



Time to Merge?

Fundraising & Financial Implications

BY PRISCILLA HUNG

Given the economic recession, funding challenges may lead increasing numbers of organizations to face the difficult decision of merging or risk closing their doors.

Groups may be considering a merger for financial reasons, political reasons, mission-related issues, or all three. Given the challenging economic times we're in, financial reasons might be first and foremost on your mind. Some financial reasons for merging can include wanting to combine back-office functions to save money, recognizing that you are duplicating the work or expenses of a similar organization in your area, or feeling that too much effort is going into staying afloat as an organization rather than into its mission-fulfilling programs.

Whether your merger is motivated by funding issues or because you think working with another organization could help you better accomplish your mission, or both, we hope you can learn from our experience at GIFT in merging two previously independent organizations: the *Grassroots Fundraising Journal* and GIFT.

GIFT and the *Grassroots Fundraising Journal* officially joined forces in April 2008, almost two years after beginning the process of negotiating a merger. The following seven lessons we learned — particularly those related to the financial and fundraising implications of merging — might be helpful if your group is considering a merger. (See the box on page 7 for resources for dealing with other aspects of a merger.)

1. It's your work that's important, not the organization

Mergers are most likely to succeed if they are based on a strategic opportunity to further your mission, rather than because your organization is in financial crisis. Although of course you can't carry out your mission if you don't exist, challenge yourself to think beyond the idea that the goal of your organization is existence and to think deeply about your motivations.

No matter how attached you or other constituents are to the organization or how sad it would be to close a

group into which people have poured a lot of time, love, and money, the mission-fulfilling work is the most important thing — not the mere existence of the organization. If the majority of your time is spent managing the organization, such as keeping up personnel and bookkeeping responsibilities or raising money for rent and salaries, perhaps it is time to close the doors and help find a new home for the work.

If you're in crisis, one of the first questions to ask yourself is whether there are other organizations or people who could continue the work you are doing. Before merging with GIFT, the *Grassroots Fundraising Journal* also considered other options: being absorbed into another publication, publishing solely online on a volunteer basis, encouraging independent fundraising consultants to take on the work, or simply letting it fold and waiting to see if someone else would step in to fill the void. All of these options would have resulted in the sad ending of what we know as the *Grassroots Fundraising Journal*, but they would have let our mission continue to be carried out in some way without the burden — and expense — of managing an organization.

2. Be honest and up front about your reasons for merging

It is important to be honest about what you're hoping to gain through a merger and what you're afraid to lose. This will help ensure that your merger prospect is the organization that can really best meet your needs.

In 2005, the *Journal* decided to look for an organization to merge with because the founder and publisher, Kim Klein, who had worked for the *Journal* for all of its 25 years without compensation, was stepping down. At the same time GIFT's executive director was leaving, its finances were shaky, and its board was not sure the group could survive on its own. GIFT and the *Journal* already had shared histories and a long-time practice of collaborating. We began conversations between both boards and key staff and sealed the deal after a day of negotiations facilitated by a consultant.

On both sides, there were anxieties, fears, and tears, but it was a productive, honest conversation because people allowed themselves to be vulnerable. We had to be honest about what kind of financial situation each organization was in and the reasons behind it. We had to have difficult political discussions about whether the new organization would be multiracial or a people of color organization, and how that would be reflected in the staff and leadership. We had to consider which programs we felt must continue with the new organization. We also had to acknowledge individual feelings of failure or disappointment. Rather than suppress or hide these realities behind a strong facade, and uncover them later, we were able to address them up front.

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3. Merging won't make a financially unstable organization more stable

Although experts recommend considering other — less drastic — forms of organizational partnership when an organization is in crisis, merging may be an idea that you are seriously considering precisely because of severe funding issues. But it's important to understand that merging is not a solution for funding problems unless you have a clear and realistic plan for financial solvency. Also, as you will see in point #6, a merger, done properly, actually costs money.

At GIFT we have learned that organizations whose fundraising isn't going well are often actually having a number of other problems that must be solved before their fundraising can improve. As Kim Klein says, "Just as a fever can be a symptom of any number of illnesses, so lack of money may point to a deeper distress. Rarely is lack of fundraising effort the main problem in a faltering organization, and never is it the only problem."

If you are looking to merge with another organization as a fix for funding problems, then you'd do well to look more deeply at your organization first to identify the reason(s) that your fundraising isn't successful. For example, if your staff is too busy to fundraise, then the fix perhaps isn't to merge but to reprioritize your workloads. Or if the problem is that there's a lack of engagement from your board, then your first need may be to work with your board members on developing their fundraising leadership before expecting them to take a leadership role in the complex process of merging.

Our own merger process suffered from greater financial instability in both organizations than we initially realized. We began to understand that bringing together two financially weak organizations doesn't create one strong organization — it creates one larger weak organization. To address this situation, we put a lot of time and energy

into stabilizing funding for the new organization as well as generating more earned income.

What we didn't anticipate was that the financial instability would also make our office environment more tense. The financial strain plus trying to generate more funds while carrying out all the programs, contributed to growing stress and insecurity among staff. To help us get through this rocky time, we hired an organizational development consultant who helped us understand why we were feeling interpersonal tension, identify how we individually were

both reacting to and adding to the stress, communicate what we needed to feel supported during this time, and create a

shared idea of what kind of organizational culture we wanted to develop. At first, it was hard to commit resources to this, since finances were already tight and workloads were overwhelming, but it was a very valuable intervention, and we are now much stronger as a staff.

4. Fundraising culture matters just as much as fundraising practice

When you're considering a merger, the need to share information about your financial and fundraising practices is obvious. We recommend sharing the following documents:

- Financial statements from the current year and the past three years
- Terms, conditions, and status of current grants and contracts
- Terms, restrictions, and agreements for all restricted funds
- If either organization has an endowment, all related policies, including the Investment and Invasion Policies (it's also important to check what the endowment policy says about the organization merging or dissolving)
- Fundraising program summary and any fundraising agreements
- Policies such as Gift Acceptance Policy, and any written documents about your fundraising philosophy

Beyond what's in writing, each organization will also bring its own fundraising culture. To begin to understand this aspect of each other's functioning, we recommend asking the following questions:

- What is the organization's fundraising philosophy? In other words, do the fundraising strategies you're employing make sense for the kind of organization you are? What is the rationale for pursuing various sources — individual donors, earned income, government contracts, and so on? (For example, a social

service organization might seek as much government support as they can get, while a group advocating for universal health care will see individuals and foundations as the best sources, and an arts organization might develop a stronger earned income program.)

- What do you see as the role of donors and funders in your organization?
- What is the role of the board and the staff in fundraising? Who is responsible for and makes decisions about fundraising? What are the roles of volunteers and members?
- Does either organization prefer not to solicit particular sources? For example, does one organization seek funding from corporations while the other has a tacit policy of not accepting corporate monies or funds from particular corporations?
- What is the annual fundraising budget? In other words, how much money (or what percentage of the budget) is it acceptable to spend on fundraising?
- How is fundraising tracked and communication about donors and funders shared?
- How are fundraising goals set, what are the expectations of individual staff members, and how is fundraising evaluated? For example, are staff members expected to raise a set amount of money or bring in a set number of donors?

The answers to these questions are just as important as financial and fundraising documents, sometimes more so, in helping organizations considering merging create a fundraising culture that has buy-in from all stakeholders.

In our case, the *Grassroots Fundraising Journal* was almost entirely supported by earned income and donated time and, because it had been for-profit enterprise until becoming a nonprofit in 2002, it had concentrated on projects that organizations would be willing to purchase. GIFT's budget, on the other hand, had significant support from foundations and focused on raising money from grants and donations to subsidize programs that did not generate enough money on their own. Although we saw the budget and the revenue plan of the new organization as incorporating all income streams, we soon realized that we also needed to come to agreement on how much income we wanted from each source to help us prioritize our revenue-generating activities.

5. Notify donors and funders in a timely way

Organizations often don't involve major donors and funders in their decisions to undertake something new or undergo a major transition. However, to help build

stronger investment from your donors and funders, and to help minimize the chance that they may pull their support or adopt a wait-and-see attitude, it's important to notify them about a merger in a timely way. If there is a funder or major donor who is funding both groups, they

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should be consulted first. They may also be a good candidate for contributing extra funding to help with the merger process.

Two organizations — Make the Road by Walking and the Latin American Integration Center — merged in 2007 to create Make the Road New York. Before they made their final decision to merge, they each went to their most trusted funders and major donors to have investigatory discussions about the merger prospect with them. In one-on-one meetings they heard their funders' concerns and made sure that no one was surprised when the official announcement was made. "Make sure funders have ample warning," cautions Co-Director Oona Chatterjee.

Sometimes there is a tendency to wait to reach out to donors and funders until all the kinks or issues have been ironed out. However, it's important to let your major stakeholders know what is happening, even if not everything is clear or decided yet, and especially if you're dealing with a sensitive or complicated situation. They will probably hear about it regardless — either through a third party that may be spreading inaccurate information or from you, after the fact, when you may have to deal with some hurt or shock from your donors and funders about being notified so late. To help avoid this, it's better that your donors and funders hear it from you first.

This was a challenge during the GIFT-GFJ merger. Moving quickly into merger negotiations and operating with very few staff, GIFT did not notify funders until after the merger had been agreed upon. We didn't experience any backlash from this delay, but we did lose an opportunity to strengthen our relationship with important donors and give them a chance to voice any concerns before it was a done deal. Because we did not send out a clear message before the merger, we also had to deal with rumors among our local constituency in Denver that GIFT was closing down.

6. Fundraise for your merger

There's a myth that merging is a great way to save money. This may or may not be true in the long run, but in the beginning, merging actually costs money. The Nonprofit Mergers Workbook can help you create a realistic budget and figure out how much staff time to allocate.

The new, merged GIFT is a relatively small organization with a budget of around \$500,000. Before the merger

was officially completed, we spent more than \$30,000 on legal services, a consultant for negotiations, a consultant to help us merge our organizational cultures, moving the original GIFT office from Denver to Oakland, a new logo and collateral materials, a new website, and an accountant to get our financial books in order. Those costs don't include the substantial amount of staff and volunteer time spent on the merger.

At some organizations, expenses last beyond the merger process. At Make the Road New York, costs that have lasted beyond the merger include achieving salary parity and compensating several staff for new responsibilities in the merged organization by instituting salary increases. And since their merger resulted in multiple offices, they also needed a more sophisticated operations team and systems. "Being larger is more efficient, but it's not cheaper, especially when you're used to working on a shoestring. The whole is greater than the sum of its parts, but that doesn't mean the parts are less expensive," states Chatterjee.

Merging presents a great opportunity to reach out to your stakeholders. Go to current funders and ask for special funding. Go to your current donors and ask them to contribute to a special transition fund. Hold an event to celebrate the new organization or hold an appreciation event for staff who are departing and ask for money at each event. If you've been looking for ways to strengthen your relationships with major donors, this is a great opportunity to give them updates, get their advice, and ask them to be part of a special transition project. Also consider asking consultants to do some work pro bono.

Make the Road New York used this opportunity to hold a well-received funders' briefing. "In the community organizing world, mergers aren't that common, and some funders were taken aback because it was so unfamiliar. It generated a lot of interest, even from new funders," says Chatterjee. "Our annual event and grassroots fundraising have also grown during the past two years. Our supporters' enthusiasm has been amazing and inspiring to us. The message that people who are marginalized deserve an organization that is both grassroots and powerful resonates with them."

If it's just not possible to reach out to your donors before the merger, you can do it afterward. The Asian & Pacific Islander Wellness Center in San Francisco was created out of a merger in 1997. The merger ended up being a financial drain on the organization. When Executive Director Lance Toma came on in 2006, he prioritized building its fund development program and thoughtfully reached out to former donors of the pre-merged organizations. A&PI Wellness Center then began to hold small events, like house parties, to bring donors back into the organization by giving them a place to share their histories

with each of the original organizations and to renew their commitment to the newer organization.

7. The merger will take longer than you think

Even if you're a small organization. Even if no staff are transitioning with one of the organizations, as was the case of GIFT. Even if you have a plan. Even if the merging organizations love each other. No matter how good the circumstances, it requires strong leadership and commitment to follow through with a merger and honor the intentions of both organizations. Don't undercut doing it well just because it takes more time.

Sometimes your constituents also need time to get used to the new organization. At A&PI Wellness Center, many donors were really attached to the pre-merged organizations and they needed time to build a new relationship with the new organization. Says Toma, "You can't spend enough time attending to stakeholders and being conscious of their attachments to the organizations. Putting energy into understanding and acknowledging this helps the community move through it. Merging is a grieving process and a birthing process at the same time."

Done right, mergers strengthen organizations and can have great rewards, such as a larger constituency, expanded programs and services, greater leverage with decision-makers, increased collaboration, greater financial stability, and more intentional processes and policies. At GIFT, after navigating the rough waters described here, we are indeed beginning to reap these rewards and hope the lessons we learned will help others embarking on this process. **GFJ**

PRISCILLA HUNG IS EXECUTIVE DIRECTOR OF GIFT.

Additional Resources

- **The Nonprofit Mergers Workbook Part I: The Leader's Guide to Considering, Negotiating, and Executing a Merger** | BY DAVID LA PIANA
Packed with good information, case studies, and templates to help you decide what kind of organizational partnership is best for you and how to negotiate that path.
- **Managing Transitions: Making the Most of Change** | BY WILLIAM BRIDGES
After you've decided to merge, this book provides a helpful perspective for leaders who are struggling to manage the resistance to change and the anxiety that comes with any major organizational shift.
- **Non Profit Mergers and Other Deep Partnerships: Reflections on What Works and Why It Is So Difficult** | BY SHERRY FERRONATO & GAVIN PERRYMAN
A downloadable PDF containing short case studies, scenarios, and examples.
- **La Piana Associates**
A national management consulting firm that helps nonprofits and foundations address strategic issues.
- **N José Acevedo of New World Consulting**
A bilingual consultant, facilitator, and trainer with Rockwood Leadership Program, Coro's Immigrant Civic Leadership Program, and JPMorgan's Strategies for Personal Leadership.