a merger to develop greater organizational efficiencies related to programming, administrative capacity, or fundraising.

An organization may believe a merger will engage community leaders or board members, or increase their community profile. One of the most frequent events that trigger merger considerations is the loss of an executive, especially if it is a long-serving executive. In this case, an organization may consider a merger in order to benefit from the leadership of another organization.

Factors thought to affect merger success

Thirty factors thought to affect nonprofit mergers were identified in the literature review, key informant interviews, and focus group conducted during 2010 and 2011. They are divided into three stages: pre-merger, merging process, and post-merger. This nomenclature is used as the basis of further investigation throughout the study. While the activities in each stage may differ in individual merger situations, informants stress that working through each of the stages is imperative to the success of a merger. Complete descriptions of the stages and factors can be found in Appendix 1.

Stage 1: Pre-merger

The pre-merger stage is a time of internal assessment and consideration. It is the period during which there is an opportunity for an organization to consider factors such as its motivation for restructuring, current financial situation, external pressures, and existing leadership. During this stage, an organization also considers which other agencies might be viable merging partners, specifically thinking about clients, services offered, geography, and mission. Twelve identified factors associated with the pre-merger stage are grouped into four categories: financial soundness of the merging organizations, external conditions,organizational structure, and leadership.

Stage 2: Merging process

Once an organization has determined that there is value in exploring a merger, it enters the merging process. This stage focuses on how and under what conditions an organization might work with another and which of their characteristics they will seek to preserve. At a fundamental level, this is the time when an organization assesses the risks and benefits of a potential merger partner. In going forward, the organization will consider how the merger might happen; who will be involved; how communication with staff and stakeholders will be handled;, and how the board, culture, and mission will be integrated. Ten identified factors associated with the merging process stage are grouped into four categories: key stakeholder involvement, role of staff in merger process, integrating formal and informal structures, and providing due diligence to the process.

Stage 3: Post-merger

During the post-merger stage, the merged entity begins to operate as a new organization. Organizational cultures and staffs are brought together, executive leadership is exercised, services are blended or restructured, administrative and staff roles are refined, and operating kinks and glitches are worked through. At this point there is often an emphasis on sources of ongoing financial support, leadership, and training, as well as the redefinition of organizational culture for both staff and clients. The process of becoming "settled" as a new entity may take several years. Eight identified factors associated with the post-merger stage are grouped into four categories: funding and support, services, climate and culture, and organizational capacity and structure.

Study sample

This merger study involved the analysis of 41 mergers of Minnesota direct service nonprofit organizations. Eighty-seven organizations were involved in the mergers. Thirty-seven of the mergers (90%) involved two organizations as pre-merger organizations; one of those organizations, known as the surviving or merged organization, continued to exist after the merger. One merger involved three pre-merger organizations merging into one surviving organization, and one merger involved four pre-merger organizations merging into one surviving organization. The remaining two mergers involved two pre-merger organizations disbanding and a new organization forming. For consistency, these new organizations are also referred to as surviving or merged organizations.

The 41 mergers described in this report took place between 1999 and the first half of 2010. They were distributed across the years with a high of nine mergers occurring in 2009 and a low of one merger occurring both in 2000 and 2002. The number of mergers in the sample ranged from two to five in each of the remaining years, and the number of mergers increased in the second half of the decade.

The merged organizations fell into 16 of the possible 26 broad National Taxonomy of Exempt Entities (NTEE) classifications. The most frequent categories included: human services especially, family services, personal social services, emergency assistance, and independence for special populations; youth development such as scouting; and arts, culture, and humanities.

The merged organizations were located throughout Minnesota, with 59 percent located in the seven-county metropolitan area and 41 percent located in greater Minnesota.

Methods

To learn more about nonprofit mergers in Minnesota, the research team designed a rigorous research method based on the acquisition and use of multiple data sources for each merger. This started with defining eligibility and sampling criteria, and progressed to selecting and engaging multiple participants in each merger, designing and conducting in-depth telephone surveys with each respondent, gathering financial data filed for tax purposes, and analyzing the study results using both qualitative and statistical methods.

Eligibility

To ensure that the pool of potential participants included all possible mergers, the study team obtained a comprehensive list from the Office of the Minnesota Secretary of State which was reviewed to determine study eligibility. To be eligible a merger needed to include direct service organizations and had to have occurred between January 1999 and June 2010. For each of the eligible mergers, at least one organization ceased to exist, there was a transfer of programs or services, and there was a transfer of assets or staff.

Of the 66 potential mergers contacted to be a part of the study, 46 were determined to be eligible for participation. Of those, 41 agreed to participate resulting in an 89 percent participation rate.

Some of the reasons a potential merger was ineligible for the study included: the organization had an internal restructuring; one of the organizations had ceased functioning or there were no assets or staff to transfer; there was a parent/subsidiary relationship between the organizations; one of the identified pre-merger organizations was actually a program of the organization; or the organization had another merger experience that was already sampled for the study.

Engagement

Because of the in-depth nature of the study, the study team decided to individually invite executive directors to participate. Contact information for the existing executive director of each organization was obtained from the Office of the Minnesota Attorney General's web site and other Internet sources. Each executive director was sent a letter explaining the research conducted for *What do we know about nonprofit mergers?* (Owen et al., 2011) and the purpose of the forthcoming data collection. The letter was followed by a phone call from study team member Ron Reed a former nonprofit executive director. The phone call served the dual purpose of clarifying eligibility and exploring each organization's interest in being part of the study.

Survey development

The study team designed an in-depth survey instrument with questions designed to learn more about the factors identified during the literature review and explore additional factors that affect nonprofit mergers. The questions focused attention on three areas: the pre-merger period, the merger process, and activities and outcomes in the post-merger period. To capture information about the current functioning of the merged organization, the survey instrument also included questions about current challenges and successes.

The survey began with a series of screening questions to assess the respondent's knowledge of and experience with different time periods associated with the merger. With the exception of the current executive directors, who were asked all the survey questions, respondents were asked to respond only to those questions for which they had specific knowledge, thus increasing the quality of the responses and decreasing the response time burden. The complete survey instrument is located at the end of this report.

Interviews

Between June 2011 and January 2012, research staff conducted 201 phone interviews. The respondents included current and previous executive directors, board members, staff, and consultants. Most of the interviews lasted between one and two hours.

Wilder Research staff first interviewed the current executive directors of the merged organizations. They were each asked to identify potential respondents who could discuss the merger from different perspectives. The number of completed interviews ranged from three to eight per merger. In each case, respondents included at least one person representing the organization that was dissolved or acquired as part of the merger, the current executive director, and at least one other person, often a board member, who was knowledgeable about the merger. Figure 1 shows the distribution of respondents in their roles at different times during the merger.

1. Respondents' positions during the merger

	Pre (N=195)	During (N=187)	Post (N=176)	Current (N=141)
Executive leadership	66	63	60	50
Board of directors or governance	74	70	66	49
Program administration or management	18	18	17	13
Financial administration or accounting	10	11	11	7
Consultant	9	10	7	6
Staff	11	9	9	5
Member or volunteer	5	4	3	6
Marketing or communications	2	2	2	2
Development	0	0	0	1
Other	0	0	1	2

Financial data collection

To learn more about the financial state of organizations involved in mergers, financial data were obtained from publicly available 990 tax forms accessed from GuideStar. When available, forms were collected for the three years prior to the merger for all organizations involved in the merger, the first year of merged operations, and the three years following the merger.

Data from 349 tax forms were available, representing 84 of the pre-merger organizations and 38 mergers. The analysis focuses on three ratios that could be calculated for the majority of organizations for each of the three time periods identified above.

Current Ratio

This is a calculation of the current assets divided by current liabilities. It is an indication of an organization's ability to pay obligations in a timely way (within 12 months) and is a useful indicator of cash flow in the near future. A commonly excepted standard for reasonable performance is a ratio of 1:1, but a higher ratio is better.

Debt Ratio

This is the calculation of total liabilities divided by unrestricted assets. It is an indication of how much the organization is relying on funding from others, such as loans, payables, and obligated funds. Overall, it is an indication of how much of a financial cushion exists for the organization. A commonly excepted standard for reasonable performance is a ratio of 2:1. A lower ratio is better but it may be appropriate to have a higher ratio if the liability is for a productive purpose, such as a building or financing for a housing project.

Days Cash on Hand

This is a calculation of the number of days a nonprofit is able to cover their budgeted operational expenses with their liquid assets. The number of days is calculated by first subtracting depreciation, pass through grants, and any other non-cash expenses from the total expenses for the year and dividing that number by 365. This is considered the daily cash required for operations. Then, the total liquid assets (cash and short-term investments) are divided by the daily cash required. The resulting number represents the number of days the organization could operate without collecting any addition revenue from accounts receivable, long-term investments, or endowment. A commonly accepted standard is to have 90 days cash on hand. However, an organization with stable payment of accounts receivables may operate with fewer days cash on hand.

Quantitative data analysis

The key informant interview protocol included 125 closed-ended questions, questions for which respondents had pre-determined response options (e.g., yes or no, scales, or categories). However, because this is a study of mergers, and not individuals, it is more suitable to look at the data in terms of mergers. Therefore, individuals' responses from each merger have been aggregated to the merger-level. This is done differently depending on the type of closed-ended question and the intent of the question. The following provides a brief description of how case-level variables were defined using individual responses relevant to each merger.

For most of the closed-ended survey questions, respondents answered based on a four-point scale measuring their level of agreement ("strongly agree" to "strongly disagree" with no neutral option) to a wide range of statements related to the merger. For these questions, the criteria developed to aggregate the individual responses into a merger-level composite focuses on the extent to which there is "consistent agreement" among the respondents regarding the various statements. When mergers are said to have consistent agreement, this essentially means that all of the respondents from that merger either "strongly agree" or "agree" with that statement.

Questions in the pre-merger section of the interview asked about the possible reasons that each organization pursued the merger. These questions provided three response options indicating the proposed reason was a "primary reason," "part of the reason," or "not a reason" the organization pursued the merger. Aggregating these questions to the merger-level was done by first determining the organization with which each respondent was most closely affiliated. Then, if any of the respondents affiliated with that pre-merger organization listed a proposed reason as a "primary" reason for pursuing the merger, it was considered a reason for merger for that organization. The pre-merger organizations are then combined into one merger-level variable that measures whether each potential reason was identified in neither of the pre-merger organizations, only one of the pre-merger organizations, or in both of the pre-merger organizations.

In discussing the findings for mergers that began with three or more organizations, "both" is used when at least two original organizations share a motivation or characteristic.

In general, the closed-ended questions with "yes" or "no" response options were aggregated to the merger-level by taking any "yes" from an individual respondent and considering it a "yes" for the merger as a whole.

For most of the findings in this report, the merger-level analysis described above is used unless there is a reference to the total pool or specific subset of survey respondents.

Qualitative data analysis

The remaining questions on the key informant interview protocol were open-ended in that they did not have pre-determined answer categories or ratings from which respondents could choose. The resulting text responses were processed and organized, coded, and analyzed using specific qualitative analysis software designed for that purpose. Initially, the open-ended questions were split into two primary qualitative datasets. These datasets were structured around sets of general core questions and specific topic area questions. The core questions cover the basic content of the interview in general themes, and individual files were constructed for each of the 201 interview respondents that included each of the core questions answered by each respondent.

The topic area questions included questions relating directly to specific merger-related content. These were organized into eight key topic areas:

- The "merger champion"
- The use and helpfulness of consultants
- Financial changes to the organizations resulting from the merger
- Goals, due diligence, and planning related to merger processes

- Characteristics of the leadership in the pre-merger organizations
- Reasons for merger
- Integration of staff and culture
- Structural changes to the merging organizations

Individual topic area files were constructed for each individual merger.

The core question and topic area question files were loaded into Atlas.ti™ Qualitative Data Analysis (QDA) software, and the researchers assigned codes to the content. The codes were developed based on findings from previous research, and additional codes were added as themes emerged from the survey data. Once the coding was complete, the researchers used the QDA software to search and sort the qualitative data, develop themes, and query for relevant responses to be included in the report.

Note on the presentation of quantitative and qualitative data in this report

Data in this report are presented as percentages and numbers. Quantitative data derived from pre-determined response options are reported as the percentage of all mergers. Themes in the qualitative open-ended responses are cited as the number of mergers in which the theme was present.

Why Organizations Merge

Prior research indicates that an organization may consider merging because it is looking to the future of the organization and is focused on preserving the mission and services, it is thinking about efficiencies and building capacity, or there is an internal or external event that increases the sense of urgency to do something that many might consider drastic.

This research shows that the decision to merge is generally a combination of existential survival and strategic considerations. These reasons include:

- Expanding the types or reach of services
- Improving programs and providing better services
- Acquiring organizational characteristics (e.g., donor base or physical space)
- Strengthening financial position

Furthermore, mergers are also driven by key stakeholders and conditions. These include:

- An executive director champion or turnover
- A board-driven decision to merge
- The operational or mission fit of the organizations
- External conditions like increased competition, national mandates or funder pressure, and economic downturn

Motivation to merge: survival versus strategy

At the most basic level, a decision to merge is based on survival or strategy. This is to say that in the mergers studied, the individual organizations pursuing merger were invariably motivated by one, or a combination, of the following:

- The opportunity for improving services, outcomes, or operations. This is considered a "strategy-motivated" merger.
- The short-term survival of at least one of the organizations is unlikely because of financial, leadership, or other crises. This is considered a "survival-motivated" merger.

It should be reiterated that these two basic motivations are not mutually exclusive. In fact, the basic motivations for merger are often a combination of survival and strategy.

The research completed earlier in this research project identified two factors related to stability and survival as motivation for merger. The first factor describes organizations motivated by potential fiscal stability. The other factor describes being motivated by the potential for the organization to stabilize and survive to meet community needs.

To learn more about these concepts, respondents were asked about the primary reasons their organization decided to pursue a mergers. Among the strategic motivations to merge, the opportunity to increase service delivery was most frequently identified by respondents (93% of mergers) as a primary reason. Improving an organization's already solid financial status (61% of mergers) was also identified as a primary reason to merge as was the fact that the organization had a strategic vision that included merger (66% of mergers).

Looking at the survival motivation to merge, respondents from at least one organization in almost all of the mergers (98%) said the potential for increased long-term financial viability or solvency was a primary motivation for merger. Respondents for 75 percent of the mergers said the merger was an opportunity to save services that would otherwise be lost. Respondents were least likely to identify an imminent financial crisis as a primary reason for merger (37% of mergers) (Figure 2).

2. Survival and strategic motivations for merger (N=41)

Strategic motivations	**Identified in BOTH***	**Identified in only ONE**	**Identified in NEITHER**
Opportunity for increased service delivery	56%	37%	7%
The chance to improve organization's already solid financial status	24%	37%	39%
Had a strategic vision that included merger	20%	46%	34%
Survival motivations	**Identified in BOTH**	**Identified in ONE**	**Identified in NEITHER**
The potential for increased long-term financial viability or solvency	32%	66%	2%
Opportunity to save services that would otherwise be lost	46%	29%	24%
An imminent financial crisis or issues with short-term solvency	0%	37%	63%

**Notes: For a complete explanation of how these figures were computed, see pages 9 and 10 in the methods section.*

For the mergers that included more than two pre-merger organizations, these characteristics were identified in at least two of the organizations.

Using these six variables, we can construct a measurement that provides a clear perspective on the balance and interrelation between survival and strategic motivations. In doing so, we find that the motivations for merger are very evenly split, with a slight edge to survival motivations (Figure 3).

3. Survival versus strategy motivations in merger

	Frequency	Percent
Strategy-only	3	7%
Strategy-leaning	6	15%
Balanced	20	49%
Survival-leaning	8	20%
Survival-only	4	10%

Almost one-half (49%) of the mergers studied are considered to have balanced motivations for merger. This means that the number of survival motivations is equal to or within one of the number of strategy motivations reported for at least one of the pre-merger organizations in Figure 3. For example, if a merger reports that three of the strategy motivations and two of the survival motivations were primary reasons for merger in at least one of the pre-merger organizations, this merger would be considered to have balanced motivations for merger.

Ten percent of the mergers are considered survival-only. This means that they identified all three survival motivations in at least one of the pre-merger organizations and none of the strategy motivations. Conversely, seven percent of the mergers are considered strategy-only. Finally, one-fifth (20%) of the mergers are considered survival-leaning and 15 percent were strategy-leaning. These represent mergers that were motivated more by either survival or strategy, but still had some elements of both.

Expanding types or reach of services

A key strategic motivation for pursuing merger is to expand the types of services the organization offers or to expand the market reach (geographic or segment) of the services the organization offers. In this study, more than half (56%) of the mergers were seen as an opportunity to expand the reach of services to new markets, client populations, or new geographies. A much smaller percentage (29%) reported that they wished to expand the type of services offered.

Improving programs and providing better service

At the core of strategic motivations for pursing merger is the potential to improve programs and services. Respondents from two-thirds (66%) of the mergers studied described elements related to better serving clients, customers, or members or improving the services the organization provides. The primary ways in which organizations were seeking to better serve clients was to reduce confusion because of duplicate services or providers and, in general, providing better access to services.

Respondents also described being motivated to pursue a merger because the strategic programmatic fit of programs and services in the pre-merger organizations would allow the merged organization to improve services by providing a missing or underrepresented program element.

> The opportunity to serve a greater population [of] at risk kids. –*Executive leadership*
>
> I think that we felt it would allow us to continue with our mission, but to expand capacity to serve people. –*Program administrator or management*
>
> The single biggest reason was the good strategic fit of their programs, that either fit well with our programming or was programming which we wanted to pursue or to grow in as an organization. –*Executive leadership*

Acquiring characteristics of another organization

A primary motivation for merger that appears to straddle strategic and survival motives is an interest in acquiring one or more desirable characteristics of another organization. This is most commonly associated with a desire to acquire fundraising or additional donor base, but it may also include an interest in acquiring physical space or staff expertise.

In this study, 17 of the mergers were motivated in part by a desire to expand donor base. Eight organizations hoped to achieve greater staff expertise through merger, and five of the organizations intended to expand physical space through the merger.

> The ability to acquire the programming and the skilled and experienced staff associated with that programming. –*Executive leadership*
>
> We were not doing any external fundraising and did not leverage nonprofit advantages we had at our disposal. I knew we needed to be able to do that. I felt that if we could leverage our ability to run ourselves like a business as something we could provide for another organization, we could gain from their strengths in fundraising and connection into the communities, as well as their abilities in program development. –*Executive leadership*

Financial instability

The most common survival-motivated reason for merger is to gain greater fiscal stability for one or both organizations. In this study, 80 percent of executive directors of merged organizations report that the merger was either mainly (40%) or partly (40%) motivated by the desire to gain greater financial viability or solvency for one or more of the merging organizations. Although far fewer organizations reported that they struggled to make payroll prior to merger (15%) or needed to use a line of credit to sustain daily operations prior to merger (7%), the vast majority of organizations sought to improve their financial circumstances through merger.

It is important to note that this study sample includes only completed mergers, and therefore likely underrepresents the number of organizations that may explore merger only when financial circumstances become desperate. It is likely that organizations need a reasonable level of financial stability going into a merger in order to be viewed as a reasonable and worthwhile partner by another organization. Respondents representing 16 of the merged organizations in this sample provided narrative comments that suggested that at least one of the pre-merger organizations would have needed to close or significantly restructure if they had not been successful in finding a suitable merger partner.

> With the lack of financial resources and options to get financial resources to sustain our operations, we would have had to close. The realization was that we couldn't make it financially without some other partner. *–Board of directors or governance*
>
> We were going to go broke and either shut the doors or significantly cut and restructure programming. It was a survival issue. *–Board of directors or governance*

While other organizations were less desperate, fiscal soundness was still typically a concern.

> I think it was concerns about the financial future of the organization. We were solid at the time, but looking forward, we were concerned. *–Executive leadership*
>
> To be able to build a strong foundation for long term sustainability. I think some of the economic pressures brought them to the table, but once they started having the conversations, they found there were benefits. They really felt that they wanted to be as strong as possible. They went into this with a long term vision for growth and sustainability. *–Consultant*
>
> It was the opportunity to expand services with another organization that was well thought of and had very good services. They had some healthy financial reserves. *–Executive leadership*

In general, it appears that organizations sought to strengthen their financial positions by a variety of methods that could be supported by merger. This included new fund development opportunities, reduced competition for funds from donors, reduced duplication of expenses or staff costs, or efficiencies that could be gained by combining operations.

Executive director

Another important factor in nonprofit mergers is the role played by the executive directors. The presence of a strong and committed leader who can visualize and articulate the importance of merging, as well as the absence or departure of an executive director, can both be elements in a merger decision.

Executive as the merger champion

The idea of a merger "champion," someone who will guide the merger and has a clear vision of the potential benefits, is well documented in the research literature (Owen et al., 2011). Respondents for nearly two-thirds of the mergers in the sample (63%) identified the presence of a strong executive director who urged the merger forward as a primary reason for completing the merger.

In 35 of the mergers studied (85%), at least one of the executive directors was identified as the merger "champion." This number increases to 39 (95%) if you include individuals described as the "founder" or "other executive" in the organization. Furthermore, respondents from 39 of the mergers studied report that "if not for one of the executive directors, the merger would have never happened."

> She was the one who made the formal proposal, advocated and drove the process, and dealt with all the fallout afterwards. *–Board of directors or governance*
>
> If not for the two executives committing to each other at the beginning of this, to make it work, this would not have happened. *–Executive leadership*

Executive turnover: catalyst or condition

Having an executive director, president, or CEO leave or retire poses a common challenge for many nonprofits and often brings forth change in the organization. It is not surprising that it would also be a time for exploring merger. This is backed by the practice wisdom in the field as well as the 2011 research findings (Owen et al., 2011). This is also something found in the mergers studied for this report. Eighty percent of the mergers had an executive director from at least one of the pre-merger organizations who had recently retired or was facing retirement. However, only 32 percent of the mergers had one organization identify an opening in the executive director or CEO position as a primary reason for merging. None of the mergers reported that both of the merging organizations had an executive opening.

While executive turnover certainly emerges as a condition or a circumstance around which merger occurs, it is important to look at the level to which it drives or is "catalytic" in the decision to merge. Using the responses given to relevant questions in the key informant interview, it is determined that the executive turnover was catalytic for 39 percent of the mergers studied. This means that the executive turnover was described in one of the following contexts:

- Identified as a primary reason for pursuing the merger for at least one of the pre-merger organizations.
- Described as the "single biggest reason" of at least one of the pre-merger organizations pursuing the merger.
- The merger would not have happened if not for the executive turnover.

Board-driven merger

Boards of directors may drive the decision to pursue merger for a variety of reasons that may be strategic, survival motivated, or both. In 61 percent of the mergers studied, having a board member from at least one of the pre-merger organizations pushing for merger was a primary reason for pursing the merger in at least one of the pre-merger organizations. However, it does not appear that the lack of governance plays a key role because few (10%) of the mergers studied were pursued to fill openings on the board of directors (Figure 4).

4. Percent of mergers that report primary reason for merger was board-related (N=41)

	Identified in BOTH*	Identified in only ONE	Identified in NEITHER
Had a strong board member who pushed for the merger	12%	49%	39%
Identified a need for skilled board or governance leadership	0%	17%	83%
Had openings or could not fill openings on the board of directors	0%	10%	90%

**Notes: For a complete explanation of how these figures were computed, see pages 9 and 10 in the methods section.*

For the mergers that included more than two pre-merger organizations, these characteristics were identified in at least two of the organizations.

Furthermore, almost one-half (46%) of the mergers studied identified a board member as a "champion" of the merger. This underlines what we see as particularly strong support for merger among the boards of directors of the pre-merger organizations. In fact, there was consistent agreement among respondents in 78 percent of the mergers that the decision to merge had strong support from board members. Respondents also identified board commitment as an impetus for merger when they were asked "if not for [blank] the merger would not have happened."

> We had several board members on the executive committee who really took a leadership role in making this happen. In the very beginning there was a diverse opinion about it. By the time we were into the discussion, there was pretty much close to unanimous agreement.*–Executive leadership*
>
> I would say they were very engaged in the process. They were interested in listening and talking with other agencies that had merged. There was this interest in educating themselves. There was high attendance at meetings. Discussion was robust both inside and outside of board meetings. *–Executive leadership*

Organizational fit

How pre-merger organizations interact with each other can also influence their decisions to merge. For instance, the literature suggests that mergers will be more successful when there is a positive pre-merger relationship among executive leadership of the organizations or when the pre-merger organizations had previously collaborated or partnered. In this study, there was consistent agreement in 32 percent of the mergers that the pre-merger organizations had previously collaborated or partnered and respondents for 24 percent of the mergers consistently agreed that the executives had a strong working relationship.

> The two executives had a level of respect for each other, their strengths and the future stability of the organizations. *–Executive leadership*
>
> We worked very well together. The executive directors respected each other and their programs and missions. It makes a big difference when that happens. *–Executive leadership*

Pre-merger relationships were another common attribute related to organizational fit. In over one-half (54%) of the mergers studied, there was consistent agreement among respondents that the pre-merger organizations shared a similar vision and mission. Sharing client or member populations (44%) and program focus (34%) were slightly less common among the pre-merger organizations.

> I would think we finally found somebody that matched our vision and mission. [W]ith this particular merger, it was about the match. *–Program administrator or management*
>
> I would say we had some similar programs and also we had other programs that were related. I think from a program prospective, we thought it would be a good fit. *–Executive leadership*

Interestingly, factors related to the internal operations of the organizations were less similar among the pre-merger organizations. For roughly one-quarter or fewer of the mergers studied, respondents consistently agreed that the pre-merger organizations were similar in their ways of going about their business (27%), their approach to the work (20%), or the ways staff related to organizational leaders (12%).

External conditions

Conditions outside of the organization's control can also play a key role in an organization's decision to merge. These could include changes in the economic climate, increased competition for resources, or funder pressure to consolidate. External conditions were mentioned as a reason for merging in about one-third of the cases studied. Sometimes these external factors were a critical motivator of the merger.

Increased competition

One of the external conditions most often noted by respondents in this study was the competition for funding. This study found that competition for funding was a primary motivation to merge in at least one of the pre-merger organizations in almost one-half (46%) of all mergers. Fewer mergers were the result of increased competition for providing services. In fact, less than one-third (29%) of the mergers in this sample identified increased competition for providing services as a primary reason for merging.

> The belief, at the end of the day, was that the combined organization could do better, financially, because they wouldn't be competing for the grants. *–Board of directors or governance*

National mandates and funder pressure

Pressure from funders to merge can come from either local funders or the national headquarters of local affiliates. Respondents for at least one of the pre-merger organizations in 12 percent of mergers identified funder pressure to merge as a primary reason for merging. In addition, respondents said the funder played matchmaker in the case of three of the 41 mergers (7%) in the sample.

> It was the external messages from the funders; that was the reason it started. I think we pursued it because we felt it could be better. Our target populations for both organizations were the same. *–Board of directors or governance*

> It was really brought down by the national office; otherwise it wouldn't have been pursued. They were told that they had to. *–Financial administrator or accounting*

Economic downturn

Another external factor that can influence an organization's decision to merge is the state of the economy. For context, 28 of the 41 mergers studied (68%) had completed the merger prior to the economic downturn in 2008.

In one-third of the mergers (34%), respondents from at least one organization said the economy was a primary reason for merging. In only five of the 41 mergers (12%) did respondents for both organizations entering into the merger identify the external economic environment as a primary reason for merging.

National organizations

National organizations were often at the forefront of nonprofit merger activity. In the Twin Cities in particular, where there were local affiliates in Minneapolis and Saint Paul, many were encouraged to join forces beginning in early 2000. There are many examples of this trend in the Twin Cities area including United Way, American Red Cross, Big Brothers/Big Sisters, Planned Parenthood, Boy Scouts, Girl Scouts, and YMCAs. There are at least five examples of this type of merger included in this study. These mergers were generally influenced by the national organization which then provided support and guidance during the merger process. Occasionally national organizations provide a fairly strong directive to move toward the combining of operations.

This national movement provided a blueprint for others to follow. By sharing their merger experience, nonprofit organizations were able to learn about the value and the pitfalls of joining forces. With the downturn in the economy in 2008, smaller local nonprofits began to seriously explore collaboration and merger as an option for survival and growth.

Merger Processes

The merger process, or the procedures and actions by which the pre-merger nonprofits explore and combine the structural operations and cultures of the merger partner(s), is a central focus of this study and represents a wide range of elements that must be considered and negotiated in order to achieve a successful merger.

While some mergers are completed without formal plans, both the research literature and accumulated practice wisdom suggest that most successful nonprofit mergers are supported by clearly defined, communicated, and benchmarked plans. There was consistent agreement among respondents in 78 percent of the mergers studied that the merging organizations "agreed on a defined process for the merger." This process typically included the following:

- **Establishing goals** for the merger process and post-merger outcomes.
- **Providing due diligence** through the assessment of potential risks and benefits associated with financial, legal, and service and staffing activities within each organization.
- **Engaging consultants** to facilitate the process, provide expertise or knowledge, and maintain neutral perspectives in decision making.
- **Involving key stakeholder groups** including executive leadership, management, board governance, and staff.
- **Effectively integrating formal and informal systems** including organizational culture, human resources, organizational and leadership structures, and financial, accounting, and information technology systems.

It should be noted that the findings in this section represent the processes which the study organizations describe as important or central to their mergers. These processes do not necessarily represent the best practices for successfully merging. However, because of the sampling methodology for this study relies on mergers that were successfully completed, it can be assumed that these processes were effective in helping complete the mergers.

In this section, the data are presented as percentages and numbers. Quantitative data derived from pre-determined response options are reported as the percentage of all mergers. Themes in the qualitative open-ended responses are cited as the number of mergers in which the theme was present.

Establishing goals

Establishing goals is a principal step to initiating the merger process. Overall, 98 percent of the mergers studied established either formal or informal goals to help measure the success of the merger process. For study purposes, formal goals are written down as part of a merger plan, tracked for progress, and measured for completion. Survey respondents were asked about the presence of both formal and informal goals as part of the merger planning and encouraged to describe goals in greater detail, as seen in the descriptions below.

Process goals

The first goals described by respondents are defined as *process goals* because they are related to the completion of the merging processes. These goals primarily related to keeping the process moving through appropriate communications, time management, and integration tasks related to the consolidation of the operational elements of the organizations.

Timelines and communications

Creating a timeline and communicating with staff and board regarding how the merger is expected to proceed are critical activities in a merger. However, these activities are not always established as formal goals.

Overall, 80 percent of mergers represented in the study were completed according to a timeframe set forth at some point in the planning process, according to respondents. In addition, respondents for 88 percent of the mergers reported that the merger work was completed in a timely fashion. Furthermore, respondents from 14 of the mergers studied described goals related to having clear and realistic timelines. These timeline goals were mostly described as formal goals in the process, and were often described as having clear steps, stages, milestones, or deadlines for each merger partner, as illustrated in the following comment:

> [The formal goals] were time goals. [The merger] was organized in a fashion that really got us through the process, with all the information and communication that we needed to move along. –Executive leadership

Respondents from eight mergers also described explicit communication-related goals that were part of the merger process.

> I would say [a goal was] bringing both offices physically together and ensuring that communication was steady and regular. That kind of leads to "no surprises," which was another kind of a goal. –*Executive leadership*

Integration

How the people and processes of the merging organizations are integrated is an integral part of goal setting. Perhaps most important among the integration goals is an attention to staff integration. In fact, respondents from 17 of the mergers described goals established, for the most part, with the intention of reducing stress on the staff through:

- Providing seamless transitions of staff payroll and benefits.
- Helping staff become acclimated or feel welcomed in new work settings.
- Facilitating healthy interpersonal relationships between staff of the merging organizations.

These were primarily described as informal goals of the merger process.

Another key goal is attention to board integration which was described by respondents from 12 of the mergers studied. The most common elements of goals related to board integration included:

- Building a more cohesive team by building unity and getting to know fellow board members,
- Ensuring organizational equity and representation on the new board, and
- Decreasing the size of the board or choosing new board members.

This attention to board integration helps facilitate the smooth transition of governance.

Outcome goals

Sixty-three percent of the mergers included in the study had specified one or more outcome goals as part of the planning process. In 39 percent of the cases, these were described as formal goals, and in 41 percent of cases these were described as more informal goals.

Outcome goals took a variety of forms but typically included both financial stability and service preservation for the surviving entity. The primary way in which organizational effectiveness was described as a goal for the merger process was to provide better or more services to their clients.

Organizational effectiveness was also described as improved operations or reduced expenses.

Providing due diligence to the process

The term “due diligence” comes up often in the language of respondents, and can mean many things in the context of nonprofit mergers. At its most basic, the study shows that the due diligence process is defined in two ways, identification or mitigation of risk and increasing the potential for success for merging organizations. That being said, due diligence is also recognized as a holistic process of inter-organizational engagement and trust-building. In fact, for 68 percent of the mergers there was consistent agreement among the respondents that key merger leaders were given adequate time to develop relationships and negotiate the merger process, which for some was considered a part of "due diligence."

> The process of "due diligence" set up a really strong relationship among the leaders, which facilitated a relationship of trust and understanding. It wasn't just what contracts, what debts, etc., do you have. It was also discussions to have a good understanding of the cultures, opportunities, and challenges each were facing.–*Executive leadership*

To help better understand the meaning of due diligence when applied to a merger, study respondents were asked to describe their own understanding of due diligence in this context. The two primary themes that emerged in qualitative assessment of interview responses are:

- Sharing financial information or "opening the books" among the merger partners
- Forthrightness and clarity about future, pending, or past legal issues among the partners

The attention given to these two due diligence processes is supported by interview responses to closed-ended survey questions. There was consistent agreement 76 percent of the mergers studied that "each organization had the opportunity to examine financial and legal information about the other organization." Furthermore, there was consistent agreement in 71 percent of the mergers studied that each organization was able to outline elements from which it stood to gain.

While not quite as strong of a theme as the financial and legal due diligence, attention to staff integration was also a relatively common theme in the qualitative data about due diligence. Further explanation of all three of these due diligence processes follows in the sections below, while Figure 5 provides a brief overview of examples of risk and success elements in each process.

5. Due diligence processes and uses

Process	Risk	Success
Financial information	Reviewing debt and liabilities Identifying cash flow issues	Funding mix and types Revenue and expense sources Projecting a combined balance sheet
Legal functions	Review contractual obligations Pending lawsuits	Articles of merger Legal paperwork Dissolving merged organization(s)
Staffing and benefits	Assessing cultural compatibility	HR and benefits structures Staff input and communication

Sharing and managing financial information

Financial information represents perhaps the most critical component of nonprofit merger due diligence. Not only is it recognized by the respondents in this study as one of the primary defining characteristics of due diligence, but it is also often described as one of the most valuable aspects of due diligence in the merger process. Sharing critical financial information can be a deal maker or breaker in nonprofit mergers.

> The most important [aspect of due diligence] is financial, because nothing happens if the finances are not acceptable to both parties. *-Consultant*

Overall, respondents from 32 of the mergers reported that financial due diligence was one of the most important aspects of the merger process. The primary function of financial due diligence described by respondents was to assess the opportunities and risks of their organization and other organization(s) in the merger. Financial due diligence in the merging process also includes analysis and assessment of the future merged organization.

> [The board needs to] have a deep understanding of the current and potential financials of their organization and the organization with which they are merging. *–Executive leadership*

> [The most valuable aspect of due diligence] would be the financial aspect and making sure that by us coming together we did not put both nonprofits under. It didn't matter how great we were doing with everything else, if we weren't asking the right questions and getting the right information, getting the right financial information, or finding out how to make the business work, it wouldn't matter how great we were with the [clients] - it wouldn't have mattered if we didn't structure the financial side properly. *–Board of directors or governance*

Finally, the financial due diligence process often includes an assessment of the pre-merger organizations' funders, fundraising capabilities, and processes and typically focuses on what the funding mix would look like after the merger.

Legal

Respondents from 19 mergers reported that the most important function of due diligence was related to legal aspects of the merger. Due diligence, as it relates to the legal aspects of nonprofit mergers, appears to include two basic elements. First, it involves all of the legal processes involved in consolidating two or more organizations into a single entity. These include making sure the right paperwork is completed accurately and filed with the right authorities, articles of merger are drafted correctly, and the dissolving organization(s) in the merger are dissolved in accordance with the law.

The second type of legal due diligence in nonprofit mergers involves the legal protection of pre-merger organizations. This means assessing the other organization(s) for potential legal liabilities including outstanding or unresolved legal concerns or lawsuits and any potentially troublesome contracts or other legal arrangements.

Staff and culture / personnel and benefits

The third primary category of due diligence includes the review and understanding of staff and personnel issues and the communication required to keep staff members informed of the process. This was seen as particularly important in the context of employee benefits structures, pay scales, the alignment of job descriptions, and other human resource related issues.

In all, staffing and organizational culture issues were referenced as part of necessary due diligence by respondents involved in 16 of the mergers studied.

Use of consultants

Consultants play an integral role in many mergers. Almost all (85%) of the mergers studied had a consultant involved in some capacity, and, when consultants were involved, respondents for more than one-half (57%) of the mergers reported that there were functions in the merger process performed by the consultant that the organization staff or board members could not have done on their own. Furthermore, respondents for 51 percent of the mergers that involved a consultant reported that the consultant was critical to the success of the merger, and respondents for almost all of the mergers (96%) would involve a consultant if they were doing another merger. However, it is worth noting that there is limited reference to the use of consultants following the mergers.

Respondents were also asked about the activities of the consultant and how the consultant was most useful. The three primary areas in which consulants added value were:

- Facilitation of meetings and discussions
- Expertise and knowledge regarding specific elements of the merger process
- Third-party perspective or neutral outside view of the potential merger

These themes are described in further detail in the following sections.

Facilitation

The most common functional role for an external consultant is to help facilitate merger processes. Respondents from 28 of the mergers studied described consultant functions related to general facilitation of the merger process. Respondents, in general, described the major role of the consultant was to move the process forward.

Consultants help to create and document the merger plan to guide and track processes during the integration. This role of nonprofit merger consultants often represents project management of the entire merger process from beginning to end.

> The consultant helped outline the major issues that needed to be considered, helped develop the plan/process we would go through, provided coaching and advice to the executive directors, and facilitated both board and work group meetings. –*Executive leadership*

Consultant facilitation of the merger process more specifically includes tasks intended to bring stakeholders to the table and, once stakeholders have been engaged, facilitate meetings. These gathering and facilitation tasks may include scheduling meeting times, developing agendas, and working through the meeting processes.

> [The consultant's role] was to make sure that we followed the Robert's Rules of Order and help facilitate the meeting. –*Volunteer*

Establishing communications with and between stakeholders is another common responsibility for consultants facilitating merger processes.

> [The consultants] oversaw the communication between the two organizations, helping them communicate effectively with each other, until the two organizations interacted and had their own face time. The consultants helped in keeping the communication open between the two organizations until we were able to communicate effectively with each other without anyone in between. They kind of ran interference for us. –*Board of directors or governance*

Role of the interim executive director

One way to bring in outside expertise when organizations are considering future options is to hire an interim executive director. Experienced individuals are often able to ask a series of strategic organizational questions which may be difficult for those internal to the organization to ask objectively. Two consultants interviewed as part of this study were interim executive directors for one of the pre-merger organizations.

> The role of the interim executive director is to provide internal leadership, and a continued passage through the sometimes daunting period of change. Wise boards often use this time of change and the perspective brought by this experienced change manager to establish a safe harbor that allows the organization, its staff and programs to relax in what William Bridges calls a "neutral zone". (Referenced in Managing Transitions… Making the Most of Change, W. Bridges, Da Capo Press, Philadelphia, 2009) –*Kathleen Corley and Linda Tacke*

Interim executive directors have a responsibility to learn a great deal about the organization in a relatively short time including the nature and types of services delivered, the market in which the services are delivered, and the financial framework supporting the organization. They often raise the following questions:

- Has the organization established a set of strategic criteria which it uses to assess challenges and opportunities?
- What is the current business model? Does it work in the current environment?
- What are programs really costing, and who is paying for them?
- Are the systems, policies, and procedures of the organization strong and flexible and able to withstand the stress of change?
- What is happening in the market place? Who else is providing services to the population identified by the mission? Has there been a collective and collaborative analysis of who is providing what to whom to measure the potential of a strategy of collective impact?
- What is the focus of the change? Survival of the organization or survival of the necessary services to the community?
- How can the collective energy and intelligence, the wisdom accumulated through time, and the resources contributed and earned be re-structured to best meet the needs of the community?

Once these questions are raised and answered, and while the organization is still in the described "neutral zone," the interim executive director has the responsibility of finding a way for the organization's work to continue.

> It is this discussion that provides the board an opportunity to consider dissolution, downsizing, merger, or a new and alternative structure that will provide a consortium of services. This discussion calls for leadership that is mature, focused, confident, clear-eyed, creative, and committed to its community. –*Kathleen Corley and Linda Tacke*

Another advantage the interim executive director may have is the fact that there is no expectation that the role will exist indefinitely. Thus, in any potential restructuring, it would not be difficult to either replace the interim executive director, or eliminate the position if the organization's strategy is to pursue a merger with another organization in which there is an executive director already present.

Expertise and knowledge

Respondents from 22 of the mergers described hiring a consultant, at least in part, because of the consultant's specific skills, expertise, or knowledge of nonprofit mergers.

> All the folks with the organizations are experts in [providing services], none of them in mergers. Bringing someone who was knowledgeable was critical to the merger success, and ultimately saved them time and problems. –*Board of directors or governance*

Legal and financial aspects of integrating organizations are among the most complex and important, so it is not surprising that legal and financial expertise is highly valued in the merger process. Many of the financial and legal functions provided by consultants are similar to those outlined in the due diligence section above. In all, representatives from 19 of the merged organizations reported that the most valuable advice offered by consultants related to legal or financial issues associated with the merger.

Third party perspective

A consultant's value for many of the functions and processes outlined above is that they provide an external perspective and neutrality. Bringing this neutral perspective into the merger process is often intentional on the part of the organizations pursuing merger. Respondents from 16 of the mergers studied reported that they hired a consultant, at least in part, because of the neutrality they could provide. This was often described as the third party perspective and is generally considered to fulfill two similar but related purposes.

First, organizations seek the third party perspective to provide *independent assessment* of various elements of the merger.

> We wanted an unbiased opinion to make the assessment of the merger. –*Board of directors or governance*
>
> We wanted an independent third party assessment. –*Program administrator or management*

Second, organizations seek the third party perspective to protect interests of the organizations involved in the merger process. This includes making sure there is an independent and neutral voice.

> [A consultant can] make sure that both sides were fair and [act as] an impartial bridge between the two organizations. –*Board of directors or governance*

> You bring in a consultant so that you have someone that is independent who the other parties can cry to if you have a problem. Somebody independent to keep the thing on the up and up. When people are negotiating the process, you want to bring someone in to facilitate. *–Board of directors or governance*

Involving key stakeholder groups

Through the previous review of the literature and the examination of practice wisdom shared by focus group participants earlier in this study, it is clear that the involvement of key organizational stakeholders is critical to the success of any merger process. These key stakeholders may include, but are not limited to, organization executives, board members, leadership and administrative staff, clients, funders, and the public-at-large.

Key stakeholder involvement often begins with an executive staff champion committed to the merger's success. Research indicates board commitment, possibly through a joint merger committee, is also critical and that lack of board involvement can mean failure in both process and outcome. Study results related to key stakeholder groups are described below.

Executive leadership

Stakeholder involvement in the merger process most often starts with an executive who is committed to the consideration of some type of strategic restructuring. In 88 percent of the mergers studied, such a leader was present. Moreover, in 61 percent of the cases, the executive was described as the chief proponent of the merger process.

Board and governance

As one of their basic legal duties, nonprofit boards of directors are legally responsible to provide duty of care to their organizations. This means that board members must exercise reasonable care when they make decisions for the organizations they serve. This duty becomes particularly important to boards of organizations going through significant changes like merger.

Respondents from 22 of the mergers indicate that their merger would likely have not happened without the commitment of the boards of directors. Furthermore, there was consistent agreement among respondents that:

- There was clear and timely communication to the board about the progress of the merger (85% of mergers studied).
- There were opportunities for the board members from each organization to interact as part of the merger process (80%).

- The boards were involved in the merger process from early in the exploratory phase (76%).
- The board of each organization was integral to the merger process (71%).

Staff

While non-administrative staff are usually not involved in the merger process, respondents for mergers studied said the staff were kept informed of merger activities. Respondents for less than one-third of the mergers consistently agreed that non-administrative staff had direct involvement in planning or executing the merger.

- Staff representation was included in the merger planning and implementation (29% of mergers studied).
- Agenda items during staff meetings were devoted to completing tasks related to the merger process (27% of mergers studied).
- There was a staff liaison dedicated to informing and communicating with staff during the merger process (17% of mergers studied).

However, there was consistent agreement in more than half of mergers that the organizations communicated with staff about the merger process.

- Agenda items during staff meetings were devoted to communication about merger progress (78% of mergers studied).
- Staff were educated about the merger early in the process (59% of mergers studied).
- There were well-defined communication activities designed to inform staff about the progress of the merger (54% of mergers studied).

As will be seen later, non-administrative staff involvement appears to be positively related to both the quality and expansion of service delivery in the post-merger organization.

Other stakeholder groups

Other important stakeholders to be considered when planning for a merger are funders and clients or customers. In this study, 24 percent of the organizations considering a merger gave funders an opportunity to participate or give input into the merging process. In 22 percent of the cases, funders were said to have received regular updates about the merger.

Similarly, 29 percent of the merged organizations in the study gathered feedback prior to completing the merger about what clients or customers wanted from the merged organization, and an equal percentage reported providing clients or customers with regular communication or updates regarding the merger progress.

As will be seen later, the research evidence suggests that, at least with regard to funders, the opportunity for them to participate and give input into the merging process is associated in a statistically significant way with the financial stability or sustainability of the organization following merger.

Integrating formal and informal systems

As organizations engage in the merging process they often need to consider factors related to cultural integration -- how the merging organizations will bring together sometimes divergent operational philosophies. Similarly, board and mission integration is also seen as an important consideration both during and following a merger.

Respondents from nearly all of the organizations included in the study (93%) reported that there was a plan to describe how the board and governance structure would be affected by the merger, and a nearly equal percentage (90%) reported that the plan included a specific description of how the operations of the two organizations would be combined. However, plans did not appear to be as comprehensive in addressing the integration of each organization's culture as part of the merger. In fact, respondents for only 17 percent of the merged organizations indicated that there was a plan to integrate the organizational cultures of the two organizations.

Alleviating challenges

When asked what could have happened during the merger process to alleviate the challenges organizations are currently facing, the most common response was "nothing." Twenty-two respondents, representing 16 of the mergers, provided some insight on what could have been done differently.

The most frequent change mentioned had to do with communications with stakeholders including staff, volunteers, departments, and board. Specifically, communications about post-merger expectations in operations and staffing were mentioned. One person also mentioned that better telling the story of the merger with external stakeholders could have helped build membership post-merger. Another concern expressed about communications is how keeping the name of one of the pre-merger organizations gives the public the wrong impression of the merger and the available services.

> I would say a stronger communications plan. Communications is a huge issue within an organization, so that everyone is on the same page. *–Board of directors or governance*

A second change mentioned was focusing more of the discussion during the merger process on post-merger operations. Comments were made about the benefits of strategic planning, including discussing the potential long-term outcomes and post-merger infrastructure. Additional respondents also mentioned planning more time to conduct the merger.

> There should have been more strategic planning with size and capacity. There should have been more thought about it. –*Board of directors or governance*

Other items mentioned that could have alleviated some of the post-merger challenges included better defining the roles and responsibilities of those involved, identifying a champion to encourage others throughout the merger process, retaining someone with experience in the merged program areas during and following the merger, hiring professional legal help to aid in the process, and having an impartial CEO during the process. Other changes related to the financial side of merging included identifying what funding support would look like after the merger, building staff capacity to fundraise through grant writing, and merging organizations that are financially stronger or have stronger savings.

> If the now defunct organization had been healthier it would have been a better public message. I think that would have helped a lot. –*Executive leadership*

Post-merger Organizations and Outcomes

The majority of mergers described in this study were deemed successful by those involved. In fact, 78 percent of the mergers were consistently rated very successful and 85 percent of the mergers were consistently rated as very beneficial to the community they serve.

This section of the report provides in-depth information to illustrate how success is defined and achieved by the participants of the 41 mergers included in this study in the first three years following the merger. The data suggest that the following outcomes are regarded as key indicators of success for organizations that enter into a merger:

- Improved image, reputation, or public support
- Improved, expanded, or preserved services
- Increased quality of operations
- Increased efficiency of operations
- Improved financial stability
- Development of a positive organizational culture

Throughout this section, the data are presented as percentages and numbers. Quantitative data derived from pre-determined response options are reported as the percentage of all mergers. Themes in the qualitative open-ended responses are cited as the number of mergers in which the theme was present.

Improved image, reputation, or public support

An essential element of success is whether the organization improves its image, reputation, or public support following merger. Respondents for 78 percent of the mergers consistently agreed that the merged organization improved in this area. Comments about the improved image, reputation, or public support were most often expressed when respondents were asked about the biggest changes following merger. Respondents often reported that the merger resulted in more respect from the community, more funding from different sources, and increased awareness in the community of services.

In some cases, merged organizations took the opportunity to strategically communicate to the community about the merger and the renewed capacity of the organization, as illustrated in the following.

> It is important to note that after the merger we did a big community-based celebration to invite all our stakeholders to celebrate the merger with us. That step alone started us off on the right foot, showing that a merger can have a good impact right away. Because of that, our programs were well received as well. It was great positive public relations with the community, enabling the community to see the change in a positive light and be part of it, as opposed to just sending out a communication that we had merged. It provided an opportunity for people to intermingle with us, which was very successful. *–Board of directors or governance*

> We came out in a much stronger position, with the work we are doing now far exceeding what was done before, doing much better at engaging the community and bringing them in. *–Executive leadership*

However, some respondents mentioned post-merger challenges related to the identity of the organization and how such changes are communicated to the public, especially clients and donors. Some organizations struggled with changing the organization's name; others struggled with disseminating accurate information about the merger or the merged organization's services.

> The challenge was informing the general public about the change – communication about what had gone on. *–Consultant*

> The rebranding of an organization is a pretty significant challenge. *–Board of directors or governance*

Other responses show how the community supported the organizations following the merger.

> There is more confidence among stakeholders about the competence of the leadership and long term viability of the organization. *–Executive leadership*

> It was well accepted by the community that we had merged, that it was a good idea, and that they were behind us. That was really positive. *–Executive leadership*

Respondents also mentioned the increased support from funders following the merger, partially because the merged organization was bigger and seen as a stronger organization. In addition, one organization specifically mentioned the ability to play a bigger role in policy discussions because they had increased their credibility with the community.

> You have a bigger seat at the table. When dealing with government funders, there is value in [not] pitting resources against each other. They paid much more attention to us after the merger. Even in terms of policy decisions. When you have more of the services you know people are going to need to access, you can see how those things interrelate or don't interrelate and make recommendations about them. We achieved an enhanced level of credibility with policy makers, funders, and our peer organizations. –*Executive leadership*

> I know our fundraising increased in dollars raised. That was an effect of being seen as a stronger organization in the community. –*Executive leadership*

A final example of improved image or community support relates directly to the action of merger. One respondent explained how their organization was one of the first in the region to merge and, as a result, they have gained community support and recognition.

> As far as community recognition of our merger, we have become the "go to" people on nonprofit mergers. I guess you could say we are becoming a resource. –*Executive leadership*

Improved, expanded, or preserved services

Another element of merger success relates to whether the merger improved the quality of service, expanded existing or new services, or preserved services. Respondents for 87 percent of the mergers consistently agreed that the merger improved existing services. Improved services were usually seen as the result of combining similar programming, integrating the best ideas from the pre-merger organizations, and having a more stable organization after the merger.

> The biggest success that comes to mind for me is that the services provided to the [clients] continued, uninterrupted. And ideas between the two organizations actually provided more opportunities for the [clients] of each organization. There was some exchanging of ideas for how to better improve services and how they were delivered to [clients]. –*Board of directors or governance*

> Probably the biggest single success would be the synergies that we were able to achieve in the [services]. We had similar program, but each had its own characteristics. We were able to put them together to get them better, superior service than before. –*Board of directors or governance*

> The ability to serve the [community] better than before, with more stability and overall better service, not only to our clients, but also to our funders like [state department] seeing that we are serving clients better than before. *–Financial administrator or accounting*

Despite positive testimonials about improving services, respondents also referred to the challenge of providing consistent services after the merger and having the transition of services appear “seamless” to the consumer.

Respondents for 51 percent of the mergers consistently agreed that the merger expanded existing services or launched new services. Expansion was seen in the types of services offered such as implementing complementary services that had previously been housed in separate organizations, or using the experience of combined staff to develop new programming. Other respondents mentioned the expansion of services into new geographic areas. This was especially apparent in mergers outside the metropolitan area.

> The services increased. We expanded into new service areas. *–Executive leadership*

> Services to [clients] in [the new] county have become stronger and the connection between [the organization] and county has grown even stronger than I had expected. *–Board of directors or governance*

> It expanded the diversity of our service. We were stable and growing, before and after. It allowed us some diversification. *–Executive leadership*

> [The success was] the creation of new programming that came from working to meet the missions from both organizations, enabling us to serve young people with new opportunities. *–Executive leadership*

However, some respondents also mentioned the challenges relevant to merged organizations that were now serving a broader region or the entire state. Concerns were expressed about having staff working remotely or not having the presence of an executive director in one area to forge relationships with the community and funders. Covering large territories, expanded travel times, the need to learn the social mores of a new community, and centralizing headquarters were additional challenges related to service delivery.

> [A challenge was] having remote staff and having expanded geographic reach. We wanted to make sure we were still making a difference in that community. *–Executive leadership*

In addition, respondents from 34 percent of the mergers consistently agreed that the mergers saved services that were likely to have gone out of existence.

> Continuing the programs and not having to cut them [from pre-merger organizations]. Teachers have the ability to choose diverse [programming] to bring to the schools - and bringing them to the communities. Without the merger, that would not have been available. *–Board of directors or governance*

> [The community] receives continued services that would have been lost otherwise. *–Executive leadership*

> Better services and possibly preserved services. This is speculation again, but I'm not sure if [pre-merger organization] would have survived with these economic downturns. *–Board of directors or governance*

Increased quality of operations

Quality of operations is often associated with changes made to operating policies and procedures, management structure, and governance structure. It can also refer to staffing an organization with the people most capable of achieving the organization's mission.

Operational changes

Respondents representing all (100%) of the merged organizations said the merger resulted in operational changes, mostly related to updating and combining organizational policies. Comments described changes related to accreditation, health data, personal information and staffing.

> Somewhere around a third of our operating policies were redesigned. It was across the board, from governance to office processes to employee handbooks to communication practices. It was sweeping. *–Executive leadership*

Accounting and financial procedures

Respondents representing 20 of the merged organizations reported positive changes in accounting and financial policies or procedures such as accounts receivable, billing, budgeting, savings and investments, financial reporting, banking, check signing, and handling cash and donations.

> We have new finance operating policies, from use of credit cards to financial review and responsibility. *–Executive leadership*

> An example would have to be our banking. The CEO from the clinic had to sign our checks and we had to have a second signature. Our whole banking and savings had to be changed and reorganized. –*Program administrator or management*

Staffing changes

Respondents for 95 percent of the mergers said staff positions were restructured immediately following the merger. In 68 percent of the merged organizations, respondents consistently reported that staff were better aligned with the needs of the organization. This includes having staff better able to provide services or having administrative staff better equipped to support services. In addition to increasing the quality of operations, these staffing changes can also lead to organizational efficiencies.

> Yes, I think there was the creation of a controller position that implemented accounting practices and checks of what we didn't do before. –*Board of directors or governance*

> One [operational change] was the finance officer and the finance component being streamlined by getting a more qualified finance officer in place. A grant writer [from pre-merger organization] was given stronger direction leading to greater grant writing capability. –*Board of directors or governance*

In addition to changes in staffing positions, respondents representing 20 of the merged organizations reported a variety of staffing-related operational changes including the addition of employee manuals, dress code, reimbursement for mileage, insurance for transporting clients, computer use, background checks, and ethics policies.

> We totally revamped the entire staff handbook on how we operated the business. –*Executive leadership*

> There were a lot of new operating policies. There had been little formal written policies such as discrimination policies, sick leave, etc., and those got put in place. –*Executive leadership*

Respondents for nine mergers reported that the merger resulted in changes to employee benefits including recruitment, health insurance, and payroll and time sheet submission.

> There was a different means of managing payroll. Before they just did payroll and each [employee] just got paid, there was nothing. Now we have to invoice and send it to the treasurer and issue a check. –*Staff*

Other operational changes

Other operating changes described by respondents impacted both volunteers and communications. Respondents for six organizations mentioned changes to general volunteer policies, specifically volunteer orientation and how volunteers are used. Five organizations reported changes related to communication ranging from how the organization communicates with families, to new approaches to brand protection.

Management changes

Changes in management structure following a merger can also improve organizational quality. Ninety-three percent of the mergers were reported to changes management structure in the three years following the merger. Of these, respondents for 20 organizations mentioned general management changes including program and reporting structures, staff realignment to better fit the combined programs, and changes in staff responsibilities.

The role of the executive director was mentioned as a management change by respondents for 18 organizations. Some organizations experienced the departure of an executive director due to death or retirement. Other organizations maintained both executive directors from the pre-merger organizations, but redistributed responsibilities. Some organizations hired a new leader.

> The main change was establishing one executive director over the entire organization. We eliminated the executive director for [one organization]; that was probably the biggest change. The other program directors at that time stayed in their same positions. *–Board of directors or governance*

> The merger stated that the existing executive director at the time of merger would retain his job for 90 days and then he was put into another role. After he was replaced, we got a new director. *–Program administrator or management*

Respondents from 13 organizations described management changes related to streamlining positions especially regarding reporting. In some cases this meant fewer people reporting to the executive director; in other cases it meant positions were restructured around the organization's focus areas.

> There were positions that were consolidated. The chief financial officer had information technology reporting to them. Marketing and fund development ended up being consolidated. There were a couple of changes to how human resources worked within the organization. Those are some that I am aware of. There was a chief administrative officer that was terminated and that role went to the chief financial officer. *–Financial administrator or accounting*

> We reorganized to the extent that we did some bundling of like services together and changed some job titles to where people would accept responsibility for those bundled services. *–Executive leadership*

> We organized it around key areas that [organization] focused on. It was previously organized by the different programs within [organization]. *–Board of directors or governance*

As organizations merge, they often increase in size. Twenty of the merged organizations indicated that one management change was the addition of management positions to accommodate the bigger organization and the increased need.

> Mostly we looked at our new constellation of programs and established a plan to strengthen management in each of the program areas. We began a redesign phase, looking at what the [merged organization] was and the best ways to manage our work. The most important thing was to make sure we had the best managers in each area. In most cases we did. And we also added one manager. *–Executive leadership*

Governance changes

Organizational quality can also be affected by changes in governance. Respondents for 93 percent of the mergers said the merged organization developed new policies for governance, often combining policies from both pre-merger organizations and incorporating ideas developed during strategic planning.

Board related changes included new job descriptions, training, stronger involvement expectations, new committees, and requirements that reflect state and federal regulations for governance of specific types of organizations. Respondents from 18 organizations also mentioned changing their bylaws.

> We had a whole new board, new bylaws, and new operating structure. We developed a new strategic plan. The size of the board changed. The officers changed - different types of officers, different titles, and different people. *–Executive leadership*

> We are more inclusive of our board in the committee structure and task assignments. We are including them more in our programming, so that they learn more about what we do so that they take ownership. We have board member representation in all events now. The board is more visible at program events. *–Board of directors or governance*

Respondents for 19 organizations described specific changes in board structure which often resulted in the inclusion of board members from the pre-merger organizations on the new board. Boards also changed in size and committee structure as well as focus. In some situations the board took on more governance or fund development responsibility. Representatives of four merged organizations mentioned changes related to board term limits.

> We moved more from a working board where board members were too much involved in administration, to more of a board that required more from the executive. There was more distinction between management and administration. –*Board of directors or governance*

> We made some changes in terms of creating an executive committee that could act in lieu of the entire board. –*Executive leadership*

Increased efficiency of operations

Respondents for 98 percent of the mergers said their organization experienced changes in operations that resulted in more efficiency in the three years following the merger, most often as a result of changes in procedures or structure.

Most frequently, people mentioned the changes to the administrative infrastructure such as combining health plans and insurance, financial and accounting, purchasing, and human resources. They also mentioned the streamlining of buildings and facilities, both combining the administrative offices and service locations.

> It was the support services – accounting, human resources, and administration. Where we saved money was in the backroom stuff, because there wasn't any duplication.–*Executive leadership*

> We were also able to have one location for [client] services versus completely separate offices. It made it easier for [clients] to access services because there was just one place to go. It was also good for [service providers], they now just sent [clients] to one place as well. It was really the ease of access to these services. It also saved a ton of money because we did not have two rents and administrative costs. This was a huge efficiency and cost savings for us. –*Board of directors or governance*

> There was a duplication of services between [the organizations] – accounting staff, registration staff, marketing staff, and then some of the executive leadership. We were able to streamline those areas to be more efficient. We lowered fundraising costs to lower than 12 percent when we consolidated the organizations. –*Executive leadership*

> We had more follow-up on paperwork. We were more efficient and we were doing it on a more timely basis. –*Staff*

Efficiencies regarding fundraising also occurred following merger. Changes were made to the systems and staff responsible for fundraising. Some respondents cited benefits resulting from the reduced competition since the pre-merger organizations had previously competed for the same philanthropic dollars.

> One [efficiency] was the blending or overhaul of the fundraising or development databases into one system, making it more efficient and easier to track donors and have regular communication. –*Board of directors or governance*

> Combining operational expenses under one organization. I think the fundraising efforts were more effective because there was no need to worry about competing. –*Board of directors or governance*

Technology changes were also a part of the merger. Changes occurred within complex systems needed for finance, donor databases, electronic billing for medical treatment and ticket sales, and email.

> The technology. It has to do with bringing together tools like email, sharing of files, and the entire network environment. –*Executive leadership*

> [Prior to merger] we had no systems or no tracking of anything. I think one of the changes was more robust technologies for the organization. –*Board of directors or governance*

Staffing was another efficiency mentioned. Respondents for about one-quarter of the organizations mentioned the financial benefits of reducing the duplication of executive directors or other senior management staff. Respondents for 68 percent of the mergers said staff positions were reduced. Others mentioned that efficiency improvements also occurred when staff positions were restructured in ways that allowed staff to use their skills in more beneficial ways.

> In some ways it was reining in some of the operations to be more focused. If there was a large department, it could be split so one part could focus on one thing and another part focus on another. We can use the skills and talents people have to put those to work within the organization. Some people went from wearing many hats to wearing a single hat that utilizes who they are. We are able to be more focused which has led to more success. –*Program administrator or management*

> The division of duties helped us be more efficient, helping us better focus on our clients and better focus on our donors. *–Executive leadership*
>
> There was some staff movement and restructuring. We wanted to get a better fit for people. This led to more efficiency. *–Volunteer*
>
> We have a more efficient staffing structure, which really feeds everything else. *–Financial administrator or accounting*

Achieving these efficiencies, however, was not done without challenges. Respondents frequently mentioned the difficulties associated with merging systems including phones, databases, client records, payroll, and benefits. Merging financial systems, including budgets and fiscal years, billing systems, and membership or dues collection was also challenging for many organizations.

Improved financial stability

Respondents representing 63 percent of the mergers consistently agreed that the organization strengthened its overall financial stability or sustainability in the three years following the merger. The overall findings from the analysis of financial data suggest some general strengthening in the long-term/structural (debt ratio) finances with some issues/weakening in the short-term (cash) and mid-term (current ratio) financials.

Study timing and the interpretation of financial data

The timing of this research initiative coincided with what has become the greatest recession since the 1930s. This economic environment has had a significant effect on the functioning and funding of nonprofit agencies, as agencies have tried to address expanding needs with stable or decreased resources. From a research perspective, the economic downturn has made it difficult to assess the financial impact of mergers. Standard financial measures of fiscal health for many of the merged organizations in this study have declined since 2008 which makes the use of pre- and post-measures of change difficult to interpret for mergers that spanned this time span.

To overcome this problem, we have looked at the relative financial stability of each organization within the current economic environment and assessed their overall fiscal health within what is now known to be a game-changing context.

Aggregate ratio analysis (pre-merger and post-merger fiscal stability)

Analyzing all of the financial statements available in IRS 990 tax forms filed before, during, and after the merger for the 41 mergers studied provides an aggregate understanding of the financial standing of the entire study group. This analysis is based on 349 total tax forms filed by 84 total organizational entities (based on employment identification tax numbers). This includes 221 forms from 81 organizations in the three years before the merger, 40 forms from 40 organizations in the year of the merger (the first year filing as one organization), and 88 forms from 33 organizations in the three years following the merger. Financial data from these forms were aggregated to these three specific time frames and two common financial ratios, debt ratio and current ratio, were computed for the entire group.

The debt ratio is defined as the proportion of total liabilities divided by unrestricted net assets (equity). Higher values represent a greater reliance on debt financing. A ratio of $2.00 (or less) of liabilities to each $1.00 of equity is considered to be a commonly accepted standard.

Larger ratios may be acceptable for capital projects. A high, or increasing, debt ratio can also demonstrate a potential reduced ability to carry additional debt to fuel growth.

Overall, post-merger organizations showed an improvement of 14 percent in their aggregate debt ratio. The merged organizations are in a more sound financial position for the long term with consolidated long term assets which extend past one year increasing while long term financing decreased.

Overall, the study group shows:

- $0.56 of total liabilities for every $1.00 of unrestricted net assets in the three years before the merger.
- $0.58 in the year of the merger.
- $0.48 in the three years after the merger.

The aggregate debt ratio for all three periods is below the commonly accepted standard 2:1 ratio.

This suggests that, as a group, the organizations in this study were not over-leveraged on debt before, during, or after the merger.

The current ratio is defined as proportion of current assets divided by current liabilities. Current assets are those assets that can be converted to cash within one year such as checking, savings, and accounts receivable against current liabilities also payable within one year. Values imply how the organization can meet its short term financing obligations, including maturing short term debt and upcoming operational expenses.

Overall, the study group shows:

- $3.50 of total current assets for every $1.00 of current liabilities in the three years before merger.
- $3.15 in the year of the merger.
- $2.89 in the three years following the merger.

The aggregate current ratio decreased by 17 percent, but it is still above the commonly accepted standard 1:1 ratio.

This suggests that, as a group, the organizations in this study had sufficient levels of medium-term cash flow in the time before, during, and after the merger.

Subgroup analysis (post-merger fiscal stability)

There was adequate follow-up financial data to analyze any possible effects of merger on financial stability for 21 of the mergers studied (51% of the total group). These mergers had complete financial statements on their IRS 990 tax forms for the year of their merger (first year filing as one organization) and at least two out of the three following years. The following analysis is based on these 21 mergers.

Respondents in 71 percent of these mergers consistently agreed that the organization strengthened its overall financial stability or sustainability in the three years following the merger.

Just over one-half (52%) of the mergers experienced an increase in days cash on hand between their baseline and follow-up. However, only 19 percent had at least 90 days cash at baseline and 38 percent had at least 90 days cash on hand at follow-up. Furthermore, neither the average nor median days cash on hand at baseline (61 average/49 median) nor follow-up (88 average/34 median) exceeded the 90 day standard.

Fewer mergers (38%) demonstrated an improved current ratio between baseline and follow-up. However, almost all (95%) of the merged organizations had a current ratio above the generally accepted standard of 1:1 at baseline and 86 percent exceeded this standard at follow-up. The average current ratio at follow-up was $4.72 of current assets to every dollar of current liabilities (almost 5 times what is considered adequate).

Almost one-half (48%) of the sub-group showed an improved debt ratio between baseline and follow-up. Almost all (90%) of the mergers had an adequate debt ratio of 2:1 or lower at baseline and 86 percent had an adequate debt ratio at follow-up. The average debt ratio at follow-up ($0.80 of liabilities per $1.00 of equity) was less than half of what is considered safe (Figure 6).

6. Subgroup ratio analysis

	Days Cash on Hand	Current Ratio	Debt Ratio
Percent with adequate* ratio at baseline (year of merger)	19%	95%	90%
Percent with adequate* ratio at follow-up (2-3 years after merger)	38%	86%	86%
Percent improving between baseline and follow-up	52%	38%	48%
Mean ratio at baseline (average of the individual ratios)	61 days	$7.50	$0.44
Mean ratio at follow-up	88 days	$5.77	$0.80
Mean change	+26 days	-$0.87	+$0.36
Median ratio at baseline (midpoint of individual ratios)	49 days	$6.51	$0.18
Median ratio at follow up	34 days	$4.72	$0.35
Median change	+1 days	-$0.23	+$0.02

*Note: * "Adequate" ratios are considered at least 90 days cash on hand, a 1:1 current ratio or higher, and a 2:1 debt ratio or lower.*

In considering the baseline, follow-up, and changes in the three ratios examined, as well as the responses to the financial stability survey questions, it is determined that 48 percent of the 21 mergers in this sub-group experienced *strong* post-merger financial stability. Another 33 percent of the mergers are considered to have *moderate* financial stability and the remaining 19 percent had *weak* financial stability.

Further analysis of revenue and expenses shows additional complexity in the post-merger financial position of the 21 mergers studied. First, while the overall sum total of contributions and grants increased by 9 percent between baseline and follow-up, the results were mixed for the individual organizations. Over one-half (52%) of the post-merger organizations saw decreases in their revenue from contributions and grants.

The outcomes for program service revenue were more positive. There was an overall total increase in program service revenue of 12 percent between baseline and follow-up. Furthermore, these gains were shared by 62 percent of the post-merger organizations with less than one-third (29%) of the organizations seeing decreases in program service revenue. Ten percent of the organizations did not have any program service revenue at baseline or follow-up.

Expenses in the post-merger organizations also increased in aggregate (up 8%) and in two-thirds (67%) of the post-merger organizations. This increase is comparable to the combined increase of contributions and program service revenue. However, the rate of increase in accounts payable and accrued expenses was larger in aggregate (up 18%) and in proportion of organizations (71%) experiencing increases. This represents a disproportionate increase in short-term debt in comparison to overall expenses.

Overall, these results show the complex nature of nonprofit finances, the impact of a challenging economic environment, and the difficulty associated with the use of any single measure of fiscal health for nonprofit organizations. Nonetheless, the results suggest there may be a short-term need for cash to cover merging expenses, new or more operational expenses, or reflect a strategic decision to pay down long-term debt.

Funding portfolio

Respondents for 85 percent of mergers said the funding portfolio changed in the three years following the merger. Respondents for 18 merged organizations said there was more diverse funding such as federal grants, corporate and private foundations, and individuals including major donors and former clients.

> We retained our funding bases, losing very little. But as a bigger, more prominent organization, we were able to get more funding from places we would not have gotten support from before - foundations, corporations, and individuals. One of the big selling points was that we could create an organization that could be a bigger, more impactful organization than there had been before. This was able to attract donors – success begets success sort of thing. *–Board of directors or governance*

> We were able to attract some funders who weren't interested in us as separate, smaller organizations but who were interested in the impact we were having as a larger organization - some foundation funders and some corporate funders. *–Executive leadership*

> It is definitely more diverse. There are more foundation and individual donors than previously. *–Executive leadership*

> Over time, the new CEO made a large effort to go out and push the new mission and look for a larger portfolio of corporate funders. They tried to enlist former [clients] who have been successful to support [us] financially and volunteer for the new organization. This was something that was not done in the past. *–Financial administrator or accounting*

Other increased opportunities for funding came from sources focused on a specific area or service type, funders who had only funded one of the pre-merger organizations, and from health insurance or earned income.

> We received funding from sources that only funded the geographic region that we had merged with. *–Executive leadership*
>
> The addition of [new] services brought in an entirely new funding stream. It has its own stand-alone source of funding, which I think comes from [government sources] so it is a completely new funding stream for us. *–Executive leadership*
>
> It grew, because [one pre-merger organization] had a lot more donors than we had, so our donors grew. *–Board of directors or governance*
>
> We added fees for services and we reduced the dependence on public funds. *–Executive leadership*

One potential challenge following a merger is the loss or reduction of contracted work. However this only occurred for nine of the mergers (22%) described in the study. In most cased, organizations were more likely to report that contracts were reduced rather than completely lost.

Change in expenses

Following the merger, some of the mergers included in the study experienced increased costs as compared to the combined budgets of the pre-merger organizations. Respondents for six organizations discussed the growth of the organization including staff. Twelve organizations attributed the increased costs to increased services.

> They have increased due to growth. We added some staff in the first three years in client-facing positions. Over the longer period of time, we have added expense, because we are a larger organization. *–Executive leadership*
>
> Overall, they have increased, because it was necessary for all the systems and procedural integrations, as well as expanding the offering of all services throughout the jurisdiction. Initially, there were also higher travel expenses, because we thought it was important for our leadership to have face to face connections to all parts of the jurisdiction. Today expenses are higher, because we are offering more services to more [clients]. *–Board of directors or governance*
>
> We are providing more programs. We were doing so much more programming than they did. [Expenses] are significantly higher than they would have ever been. –Board of directors or governance

> Growth in programming. The previous organization had a defined amount of programming, and because we are multi-disciplinary, we have grown the areas of the programming, adding additional programming. *–Executive leadership*

Other cost increases were attributed to increased infrastructure by four organizations and the need to update, integrate, or add workspace by seven organizations.

> I would say it is mostly infrastructure, some of the new systems that we're utilizing, different ways that we're working with staff, providing different packages for mobile workers. It really boils down to all the infrastructure for what we are intending to deliver. *–Executive leadership*
>
> The integration of two distinct workplaces. Some things related to transition. The building renovations that needed to take place. *–Board of directors or governance*
>
> I think they went up as a result of the separate administrative center that was opened up. *–Board of directors or governance*

Another increase in expenses expressed by respondents related to staff expenses including the cost of living, making wages comparable for workers of the pre-merger organizations, and insurance.

> Primarily the personnel costs, primarily for health insurance benefits. *–Executive leadership*
>
> I think part of the increase was bringing [pre-merger] staff up to pace on salary and insurance. Technology upgrades also made expenses increase. Upper management salaries were also compared to what similar organizations were offering and it turned out to be a higher salary. Some of the increased expenses would have come from these areas. *–Program administrator or management*

Unexpected financial outcomes

Respondents for 56 percent of the merged organizations said there were unexpected financial outcomes of the merger. Open-ended responses indicate that the changes experienced were positive for some organizations and negative for others.

Of those organizations, respondents for 10 reported that there were positive financial outcomes. The most frequently expressed positive outcome was increased funding from new sources including funders and earned income.

> I know in at least one occasion it was just getting a phone call from the funder inviting a proposal – [National] Foundation. *–Board of directors or governance*

> We found out that we were able to raise far more money in terms of donations from our members than what we have expected. That was indication of support of the new organization by the membership. We were able to expand the rental business, which gave us significant increase in income from that. *–Board of directors or governance*

> The level of grant funding was higher than had been expected. I think that there was more emphasis on grant funding, more time devoted to it. It resulted in a significant increase in funding. *–Executive leadership*

Unexpected negative financial outcomes were expressed by respondents for 13 organizations. They included limited operational savings, merger costs, limited increase in fundraising, difficulty leasing properties, or changes in the economy resulting in reduced pledged contributions. Information that did not emerge in the due diligence process such as misrepresented client base and mismanagement of funds by a pre-merger organization were other unexpected outcomes.

> I don't believe we got the lift from fundraising that we had expected. Expenses also did not go down as much as we thought. *–Board of directors or governance*

> There was not full disclosure from one of the organizations which caused some major adjustments. The funds looked better on paper from which was actually found when the merger was completed. The CEO of the new organization took over and found that things weren't as they appeared. *–Board of directors or governance*

> The cost of merger was a drain on the organization. While they were necessary for stability and the well-being of organization, it was not a cost saving strategy. *–Board of directors or governance*

Funding challenges

In response to the question about the biggest challenges facing the organization in the three years post-merger, relatively few people mentioned funding issues. Comments, when offered, reflected concerns about having a larger budget to manage or more funds to raise, reduced funding from a specific foundation, or the need to distribute funds across more programs within the organization.

Development of a positive organizational culture

The final outcome area examined in the qualitative analysis is the development of a positive organizational culture. According to research reported in *What do we know about nonprofit mergers?* (Owen et al., 2011), an organization's culture can be affected

Mergers seen through the lens of recession

To learn more about the current functioning of 41 merged organizations, respondents were asked about the most significant challenges currently facing the merged organizations. Because the mergers studied took place over an 11 year period, the current conditions reflect different time frames post-merger, and they may not be the result of the merger.

The most frequent challenges voiced by respondents focused on the economy and finances. And since it is widely believed that the recession of 2007-08 was a game changer for many nonprofits, many respondents viewed their merger through this lens.

> I think [the challenges] have more to do with the economy than the merger. I think the merger has helped because it made us more efficient through these economic times. *–Financial administrator or accounting*

> The merger did put the organization in a better position to respond to and be attractive in this sort of environment because we are more efficient and because we are this kind of integrated service provider, able to provide services at a good rate of return. *–Executive leadership*

Respondents also expressed concerns about increased client need associated with the recession, as seen in the following comment.

> Meeting the needs of a rapidly growing service population [is a challenge]. We are having more and more people applying for food assistance, coming to the food shelves and feeding sites due to the economic problems. *–Executive leadership*

It remains to be seen what the ongoing and lasting impact of a severely strained economic system will be on nonprofits, but it is likely that current concerns about government funding for health and human services will continue for the foreseeable future and likely lead to an increased interest in restructuring for nonprofits that promises greater financial stability.

by many factors. Respondents frequently identified this issue as a significant post-merger challenge, but they also spoke positively of some changes and many described how these issues were tempered with time. Overall, organizational culture was rarely mentioned as a current or ongoing issue a few years after the merger.

Cultural integration of staff

Some respondents provided examples of staff integration concerns immediately following the merger. They also described how changes in size, structure, or operating procedures affected staff.

> Overall, staff were apprehensive, stepping into the unknown. Staff in a merger are always worried about if their position is still going to be there. I wish we would have incorporated more cultural integration things during the process. *–Executive leadership*

> The new organization was heavily focused on procedures, which was very stressful to many of our [staff] who were used to a more flexible environment, where they were able to just meet the needs of anybody who came to their door. It had a significant effect in depressing the morale. *–Executive leadership*

> The biggest cultural change was that both organizations had to go from being small, mom and pop organizations to being a bigger, corporate organization. But that was a change both had to go through. It wasn't something that one brought in for the other to adjust to. *–Executive leadership*

In some cases the cultural differences were a surprise to those involved in the merger.

> I can tell you it was more of an issue after the merger than I ever would have thought. It was an "us and them" for a long time. I knew there would be some cultural differences. I just didn't realize they would be to the extent they were. You are combining benefits, vacation schedules. We had pay differentials, with people doing similar tasks who were not earning the same amount of money. Those ultimately all came together, but I think it was a problem initially. These were all things we knew about during the merger process, but just because we discussed it didn't mean it was all resolved during the merger process. *–Board of directors or governance*

At the same time, other respondents spoke positively about the integration of staff and community. Respondents for 49 percent of the mergers consistently agreed that staff from the pre-merger organizations integrated well. They also commented on how well staff members worked together, the evolving role of the boards, and increased participation of volunteers and the community.

> Staff related very well. We made a concerted effort for inclusion. It worked very well. They became integral members of our staff and programming. They participated well, and it went very well. *–Executive leadership*

Fortunately, they had a common vision and mission in part of the national [organization], so I think that helped. *–Board of directors or governance*

More and more people are volunteering. We seem to have generated momentum that is keeping us going. It is like we have got this thing going, but now we are constantly looking to build on that. *–Board of directors or governance*

Positive culture change was also reflected in the opportunities to offer new services to clients, work in better facilities, access better employee benefits, and improve the potential for professional growth.

I think they are all proud of the new affiliation, and the benefits and salaries situations. Upward mobility in the company and increased job security – all those things were enhanced. *–Executive leadership*

Cultural integration of board

Some respondents mentioned the difficulty of integrating boards, especially overcoming a sense of "us" and "them." Communication styles also differed and sometimes there were hard feelings when board members felt their board was taken over by the board of the larger organization. Organizations also struggled with keeping board members engaged and effectively rotating board members on a cycle that would result in a fully operational and right-sized board.

[A challenge] was bringing the boards together in a respectful way and figuring out board limits and getting it to a particular size. *–Executive leadership*

Personalities on the board and the board culture [were a challenge]. There were differences in communications styles that became offensive to other board members and that fueled some attrition on the board. *–Board of directors or governance*

Other board integration issues reflected the need to formalize board responsibilities and to create a board that included representation from the pre-merger organizations, especially when the organizations served different communities.

The [board] actually had to grow with [the merger]. Everything [had been] done loosely, [and they] decided to make it more formal. The expectations of everybody had become more formalized, especially since they realized how big the organization had become. *–Program administrator or management*

We established an advisory committee from each community. We realigned the voting structure of our board, so it was fair for each community. There were some changes in representation from each community, so we had numbers from each community represented on the boards and committees. –Executive leadership

Morale issues

Respondents for 63 percent of organizations said there were morale issues in the months following merger that caused serious problems or distracted staff from the business of making the new organization successful.

Significant reduction of staff of the [pre-merger organization] was a huge blow to morale for our entity. *–Financial administrator or accounting*

We have ongoing morale issues that are being addressed. I think staff feel unappreciated. *–Executive leadership*

I think that part of the morale was that the new organization was called [by one pre-merger name], so it was like [other pre-merger organization] disappeared. There was a feeling of loss of identity. *–Financial administrator or accounting*

In contrast, some respondents spoke about the benefits of the merger in terms of improving morale, especially when the merger resulted in greater stability.

Going from an organization financially struggling, to one that is financially secure and functioning well, is kind of positive on morale. *–Board of directors or governance*

A sense of loss among staff may also accompany a merger. Respondents for 20 percent of the mergers consistently agreed that staff expressed a sense of loss over the past.

There was a sense of loss. There was a sense among some staff members that this was no longer their organization, that it wasn't the one they had joined. There were some staff members who felt now they could more fully do their job, while others felt they needed to leave, because this was no longer the organization they thought it was. *–Board of directors or governance*

However, respondents for the majority of organizations did not express a prevailing sense of loss, and when it did occur it seemed to dissipate with time.

While they did express a sense of loss, it was combined with an excitement about what the [merged organization] would become. As soon as they were assured that they had a job that sense of loss faded pretty quickly. *–Board of directors or governance*

Most people moved on. We had some opportunity to celebrate the past, especially with [pre-merger organization]. That seemed to do the job. It took some hard work by the staff and by supervisors to get everything to work together. The fact that we were so similar helped that, but it took a lot of attention to staffing issues to make it work. *–Board of directors or governance*

It's important for people to realize, in a merge as big as this, you have a lot of people that have not connected in the past. They need to be given time to be comfortable with what is going on, almost like a new staff member. They need to be given the time to adjust to the environment. *–Program administrator or management*

Increased levels of tension among staff were reported to have occurred in only 17 percent of the mergers. To the contrary, some respondents described a lower level of stress among staff following the merger.

Change always brings a certain amount of stress. There was certain vulnerability for both organizations. They were both on the brink of making it or not making it. There was worry about uncertainty, whether there would be losses to either organization. *–Board of directors or governance*

I think it was challenging for the staff, but there was a sense of stability and security and that they were part of something greater than the two organizations alone. The staff were in a better position than pre-merger, when there had been a lot of anxieties and stress. *–Executive leadership*

Adaptation takes time

The development of a positive organizational culture does not usually happen quickly. Respondents, for the most part, seemed to believe that issues would work themselves out in time.

It took a while to get everything running smoothly, but once it did, people were just as happy or happier than pre-merger. *–Board of directors or governance*

It was just a little bit rough, a little bit overwhelming, with trying to keep up, write new procedures, get to know people. It was about three years before it started to smooth out, to get something out of the transition. *–Program administrator or management*

Success Factors in Nonprofit Mergers

One of the critical questions explored by this research is the extent to which activities and processes undertaken as part of merger exploration, planning, and execution are related to, and may even predict, outcomes that occur in the three years following a merger. In this section we look at the key indicators of success for organizations entering into merger and assess the extent to which there are statistically significant associations between these factors and the activities and processes that preceded them.

Based on the prior literature review and the observations of both key informants and focus group participants during earlier phases of this research, a merger is seen as successful if it includes some combination of the following elements:

- Improved image, reputation, or public support
- Improved, expanded, or preserved services
- Increased quality of operations
- Increased efficiency of operations
- Improved financial stability
- Development of a positive organizational culture

For this analysis, information provided by the 201 respondents was combined into the case-level file to represent all 41 mergers. The answers provided by the respondents associated with each merger were then examined as a group to determine whether or not there was consistent agreement or disagreement in response to each survey item. In this analysis, merger cases for which there was consistent agreement were compared to those cases in which there was inconsistent or contradictory responses, and the frequency of responses from these two groupings were cross tabulated with the responses to a wide range of merger success factor questions.

In the analysis results presented below, the following relationships are statistically significant according to Fischer's Exact test, which examines the significance of association between variables in a small data set. A probability threshold of .06 is used (rather than the standard .05 value) in order to call attention to relationships that are likely to be meaningful but which would not have otherwise been reported using the more stringent standard. In this context, predicts means that the existence of pre-merger and merging process variables are statistically associated with the post-merger outcomes with low probability of it happening by chance.

Importance of executive leadership

The results strongly indicate that executive leadership in the period prior to merger is an important predictor of success in the years following merger. In particular the results show:

Question item	Predicts
If respondents consistently agree that **executive leadership pushed the merger forward**...	...they are significantly more likely to agree that the merged organization has **improved image, reputation, or public support** following the merger (p = .01)
If respondents consistently agree that **executive staff in the pre-merger organizations had a strong working relationship prior to the merger**...	...they are significantly more likely to agree that the merged organization has **improved image, reputation, or public support** following the merger (p = .05) ...they are significantly more likely to agree that the merged organization was **financially stable and more sustainable** following the merger (p = .05) ...they are significantly more likely to agree that the merged organization **had saved services** that were likely to have gone out of existence without the merger (p = .008) ...they are significantly more likely to agree that **staff from the pre-merger organizations integrated well** (p = .027)

Importance of board involvement

The results also indicate that board involvement in the period prior to merger is associated with how the organization appears in the public eye following a merger.

Question item	Predicts
If respondents consistently agree that **the board of each pre-merger organization was integrally involved in the merger process ...**	...they are significantly more likely to agree that the merged organization had **improved its image, reputation, or public support** in the three years following the merger (p = .06)

Importance of due diligence and planning

Study results also indicate that transparency on financial and legal issues and careful planning that is effectively shared within the pre-merger organizations are significant contributors to merger success. In particular the results show:

Question item	Predicts
If respondents consistently agree that **representatives of the organization entering into the merger had an opportunity to examine the financial and legal information about their prospective merger partner**...	...they are significantly more likely to agree that the merged organization has **improved image, reputation, or public support** following the merger (p = . 05) ...they are significantly more likely to agree that there was **improvement in the quality of existing services** following the merger (p = .04) ...they are significantly more likely to agree that the merged organization had **expanded existing services or launched new services** following the merger (p = .04)
If respondents consistently agree that there was a **detailed written and distributed plan outlining how the administration and management structure of the pre-merger organization would be affected by the merger**...	...they are significantly more likely to agree that the merged organization has **improved image, reputation, or public support** following the merger (p = .05)
If respondents consistently agree that there was a **detailed written and distributed plan to combine the operations of the two organizations**…	...they are significantly **less** likely to agree that **staff expressed a sense of loss over the past following the merger** (p = .06)
If respondents consistently agree that the pre-merger organizations **had a cost sharing agreement for expenses related to the merger process**…	…they are significantly more likely to report that **staff were better aligned with the needs of the organization** following the merger (p = .01) ...they are significantly more likely to agree that the merged organization had **saved services** that were likely to have gone out of existence without the merger (p = .04)

Importance of previous connections and organizational similarities

Although there are fewer findings in this area, prior collaborative work between pre-merger organizations appears to be linked to improved sustainability following merger. Moreover, when staff in each organization relate to each other in similar ways, there may also be improved reputation or image following merger.

Question item	Predicts
If respondents consistently agree that **staff within the pre-merger organizations related to each other in similar ways** ...	...they are significantly more likely to agree that the merged organization has **improved image, reputation, or public support** following the merger (p = .04)
If respondents consistently agree that the **pre-merger organizations had previously collaborated or partnered**...	... they are significantly more likely to agree that the **organization was financially stable and more sustainable** following the merger (p = .05)

The importance of involving non-administrative staff in the process

One of the key factors associated with several types of outcomes following merger is communication with and involvement of non-administrative staff. The table below shows that educating staff about the merger process, including them in planning, securing their support, and involving them in specific tasks related to merger activities, are all associated with positive outcomes following merger.

Question item	Predicts
If respondents consistently agree that **non-administrative staff were educated about the merger early in the process**...	...they are significantly more likely to agree that the merged organization has **improved image, reputation, or public support** following the merger (p = .02) ... they are significantly **less** likely to agree that **staff expressed a sense of loss** over the past following the merger (p = .04)

Question item	Predicts
If respondents consistently agree **that non-administrative staff from the pre-merger organizations were included** in merger planning or implementation...	...they are significantly more likely to agree that the merged organization has **improved image, reputation, or public support** following the merger (p = .03) ... they are significantly more likely to agree that the merged **organization was financially stable and more sustainable** following the merger (p = .02) ...they are significantly more likely to agree that there was **improvement in the quality of existing services** following the merger (p = .02)
If respondents consistently agree that there was a **critical mass of support among non-administrative staff** during the merger process ...	... they are significantly more likely to agree that the **organization was financially stable and more sustainable** following the merger (p = .02) ...they are significantly more likely to agree that the merged organization had **expanded existing services or launched new services** following the merger (p = .04)
If respondents consistently agree that **agenda items during staff meetings in the pre-merger organizations were devoted to completing tasks related to the merger**...	... they are significantly more likely to agree that the **organization was financially stable and more sustainable** following the merger (p = .03) ...they are significantly more likely to agree that the merged organization had **expanded existing services or launched new services** following the merger (p = .02)
If respondents consistently agree that **staff were given the opportunity to celebrate the past, grieve, or communicate a vision for the future as part of their pre-merger work** …	...they are significantly more likely to agree that there was **improvement in the quality of existing services** following the merger (p = .01)
If respondents consistently agree that there was a **staff liaison dedicated to informing and communicating with non-administrative staff during the merger process**…	... they are significantly more likely to report that **staff were better aligned with the needs of the organization** following the merger (p = .05)

The importance of involving funders

Involving funders prior to merger is related to beneficial outcomes in three ways. Specifically, giving funders an opportunity to participate or give input into the process is associated with both financial stability and sustainability and the preservation of services following merger. Regularly updating funders regarding the progress of merger is associated with post-merger staffing that is well aligned with the needs of the organization.

Question item	Predicts
If respondents consistently agree that the **merger process provided opportunities for funders to participate or give input** into the merger planning or process...	... they are significantly more likely to agree that the **organization was financially stable and more sustainable** following the merger ($p = .05$) ...they are significantly more likely to agree that the merged organization **had saved services** that were likely to have gone out of existence without the merger ($p = .06$)
If respondents consistently agree that **funders were given regular updates regarding progress on the merger**…	... they are significantly more likely to agree that **staff were better aligned with the needs of the organization** following the merger ($p = .01$)

When times are tough, it may be easier to adjust to change

One of the more interesting findings associated with the analysis of our 41 mergers is the fact that pre-merger financial difficulties may positively impact the merger. Specifically, it appears that when staff experience more pressing or daunting financial difficulties prior to a merger, they may be less concerned about the past and may have a greater willingness to integrate with staff from another organization following merger, as the following findings suggest.

Question item	Predicts
If respondents consistently agree that in the months prior to merger **at least one of the organizations had struggled to make payroll or pay other expenses**...	... they are significantly **less** likely to agree that **staff expressed a sense of loss** over the past following the merger ($p = .04$)
If in the months prior to merger at least one of **the pre-merger organizations had inadequate assets available to collateralize loans** …	...they are significantly more likely to agree that **staff from the pre-merger organizations integrated well** following the merger ($p = .001$)

Shared vision of benefits associated with merger

The assessment of potential benefits is a clear part of any merger consideration. Our data indicate that when both organizations are able to identify gains that might be realized as a result of a merger, there is a greater likelihood that staff will integrate well and be better aligned with the needs of the organization.

Question item	Predicts
If respondents consistently agree that **each organization was able to identify potential gains that might be realized as a result of the merger process**...	...they are significantly more likely to agree that **staff from the pre-merger organizations integrated well** following the merger (p = .05) ... they are significantly more likely to report that **staff were better aligned with the needs of the organization** following the merger (p = .04)

Conclusions

Taken together, these findings suggest that significant benefit can be achieved through the exploration and careful consideration of merger as an option for many types of nonprofits. Study respondents have made it clear that, although this is both challenging and sometimes stressful work, it may be worth pursuing in the interest of a greater community good.

Study results clearly indicate that mergers may work best when organizations have some history of partnership and openness, when non-administrative staff members and funders have input and involvement in the process, and when there is transparency in both legal and financial matters.

In difficult economic times, and in times when the demand for health and human services is expanding, it appears that mergers can contribute to the stability of the nonprofit environment and, at the same time, preserve and sometimes expand services.

Considerations for future research activities

This study attempts to add to the current body of knowledge about the reasons organizations decide to pursue mergers, the merging process, and the success of mergers. It also reveals relationships between the pre-merger motivations, merging process activities, and outcomes for the merged organization. The research study also produced a wealth of data available for further analysis.

While this report outlines high-level findings and relationships, there are numerous areas for which there are gaps in the body of knowledge regarding nonprofit mergers. Therefore, future research should focus on more specific components and aspects of merger that will advance knowledge in the field. Among the topics most advantageous for additional research at this time are:

- **Financial analyses.** Among the most critical and recognized aspects of mergers is the role and effect fiscal stability plays in the motivations and outcomes of merger. While this report addresses fiscal stability, the timing of the report and the mergers made it difficult to do a completely thorough assessment of pre- and post-merger financial stability. Furthermore, additional years of follow-up financial data for the merged organizations included in this study will provide the necessary data to assess long-term financial effects of merger.

- **Analysis of perspectives.** Mergers involve complex organizational dynamics involving many people with varying perspectives. These individuals have unique and often contradictory ways of conceptualizing, understanding, and describing the changes, successes, and challenges of merger. Better understanding of how individuals' perspectives of mergers differ depending on the role they play would be a substantial contribution to the field. Key perspectives worth exploring include executive leadership, board of directors or governance, program administration, front line staff, and "merger champions."

- **Analysis of failed mergers.** This study focused entirely on mergers that had been legally completed. This provides a research perspective that only includes mergers that are considered moderately successful in that they made it through the process and are still operating. There is a significant gap in the nonprofit merger body of knowledge regarding merger attempts that did not make it through the process. This research, while among the potentially most productive, provides significant methodological challenges and may take significant resources to accomplish.

Finally, it is important that the results of this study get disseminated to and discussed by those interested in nonprofit mergers and other types of realignments. Among the most important audiences are business leaders who sit on boards and support the decision making process, funders who are asked to support the merging process, nonprofit organizations that can use the information to make more educated decisions about merging, and other social science researchers looking to study the phenomenon of nonprofit mergers.

Appendix 1: Factors identified in *What do we know about nonprofit mergers?*

Thirty factors thought to affect nonprofit mergers were identified in *What do we know about nonprofit mergers?* (Owen et al., 2011). The factors from the literature review, key informant interviews, and focus group conducted in 2010-11 are divided into three stages: pre-merger, merging process, and post-merger. This nomenclature is used as the basis of further investigation throughout the study. While the activities in each stage may differ in individual merger situations, informants stress that working through each of the stages is imperative to the success of a merger.

The following factors are classified according to the three stages described above.

Stage 1: Pre-merger

The pre-merger stage is a time of internal assessment and consideration. It is the period during which there is an opportunity for organizations to consider factors such as their motivation for restructuring, current financial situation, external pressures, and existing leadership. During this stage, organizations also consider which other agencies might be viable merging partners, specifically thinking about clients, services offered, geography, and mission. There are 12 factors identified in this review that are associated with the pre-merger stage. They can be grouped into four categories:

1A. Financial soundness of the merging organizations

Many nonprofits explore mergers to improve their financial standing for short-term survival or long-term viability. However, organizations need a certain level of financial stability prior to a merger in order to be a successful merger partner. Experts warn that it may be too late for organizations to consider a merger if they are in a desperate financial crisis. In addition, agencies and boards need to be aware of the monetary costs of considering and implementing a merger.

1B. External conditions

External conditions, including environmental changes (e.g., the current unstable economic environment) and increased competition for resources change the operating environment so nonprofits favor restructuring or choose merger for stability or survival. Funder pressure or encouragement to consolidate or merge is also a factor within this stage.

1C. Organizational structure

Factors related to organizational structure include physical characteristics such as size, budget, and life span. In addition, it is important to be aware of factors related to compatible values in terms of mission, strategy, and culture. The literature also suggests that mergers will be more successful when there is a positive pre-merger relationship among executive leadership of the organizations.

1D. Leadership

One factor associated with leadership during the pre-merger stage is the presence of strong and committed leadership who can visualize and articulate the importance of merging. Another factor is absence or turnover in leadership.

Stage 2: Merging process

Once an organization has determined that there is value in exploring a merger or some form of strategic restructuring, they enter the merging process. This stage focuses on how and under what conditions an organization might work with another and which characteristics they will seek to preserve in the new organization. At a fundamental level, this is the time when organizations assess the risks and benefits of a potential merger partner. In going forward, they will consider how the merger might happen; who will be involved; how communication with staff and stakeholders will be handled; and how the board, culture, and mission will be integrated. There are ten factors identified in this review that are associated with the merging process stage. They can be grouped into four categories:

2A. Key stakeholder involvement

Key stakeholder involvement begins with an executive staff champion committed to the merger's success. Research indicates board commitment, possibly through a joint merger committee, is important, and lack of board involvement can be detrimental to the process. Also, organizations should consider how clients, consumers, and funders can be involved.

2B. Role of staff in merger process

Because the success of the daily operations of a nonprofit organization is so dependent on the work of the front-line staff, it is logical that staff involvement in planning can increase the likelihood of a successful merger. Likewise, communication with staff throughout the process can build buy-in and good will and help diminish staff's negative perceptions of the effects of the merger.

2C. Integrating formal and informal structures

As organizations engage in the merging process they often consider factors related to cultural integration-how the merging organizations will bring together sometimes divergent operational philosophies. Similarly, board and mission integration is important to consider for moving forward.

2D. Providing due diligence to the process

A clear decision-making process and a clear and realistic time frame provide due diligence to the merger process. They help all parties involved gain a clear picture of the legal and financial status of each organization. An independent, unbiased consultant can add leadership to the decision-making process by helping to develop a plan and identifying issues to be addressed.

Stage 3: Post-merger

During the post-merger stage, the merged entity begins to operate independently. Organizational culture and staff are brought together, executive leadership is exercised, services are blended or restructured, administrative and staff roles are refined, and operating kinks and glitches are worked through. At this point there is often an emphasis on sources of ongoing financial support, leadership and training, as well as the redefinition of organizational culture for both staff and clients. The process of becoming "settled" as a new entity may take several years. There are eight factors identified in this review that are associated with the post-merger stage. They can be grouped into four categories:

3A. Funding and support

Once the merger has taken place, the focus turns to the financial stability of the newly-formed organization. Research is contradictory about whether the financial status of an organization improves post-merger. Another focus of post-merger is whether the organization improves its image, reputation, or public support.

3B. Services

Two factors relevant to the post-merger stage related to services are the preservation of services, or the expansion of service types or service areas. Another consideration is whether the merger has improved the quality of existing services, either through more effective service delivery, more comprehensive services, or both.

3C. Climate and culture

There are two distinct post-merger organizational culture and climate factors. The first is post-merger organizational identification which describes how the staff and stakeholders relate to the merged organization. A second is the conflict and morale issues organizations experience following a merger.

3D. Organizational capacity and structure

Following a merger, organizations need to consider whether they have increased operational efficiencies and economies of scale, including reducing overhead expenses or employing higher-skilled employees in more efficient ways. Another consideration is whether they better support the mission because of structural changes within staffing, management, and governance.

Appendix 2: Support for practice wisdom and consultant advice

The findings from the 41 mergers of nonprofit direct service organizations reported here generally support the practice wisdom and consulting advice identified as best practices in *MergeMinnesota* and the previous research published in *What do we know about nonprofit mergers?* Specifically the results indicate support for the following:

Focus on mission and the best interest of those served

- Respondents for 44 percent of the merged organizations consistently agreed that developing a shared mission was a key part of the merger process performed by the board.

Create a clear vision that will guide the newly merged organization

- Respondents for 61 percent of the merged organizations consistently agreed that there was a plan about board governance structure.
- Respondents for 56 percent of the merged organizations consistently agreed that there was a plan on how to combine the operations of the two organizations.

Involve people who will be affected in the process

- Respondents for 76 percent of the merged organizations consistently agreed that the board of directors was involved in the merger process from early in the exploratory stage.
- Respondents for 80 percent of the merged organizations consistently agreed that there were opportunities for the board members from each organization to interact as part of the merger process.
- Respondents for 29 percent of the merged organizations consistently agreed that there was non-administrative staff representation included in planning or implementation.

Deal with key issues early

- Respondents for 39 percent of the merged organizations consistently agreed that there was a plan on how the executive leadership structure would be affected.

Involve outside consultants and attorneys who have experience in mergers

- Respondents for 85 percent of the merged organizations reported their merger involved consultants.
- Respondents for 96 percent of the merged organizations would involve a consultant if doing another merger.
- Consultants were hired based on their knowledge of and experience in nonprofit mergers.

Have a clear, organized decision-making process

- Respondents for 78 percent of the merged organizations consistently agreed that the merging organizations agreed on a defined process for the merger.

Develop a communications plan

- Respondents for 85 percent of the merged organizations consistently agreed that there was clear and timely communication to the board of directors about the merger process.
- Respondents for 54 percent of the merged organizations consistently agreed that there were well defined communication activities designed to inform staff about the progress of the merger.

Have a realistic funding plan

- Respondents for 54 percent of the merged organizations consistently agreed that funders were given regular updates about the progress of the merger.
- Respondents for 85 percent of the merged organizations consistently agreed that they provided opportunities for funders to participate or give input into the merger process.

Have a recommended date for merger completion

- Respondents for 88 percent of the merged organizations consistently agreed that the merger was completed in a timely fashion.
- Respondents for 80 percent of the merged organizations consistently agreed that the merger was completed according to the timeframe set forth in the merger plan.

Have measurements in place to determine merger success

- Ninety-eight percent of the mergers studied established either formal or informal goals to help measure the success of the merger process.

Appendix 3: Limitations of the IRS Form 990

Most nonprofit organizations complete the Form 990 tax form each year. The 990 is useful for obtaining quantifiable information about a nonprofit; however, as with any standardized form, there are limitations and cautions.

One of the major limitations of the 990 is that the information provided on the form is provided by the organizations; therefore, the 990 data are only as good as what the organizations report. Several studies of 990 returns have shown that a sizable portion contain errors and omissions. Many 990 returns have mathematical errors, omissions, and information that has been entered in the wrong section (Quality 990). Furthermore, nonprofits may leave out costs for things such as staff, board, and volunteer time devoted to fundraising which results in decreased reported fundraising expenses and a higher fundraising efficiency ratio (Bradley et al., 2003).

The timeliness in reporting data and filing the 990 can lead to outdated information which can limit the use and purpose of the 990. Nonprofit organizations are given 135 days following the end of their fiscal year to prepare and file a 990. Requested extensions, for up to an additional four months, are usually approved by the IRS. As a result, organizations often file their 990 eight to ten months after their fiscal year ends (Charity Navigator). This delay may mean certain figures and totals on the 990 may be different than what is reported on the audited financial statement for an organization.

Another issue related to time is that fiscal years do not always align with calendar years, and organizations are given latitude on which year's form they complete. Therefore, making sure that forms for multiple agencies cover the same period requires an extra level of analysis which was completed for this study.

Another limitation of the forms is that during the time covered by this study, the 990 form has been revised and there are different versions of the form. This study used data from 990s prior to the 2008 revision, the revised 990 as of the 2008 tax year, and the 990-EZ form for smaller organizations. Although much of the standard income and balance sheet information is found on each of the three versions, there are format differences and even exclusions of information, especially with the smaller 990-EZ form.

The inconsistencies in the form can lead to limitations in using the 990 to calculate certain financial ratios. Depending on the version of the 990, the information needed to calculate a particular ratio may not be available from the 990. According to Nonprofits Assistance Fund, financial ratios that are calculated from figures reported on the 990 are only valuable if they are viewed both at a single point in time and as a trend over time used in comparison to benchmarks or goals and interpreted in the context of both internal and external factors. No one ratio can provide a complete answer to questions about financial health, viability, or efficiency (Nonprofits Assistance Fund).

According to GuideStar, the 990 was not designed primarily for the use of the general public, but rather as a document to help the IRS and state charity regulators ensure that organizations remain true to their charitable purposes, and that private individuals do not enrich themselves at the expense of those purposes. Organizations typically change over time, and the 990 is only a snapshot in time. Thus, the information is more meaningful if viewed over a period of several years.

Although 990 data have limitations in addressing how effectively and efficiently a nonprofit organization achieves its stated purpose, they were used for this study because of public availability. While audited financial statements or other organizational documents may have been a better source for obtaining financial information, those forms are more difficult to locate and collect and the 990 forms for most organizations are available electronically from GuideStar. Throughout the research process, the limitations of the data have been acknowledged and addressed.

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Merger study master interview

Introduction: Hi, my name is [INTERVIEWER] from Wilder Research and I am calling about the merger study we are working on with MAP for Nonprofits. We have recently been in contact with [ED NAME] from [MERGED ORGANIZATION]. [ED NAME] suggested that you would have knowledge of specific aspects of the merger between [ORGANIZATION 1] & [ORGANIZATION 2] that would help us to better understand mergers. We are calling you today to ask you if you would be willing to help with the study. It would involve doing a telephone interview with me - at a time that is convenient for you – to help us gather additional information about the merger.

In our attempt to ask questions that each respondents knows about directly, we have a few initial questions about your involvement in the merger. These only take a couple minutes, and will help us better schedule the full interview. Is it okay if we proceed with these initial questions now?

IF YES: CONTINUE. Excellent, your answers are voluntary and confidential.

IF NO: When would be a better time to call? SET APPOINTMENT.

1a. Prior to the start of the merger, were you involved with any of the organizations that merged? Which organization? [**IF MORE THAN ONE:** For which were you more involved or have more knowledge about?]

Yes, [ORGANIZATION 1] 1
Yes, [ORGANIZATION 2] 2
Yes, [ORGANIZATION 3] 3
Yes, [ORGANIZATION 4] 4
Yes, [ORGANIZATION 5] 5
Not involved prior to start of merger (GO TO Q. 2a) 6
Refused (GO TO Q. 2a) 7
Don't know (GO TO Q. 2a) 8

1b. What was your role with [R's PRE-MERG ORGANIZATION] prior to the start of the merger? CHECK ALL THAT APPLY PRIOR TO START OF MERGER. ?

Executive leadership (CEO/Exec. Dir., Asst. Dir. President, V.P.) 1
Program administration or management 2
Finance/financial administration or accounting 3
Board of directors/governance 4
Human resources 5
Development 6
Marketing/communications 7
Consultant 8
Other (SPECIFY: ______________________________) 9
Refused .... -7
Don't know .... -8

2a Were you involved with any of the organizations during the merger? Which organization? [IF MORE THAN ONE: For which were you more involved or have more knowledge about?]

Yes, [ORGANIZATION 1] 1
Yes, [ORGANIZATION 2] 2
Yes, [ORGANIZATION 3] 3
Yes, [ORGANIZATION 4] 4
Yes, [ORGANIZATION 5] 5
Not involved during the merger (GO TO Q. 3a) 6
Refused (GO TO Q. 3a) 7
Don't know (GO TO Q. 3a) 8

2b. What was your role in [R's MERGE ORGANIZATION] during the merger? CHECK ALL THAT APPLY DURING MERGER.

Executive leadership (CEO/Exec. Dir., Asst. Dir. President, V.P.) 1
Program administration or management 2
Finance/financial administration or accounting 3
Board of directors/governance 4
Human resources 5
Development 6
Marketing/communications 7
Consultant 8
Other (SPECIFY: ____________________) ...9
Refused .... -7
Don't know .... -8

3a. Were you involved with the merged organization directly after the merger or during the first three years of the merger?

Yes 1
No (GO TO Q. 4a) 2
Refused (GO TO Q. 4a) 7
Don't know (GO TO Q. 4a) 8

3b. How were you involved at that time? CHECK ALL THAT APPLY DURING FIRST THREE YEARS AFTER MERGER.

Executive leadership (CEO/Exec. Dir., Asst. Dir. President, V.P.) 1
Program administration or management 2
Finance/financial administration or accounting 3
Board of directors/governance 4
Human resources 5
Development 6
Marketing/communications 7
Consultant 8
Other (SPECIFY: ____________________) ...9
Refused .... -7
Don't know .... -8

4a. Are you currently involved with the merged organization?

Yes 1
No (GO TO Q.5.) 2
Refused (GO TO Q. 5) 7
Don't know (GO TO Q. 5) 8

4b. How are you currently involved in the organization?
CHECK ALL THAT APPLY CURRENTLY

Executive leadership (CEO/Exec. Dir., Asst. Dir. President, V.P.) 1
Program administration or management 2
Finance/financial administration or accounting 3
Board of directors/governance 4
Human resources 5
Development 6
Marketing/communications 7
Consultant 8
Other (SPECIFY: ______________________________) ...9
Refused .... -7
Don't know .... -8

5. Using a scale **of** "very good, good, **fair**, or poor," please tell me how you would rate your knowledge of each of the following aspects of the merger

How would you rate your knowledge of…	**Very good,**	**Good,**	**Fair, or**	**Poor?**	**REF**	**DK**
A. The internal and external environments of one or more of the organizations prior to the start of the merger?	1	2	3	4	7	8
B. The merger process, that is, how the merger was conceived, implemented, and completed?	1	2	3	4	7	8
C. The structure and functioning of the post-merger organization in the first three years after the merger?	1	2	3	4	7	8
D. The work of the current organization and how the merger may have affected that work?	1	2	3	4	7	8

5x. **[IF 5A=VERY GOOD OR GOOD & 1A=NOT INVOLVED]** You mentioned that you have a good knowledge of one or more of the pre-merger organizations. For which of the pre-merger organizations is your knowledge best?

Yes, [ORGANIZATION 1] 1
Yes, [ORGANIZATION 2] 2
Yes, [ORGANIZATION 3] 3
Yes, [ORGANIZATION 4] 4
Yes, [ORGANIZATION 5] 5
Refused 7
Don't know 8

5y. **[IF 5B=VERY GOOD OR GOOD & 2A=NOT INVOLVED]** You mentioned that you have good knowledge of the merger process. From the perspective of which of the merging organizations is your knowledge best?

Yes, [ORGANIZATION 1] 1
Yes, [ORGANIZATION 2] 2
Yes, [ORGANIZATION 3] 3
Yes, [ORGANIZATION 4] 4
Yes, [ORGANIZATION 5] 5
Refused 7
Don't know 8

5yb. What was your role in [R's MERGE ORGANIZATION] <u>during the merger</u>? CHECK ALL THAT APPLY DURING MERGER.

Executive leadership (CEO/Exec. Dir., Asst. Dir. President, V.P.) 1
Program administration or management 2
Finance/financial administration or accounting 3
Board of directors/governance 4
Human resources 5
Development 6
Marketing/communications 7
Consultant 8
Other (SPECIFY: ____)9
Refused .... -7
Don't know .... -8

5Z. Is there anything else we should know about your involvement in, or knowledge of, the merger or the organizations involved in the merger?

____

____

____

____

LOGIC FOR DETERMINING WHAT SECTIONS RESPONDENTS COMPLETE:

Section 1 Pre-merger.
Do if: (Q1a=1 or 2 or 3 or 4 or 5 and Q5a=1, 2, or 3) or (Q5a=1 or 2)
DO NOT do if: Q5a=4

Section 2: Merger process.
Do if: (Q2a=1 or 2 or 3 or 4 or 5 and Q5b=1, 2, or 3) or (Q5b=1 or 2)
DO NOT do if: Q5b=4

Section 3: Post-merger.
Do if: (Q3a=1 and Q5c=1, 2, or 3) or (Q5c=1 or 2)
DO NOT do if: Q5c=4

Section 4: Current organization.
Do if: (Q4a=1 and Q5d=1, 2, or 3) or (Q5d=1 or 2)
DO NOT do if: Q5d=4

Terminate interview
DO if: (Q1a=6 and Q2a=6 and Q3a=2 and Q4a=2) and (Q5a=3 or 4 and Q5a=3 or 4 and Q5a=3 or 4 and Q5a=3 or 4)
DO if: (Q5a=4 and Q5a=4 and Q5a=4 and Q5a=4)

IF ELIGIBLE FOR ONE OR MORE SECTIONS:

Thank you for answering these initial questions. Judging from your involvement in the merger process, we expect that your interview will take about [INTERVIEW LENGTH] minutes. Your answers will be kept confidential. If you have time, we could do it right now, or we can schedule a time that is more convenient for you.

IF YES > CONTINUE.

IF NO > When would be a better time to call? **SET APPOINTMENT.**

IF TERMINATE INTERVIEW:

6. **We** are only interviewing individuals who have direct knowledge of or involvement in the merger. Is there a specific way in which you were involved in the merger that we have not asked about?

IF NO > END INTERVIEW

IF YES > RECORD

____

____

END INTERVIEW.

(NOTE: THERE ARE NO QUESTIONS NUMBERED 7-8. THE NEXT SUB-SECTION STARTS WITH Q 9.)

1. Pre-merger

Now I would like to ask you some specific questions about the conditions or circumstances that led to the merger. If there are any questions you do not have knowledge of, just let me know and we can skip them.

9. How important do you feel it was to pursue this merger? FOLLOW WITH PROBE AS NEEDED: Why do you say that? OR Please tell me why you think that?

10. What do you feel were the key steps in getting the merger started?

11. When this merger was being considered, was there anything going on in the external economy or funding environment that affected your decision? IF YES: Please tell me more about that.

12. What would you say was the single biggest reason [R's PRE-MERGE ORGANIZATION] pursued this merger?

13. Was one of the pre-merger organizations…

	Yes	No	REF	DK
A. Facing a retiring executive director?	1	2	7	8
B. Experiencing any other recent change in leadership?	1	2	7	8
C. Experiencing any change of organizational leadership structure?	1	2	7	8

14A: **IF YES TO 13 A:** What were the issues related to the retirement of the executive director?

____

____

____

____

14B: **IF YES TO 13 B:** What were the changes in leadership?

____

____

____

____

14C: **IF YES TO 13 C: What** were the issues related to the change of leadership structure?

____

____

____

____

15a. How would you **rate** the overall commitment of the leadership among the pre-merger organizations? Would you say…

Leadership from each of-the organizations was equally committed, ... 1
Leadership from one organization was more committed, or 2
Neither organization had the commitment of its leadership? 3
Refused (GO TO Q. 16a) 7
Don't know (GO TO Q.16a) 8

15b. Why do you say that.

____

____

____

____

16a. Was there one individual who was the catalyst or champion of this merger?

Yes: there was one individual who was the champion 1
No (GO TO Q.19) 2
R volunteered: There was more than one champion 3
Refused (GO TO Q.19) 7
Don't know (GO TO Q.19) 8

16b. **IF YES OR R VOLUNTEERED (1 OR 3) TO Q.16a: ASK FOR EACH CHAMPION:** What is that person's name? What organization was that person affiliated with at the time. What was that person's role in the organization? (LIMIT TO 3 CHAMPIONS > IF MORE THAN ONE CHAMPION FORCE R TO GIVE "PRIMARY" CHAMPION):

16b 1. CHAMPION #1 [PRIMARY]

NAME____

ORGANIZATION ____

ROLE IN ORGANIZATION____

16b 2. CHAMPION #2 [OTHER]

NAME____

ORGANIZATION ____

ROLE IN ORGANIZATION ____

16b 3. CHAMPION #3 [OTHER]

NAME____

ORGANIZATION ____

ROLE IN ORGANIZATION____

[IF MORE THAN ONE CHAMPTION > ASK ABOUT PRIMARY] **17. Did this person..**	**Yes**	**No**	**REF**	**DK**
A. Make the difficult decisions?	1	2	7	8
B. Help others engage in difficult conversations?	1	2	7	8
C. Provide leadership or direction in carrying out the functional tasks of the merger including financial, operational, and staffing integration?	1	2	7	8
D. Serve as the chief salesperson or cheerleader of the merger?	1	2	7	8
E. Demonstrate an entrepreneurial spirit regarding growth and opportunity for the organization(s)?	1	2	7	8

18Z. What else should we **know** about (this/these) champion(s) of the merger?

19. Please tell me how much you agree or disagree with each of the following statements about [R's PRE-MERGE ORGANIZATION] before the merger.

	Strongly agree	**Agree**	**Disagree**	**Strongly disagree**	**REF**	**DK**
A. The decision to merge had strong support from board members.	1	2	3	4	7	8
B. There was division among your organization's board about the decision to merge.	1	2	3	4	7	8
C. The idea of the merger was controversial to the board.	1	2	3	4	7	8

19Z. What else should we know about the board's role in the decision to merge?

20. Now I am going to read a list of possible reasons to pursue merger. For each , please tell me if you feel it was a **PRIMARY** reason [R's PRE-MERGE ORGANIZATION] pursued the merger, **PART** of the reason, or **NOT** a reason. **If** you **DON'T KNOW**, please tell me that as well.

Your organization…	**Primary reason**	**Part of the reason**	**Not a reason**	**REF**	**DK**
A. Identified a need for skilled executive leadership.	1	2	3	7	8
B. Identified a need for skilled board or governance leadership.	1	2	3	7	8
C. Identified a need for skilled managerial or administrative leadership.	1	2	3	7	8
D. Had an opening in the executive director or CEO position.	1	2	3	7	8
E. Had a strong executive who pushed for the merger.	1	2	3	7	8
F. Had a strong board member who pushed for the merger.	1	2	3	7	8
G. Had a strategic vision that included merger.	1	2	3	7	8
H. Had openings or could not fill openings on the board of directors.	1	2	3	7	8

The next questions are about external environmental conditions that may have related to the merger:

21. Did **[R's PRE-MERGE ORGANIZATION]** receive any funding to help pay for some of the costs associated with exploring or completing the merger?

Yes 1
No (GO TO Q. 23) 2
Refused (GO TO Q. 23) 7
Don't know (GO TO Q. 23) 8

22. What was the source of the funding? DO NOT READ LIST. CIRCLE ALL THAT APPLY.

Grants from private foundations 1
Federal government grants 2
State or local government grants 3
Grants from community organizations (e.g. United Way) 4
Donations from individuals 5
Other (SPECIFY: ____________________) 6
Refused .... -7
Don't know .... -8

23. I am going to read a list of conditions or circumstances that sometimes influence merger decisions. For each , please tell me if you feel it was a **PRIMARY** reason for **[R's PRE-MERGE ORGANIZATION]** to pursue the merger, **PART** of the reason, or **NOT** a reason. **If** you **DON'T KNOW**, please tell me that as well.

How about…	**Primary reason**	**Part of the reason**	**Not a reason**	**REF**	**DK**
A. Instability in the external economic environment	1	2	3	7	8
B. Pressure from funders to merge.	1	2	3	7	8
C. A funder played "matchmaker" in bringing the organizations together.	1	2	3	7	8
D. Increased competition for funding or resources.	1	2	3	7	8
E. Increased competition in providing services.	1	2	3	7	8
F. Changes in communication or other technology	1	2	3	7	8
G. Opportunity for increased service delivery.	1	2	3	7	8
H. An opportunity to save services that would otherwise be lost.	1	2	3	7	8

(NOTE: THERE IS NO QUESTIONS NUMBERED 24.. THE NEXT SUB-SECTION STARTS WITH Q 25.)

Now we have some specific questions designed to help us understand the financial status of each pre-merger organization.

25. Please tell me how much you agree or disagree with the following statements about **[R's PRE-MERGE ORGANIZATION]** financial status before the merger.

In the months before the merger…	**Strongly agree**	**Agree**	**Disagree**	**Strongly disagree**	**REF**	**DK**
A. [R's PRE-MERGE ORGANIZATION] struggled to make payroll or pay other expenses	1	2	3	4	7	8
B. [R's PRE-MERGE ORGANIZATION] used a line of credit to sustain daily operations of the organization	1	2	3	4	7	8
C. [R's PRE-MERGE ORGANIZATION] had assets available to collateralize loans	1	2	3	4	7	8

25Z. What else should we know about [R's PRE-MERGE ORGANIZATION] financial status before the merger?

____

____

____

____

26a. Do you think each of the pre-merger organizations came to the merger from an equal position of financial strength? Would you say…

The same or very similar financial strength,(GO TO Q 27) 1
Somewhat similar financial strength, or 2
Significantly different financial strength? 3
Refused (GO TO Q 27) 7
Don't know (GO TO Q 27) 8

26b. [IF 2. OR 3. TO Q26a: SOMEWHAT SIMILAR OR DIFFERENT] :How did the financial strength of the organizations differ?

____

____

____

____

27. Did concerns about expenses or the actual pre-merger expenses slow the progress of merger exploration? Expenses could include legal, consultant, or staff time.

Yes 1
No (GO TO Q. 29) 2
Refused (GO TO Q. 29) 7
Don't know (GO TO Q. 29) 8

28. [IF YES to Q27: What were some of the expenses related to the merger?

____

____

____

____

29. Were any of **the** following a **PRIMARY** reason for **[R's PRE-MERGE ORGANIZATION]** to pursue the merger, **PART** of the reason, or **NOT** a reason? If you **DON'T KNOW**, please tell me that as well.

What about…	Primary reason	Part of the reason	Not a reason	REF	DK
A. The potential for increased long-term financial viability or solvency?	1	2	3	7	8
B. An imminent financial crisis or issues with short-term solvency?	1	2	3	7	8
C. The chance to improve your organization's already solid financial status?	1	2	3	7	8

30. Who were the largest funders of **[R's PRE-MERGE ORGANIZATION]** prior to the merger? This could include county or state contracts, foundation grants, or individual donors. (PROBE FOR UP TO 3. IDENTIFY EACH CONTRIBUTOR IN THE FOLLOWING WAY:

- BY NAME IF IT'S AN ORGANIZATION,
- BY INITIALS IF IT'S AN INDIVIDUAL DONOR (A PERSON).)

CONTRIBUTOR 1____

31a. Did they continue to fund the organization after the merger? Would you say it was…

At the same or higher level, ... 1
At a reduced level, or 2
Not at all? 3
Refused 7
Don't know 8

CONTRIBUTOR 2____

31b. Did they continue to fund the organization after the merger? Would you say it was…

At the same or higher level, ... 1
At a reduced level, or 2
Not at all? 3
Refused 7
Don't know 8

CONTRIBUTOR 3____

31c. Did they continue to fund the organization after the merger? Would you say it was…

At the same or higher level, ... 1
At a reduced level, or 2
Not at all? 3
Refused 7
Don't know 8

(NOTE: THERE ARE NO QUESTIONS NUMBERED 32-35.. THE NEXT SUB-SECTION STARTS WITH Q 36.)

My next questions are about organizational structure.

36. Please tell me how much you agree or disagree with the following statements about the organizational fit of the pre-merger organizations.

	Do you…					
36. The organizations shared similar . . .	**Strongly agree,**	**Agree,**	**Disagree, or**	**Strongly disagree?**	**REF**	**DK**
A. Vision and mission	1	2	3	4	7	8
B. Client or member populations	1	2	3	4	7	8
C. Program focus	1	2	3	4	7	8
The organizations were similar in …..						
D. Their approach to the work	1	2	3	4	7	8
E. The ways staff related to organizational leaders	1	2	3	4	7	8
F. Their ways of going about business	1	2	3	4	7	8
G. How staff related to each other within the H. H. organization	1	2	3	4	7	8

36Z. What else should we know about how the pre-merger organizations fit together?

____

____

____

____

37. Please tell me how much you agree or disagree with each of the following statements about how the pre-merger organizations worked together.

37.	Do you… Strongly agree,	Agree,	Disagree, or	Strongly disagree?	REF	DK
A. Executive staff from the pre-merger organizations had a strong working relationship.	1	2	3	4	7	8
B. The pre-merger organizations had previously A. collaborated or partnered.	1	2	3	4	7	8
C. The pre-merger executives were interested in a strong organizational fit.	1	2	3	4	7	8
D. The executives were interested in preserving the missions of their pre-merger organization.	1	2	3	4	7	8

37Z. What else should we know about how the pre-merger organizations worked together?

____

____

____

____

(NOTE: THERE IS NO QUESTION NUMBERED 38. THE NEXT SECTION STARTS WITH Q 39.)

2. Merging process

My next questions relate to the process of actually carrying out the merger.[AS NEEDED: This includes questions about stakeholder and staff involvement , communications, how staff perceptions were handled, what attention was given to integrating the cultures of the merging organizations, how the separate boards and missions were integrated, as well as the decision-making process and time frame within which the merger was carried out.]

39. What was the single most important factor to successfully completing the merger process? Why?

____

____

____

____

40. What was the single biggest barrier to completing the merger process? Why?

____

____

____

____

41. During the merger process, were there formal goals established to measure the success of the process?

Yes 1
No (GO TO Q.44) 2
Refused (GO TO Q.44) 7
Don’t know (GO TO Q.44) 8

42. What were the formal goals? [RECORD UP TO THREE FORMAL GOALS]

1.____

2.____

3.____

43. Were the formal goals met? Would you say…

Mostly, ... 1
Somewhat, or 2
Not at all? 3
Refused 7
Don’t know 8

44. During the merger process, were there informal goals established to measure the success of the process?

Yes 1
No (GO TO Q.49) 2
Refused (GO TO Q.49) 7
Don't know (GO TO Q.49) 8

45. What were the informal goals? (RECORD UP TO THREE INFORMAL GOALS)

1.____

2.____

3.____

46. Were the informal goals met? Would you say…

Mostly, ... 1
Somewhat, or 2
Not at all? 3
Refused 7
Don't know 8

(NOTE: THERE ARE NO QUESTION NUMBERED 47-48. THE NEXT SUB-SECTION STARTS WITH Q 49.)

The next questions are about the merger plan and timing.

49. One of the ideas encountered frequently in the merger literature is that of "***due diligence.***" Please tell me what "***due diligence***" means to you in the context of your merger? What were the most important aspects of due diligence in carrying out this merger?

____

____

____

50. Please tell me how much you agree or disagree with the following statements about the merger plan.

There was a detailed, written, and distributed plan to…	**Strongly agree**	**Agree**	**Disagree**	**Strongly disagree**	**REF**	**DK**
A. Combine the operations of the two organizations.	1	2	3	4	7	8
B. Outline how the executive leadership structure would be affected by the merger.	1	2	3	4	7	8
C. Outline how the board governance structure would be affected by the merger.	1	2	3	4	7	8
D. Outline how the administration and management structure of the organization would be affected by the merger.	1	2	3	4	7	8

50Z. What else should we know about the merger plan?

____

____

____

____

51. **Please tell me how much you agree or disagree with the following statements about the merger process.**

	Strongly agree	Agree	Disagree	Strongly disagree	REF	DK
A. The merging organizations agreed on a defined . process for the merger.	1	2	3	4	7	8
B. The organizations had a cost-sharing agreement for expenses related to the merger process.	1	2	3	4	7	8
C. Each organization had the opportunity to examine financial and legal information about the other organization(s).	1	2	3	4	7	8
D. Each organization was able to outline elements from which it stood to gain in the merger process.	1	2	3	4	7	8
E. Key merger leaders allowed adequate time to develop relationships and negotiate the merger process.	1	2	3	4	7	8
F. The merger work was completed in a timely fashion.	1	2	3	4	7	8
G. The merger was completed according to the timeframe set forth in the merger plan.	1	2	3	4	7	8

51Z. What else should we know about the merger process?

____

____

____

____

IF INVOLVED IN MERGER AS CONSULTANT > SKIP TO Q59

52. Did an independent consultant assist in the merger process? For this study, the term "consultant" includes outside facilitators, mediators, or advisors.

Yes 1
No (GO TO Q 59) 2
Refused GO TO Q 59) 7
Don't know GO TO Q 59) 8

53. Why did you or someone else choose to involve a consultant?

____

____

____

____

54. What specific functions or activities was the consultant responsible for?

____

____

____

____

55a. What was the **MOST VALUABLE** contribution that the consultant made DURING the merging process? [RECORD UP TO THREE, LIST MOST VALUABLE FIRST]

1.____

2.____

3.____

56a. Were there any functions in the merger process that the consultant performed that you think you could have done on your own?

Yes 1
No (GO TO Q. 57) 2
Refused (GO TO Q. 57) 7
Don't know (GO TO Q. 57) 8

56b. What were they? [RECORD UP TO FOUR FUNCTIONS..]

1.____

2.____

3.____

4.____

57. Overall, how would you rate the value of having an external consultant help with the merger process? Would you say… [IF OFFER THAT THERE WAS MORE THAN ONE CONSULTANT: Was any of the consultation important or critical?]

The consultant was **critical** to the success of the merger, ...1
The consultant was important, but **not** critical, or..2
The consultant was of **little value**..3
Refused...7
Don't know 8

58. If you were doing this merger again, would you involve a consultant?

Yes 1
No 2
Refused...7
Don't know 8

59. What, if anything, could [R's MERGE ORGANIZATION] have been done differently during the merger process, to make the process smoother?

____

____

____

____

60. **The next questions are about executive *leadership* at [R's MERGE ORGANIZATION] during the merging process.**

60. Please tell me how much you agree or disagree that . . .	**Strongly agree**	**Agree**	**Disagree**	**Strongly disagree**	**REF**	**DK**
A. Executive leadership of [R's MERGE ORGANIZATION] was committed to the merger process.	1	2	3	4	7	8
B. Executive leadership of [R's MERGE ORGANIZATION] promoted the merger to the organization.	1	2	3	4	7	8
C. Executive leadership of [R's MERGE ORGANIZATION] pushed the merger process forward.	1	2	3	4	7	8
D. One key executive in [R's MERGE ORGANIZATION] can be credited with assuring the merger process was completed.	1	2	3	4	7	8

60Z. What else should we know about executive leadership during the merging process?

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____

____

____

61. The next questions are about *board involvement* <u>during the merging process.</u>

61. Please tell me how much you agree or disagree that . . .	**Strongly agree**	**Agree**	**Disagree**	**Strongly disagree**	**REF**	**DK**
E. The board of [R's MERGE ORGANIZATION] was involved in the merger process from early in the exploratory phase.	1	2	3	4	7	8
F. The board of <u>each</u> organization was integral to the merger process.	1	2	3	4	7	8
G. There were opportunities for the board members from each organization to interact as a part of the merger process.	1	2	3	4	7	8
H. Developing a shared mission was a key part of the merger process performed by the boards of each organization.	1	2	3	4	7	8
I. There was clear and timely communication to the board of [R's MERGE ORGANIZATION] about the progress of the merger.	1	2	3	4	7	8

62. Please answer "yes" or "no" to the following questions about board involvement during the merger.	**Yes**	**No**	**REF**	**DK**
A. Was there a board committee within <u>each</u> organization established to help facilitate the merger?	1	2	7	8
B. Was there a joint board committee composed of members from <u>each</u> pre-merger organization to help facilitate the merger?	1	2	7	8
C. Did the pre-merger organizations have equal numbers of board members involved in the merger?	1	2	7	8

62Z. What else should we know about board involvement during the merger process?

____

____

____

____

63a**.** Was there any <u>unexpected</u> board member attrition or turnover <u>during the merger process</u>? Would you say there was…

None,(GO TO Q 64) 1
Some, or 2
A lot of attrition or turnover? 3
Refused (GO TO Q 64) 7
Don't know (GO TO Q 64) 8

63b. How did that attrition or turnover affect the progress of the merger?

____

____

____

64. The next questions are about NON-administrative staff involvement and organizational culture.

64. Please tell me how much you agree or disagree with the following statements about the NON-administrative staff in your organization during the merger.	**Do you…** **Strongly agree,**	**Agree,**	**Disagree, or**	**Strongly disagree?**	**REF**	**DK**
A. Staff were educated about the merger early in the process.	1	2	3	4	7	8
B. Staff representation was included in the merger planning or implementation.	1	2	3	4	7	8
C. There was a critical mass of support among staff during the merger process.	1	2	3	4	7	8
D. There was significant resistance to change among staff during the merger process.	1	2	3	4	7	8
E. Efforts to include or inform staff impeded the progress or efficiency of the merger process.	1	2	3	4	7	8
F. There were well-defined communication activities designed to inform staff about the progress of the merger.	1	2	3	4	7	8
G. Agenda items during staff meetings were devoted to communication about merger progress.	1	2	3	4	7	8
H. Agenda items during staff meetings were devoted to completing tasks related to the merger process.	1	2	3	4	7	8
I. There was significant staff turnover or attrition during the merger process	1	2	3	4	7	8
J. There was a staff liaison dedicated to informing and communicating with staff during the merger process.	1	2	3	4	7	8
K. Staff were given the opportunity to celebrate the past, grieve, or communicate a vision for the future.	1	2	3	4	7	8
L. A conscious effort was made, early in the merger process, to carry over key cultural elements from each organization.	1	2	3	4	7	8
M. Obvious organizational culture differences impeded the merger process.	1	2	3	4	7	8
N. There was a specific plan to integrate the organizational cultures.	1	2	3	4	7	8

64Z What else should we know about staff or cultural integration during the merger process?

____

____

____

____

65. The next questions are about *external stakeholders* and the merger process. Please tell me how much you agree or disagree with each of the following statements.

	Do you…					
The merger process…	**Strongly agree,**	**Agree,**	**Disagree, or**	**Strongly disagree?**	**REF**	**DK**
A. Gathered feedback about what clients or customers wanted from the merged organization.	1	2	3	4	7	8
B. Provided regular communication or updates about merger progress to clients or customers.	1	2	3	4	7	8
C. Provided opportunities for funders to participate or give input into the merger planning or process.	1	2	3	4	7	8
D. Gave funders regular updates about the progress or the merger process.	1	2	3	4	7	8

65Z. What else should we know about *external stakeholder* engagement during the merger process?

____

____

____

____

3. Post merger

The next questions are about the time period following the completion of the merger. In answering these questions, please think about the first three years following the merger.

66a. From your perspective, what were the one or two biggest changes in the organization, following the merger?

1.____

____

2. ____

____

66b. What were the one or two biggest challenges to the organization, following the merger?

1.____

____

2. ____

____

66c. What were the one or two biggest successes of the organization, following the merger?

1.____

____

2. ____

____

67. Please tell me how much you agree or disagree with the following statements about the organization following the merger.

	Do you…					
67. In the first three years following the merger, the organization (has)…	**Strongly agree**	**Agree**	**Disagree**	**Strongly disagree**	**REF**	**DK**
A. Improved its image, reputation, or public support	1	2	3	4	7	8
B. Strengthened its overall financial stability or sustainability	1	2	3	4	7	8
C. Saved services that were likely to have gone out of existence without the merger	1	2	3	4	7	8
D. Expanded existing services or launched new services	1	2	3	4	7	8
E. Improved the quality of existing services	1	2	3	4	7	8

67Z. What else should we know about the effects of the merger on the organization in the first three years following the merger?

____

____

____

____

68a. In the first three years following the merger, (have there been/were there) any changes in the operations of the organization that resulted in more efficiency?

Yes 1
No (GO TO Q 69) 2
Refused GO TO Q 69) 7
Don't know GO TO Q 69) 8

68b. Please describe these changes.

____

____

____

____

The next questions are about the <u>effects of the merger on the staff</u>.

69. In the first three years following the merger,….	**YES**	**NO**	**REF**	**DK**
A. Were staff positions reduced?	1	2	7	8
B. Were staff positions restructured?	1	2	7	8

Please tell me how much you agree or disagree with the following statements

70. In the first three years following the merger,. .	**Strongly agree**	**Agree**	**Disagree**	**Strongly disagree**	**REF**	**DK**
A. Tensions among staff were higher than pre-merger levels	1	2	3	4	7	8
B. Staff from the pre-merger organizations integrated well	1	2	3	4	7	8
C. Staff were better aligned with the needs of the organization	1	2	3	4	7	8
D. Staff expressed a sense of loss over the past	1	2	3	4	7	8

70Z. What else should we know about the effects of the merger on the organization's staff in the first three years following the merger??

71a. Were there any issues with morale that arose in the first three years following the merger that caused serious problems or distracted staff from the business of making the new organization successful?

Yes 1
No (GO TO Q 72) 2
Refused (GO TO Q 72) 7
Don't know(GO TO Q 72) 8

71b. What were these issues?

72. Do you have any additional observations about how staff related to the new organization in the first three years following the merger?

The next questions are about *general organizational changes.*

Please tell me if the following statements are true or not true for the new organization following the merger.

73. In the first three years following the merger, the organization (has)…	**YES/True**	**NO/Not True**	**REF**	**DK**
A. Developed new operating policies	1	2	7	8
B. Changed management structure	1	2	7	8
C. Developed new policies for governance	1	2	7	8

74A: What new operating policies were developed?

74B: What were the changes in management structure?

74C: What new policies for governance were developed?

75a. Following the merger, was the portfolio of funders different from the portfolio of the pre-merger organizations?

Yes 1
No (GO TO Q. 76) 2
Refused (GO TO Q. 76) 7
Don't know (GO TO Q. 76) 8

75b. In what ways? How did the portfolio change?

76. Were there any contracts that were lost or reduced as a result of the merger?

Yes, lost	1
Yes, reduced	2
No	3
Refused	7
Don't know	8

77a. In the first three years following the merger, have expenses increased, stayed the same, or decreased , compared to the combined budgets/finances of the pre-merger organizations?

Increased	1
Stayed the same (GO TO Q 78)	2
Decreased	2
Refused (GO TO Q 78)	7
Don't know (GO TO Q 78)	8

77b. To what do you attribute the (increase/decrease) in expenses?

____

____

____

____

78. In the first three years following the merger, was the organization better, worse, or about the same from a cash standpoint?

Better	1
About the same	2
Worse	2
Refused	7
Don't know	8

79. Were there any unexpected financial outcomes of the merger?

Yes	1
No (GO TO NEXT SECTION: CURRENT ORGANIZATION)	2
Refused (GO TO NEXT SECTION: CURRENT ORGANIZATION)	7
Don't know (GO TO NEXT SECTION: CURRENT ORGANIZATION)	8

80. What were the unexpected financial outcomes of the merger?

____

____

4. Current organization

The next questions are about the current status of the organization.

82. Thinking about the biggest challenges or barriers facing the merged entity today, what would rank as Number One? What would you rank as Number Two? What would you rank as Number Three? [RECORD UP TO THREE]

1.____

2.____

3.____

83. What, if anything, do you feel could have been done during the merger planning and implementation that could have reduced these challenges or barriers?

84. Overall, how would you rate the success of the merger today? Would you say it is

Very successful,..1
Somewhat successful, or..................................2
Not successful? 3
Refused...7
Don't know 8

85. Overall, how would you rate the benefit of the merger to the community you serve? Would you say it was…

Very beneficial, ...1
Somewhat beneficial, or.....................................2
Not beneficial? (GO TO Q. 86b.) 3
Refused (GO TO Q.87a) 7
Don't know (GO TO Q.87a) 8

86a. What would you say is the benefit to the community?

(GO TO Q. 87a.)

86b. **IF ANSWER TO Q 85, IS "<u>not beneficial</u>," ASK:** Why do you say that?

____

____

____

____

87a. Are there any unexpected outcomes of the merger?

Yes 1
No (GO TO Q. 88) 2
Refused (GO TO Q. 88) 7
Don't know (GO TO Q. 88) 8

87b What were the unexpected outcomes of the merger?

____

____

____

____

88. My last question is a kind of fill-in-the-blank. You can fill in the blank with a situation, a circumstance, a name of a person – whatever you want. "If not for__________________this merger would never have happened." How would you fill in that blank? (blank)

____

____

____

____

89. Those are all of the questions I have for you, is there anything else we should know about the merger or your involvement in the merger, or anything else you would like to say?

____

____

____

____

Now that you have heard all of the questions, if our researchers quote something from your responses to exemplify a finding in the study, is it okay with you for Wilder Research to use the quote with attribution?

1. YES _______ (WITH attribution)

2. NO _______ (NO attribution)

Thank you very much for all the time you've taken to talk with me about this merger.

Thank you. Goodbye.

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