
26 Nonprofit
Consolidations Since
the Great Recession
& Implications for
Post-COVID Strategy

June 22, 2020

1. Introduction

During the past decade, Jan Glick & Associates has worked to support nonprofit organizations facing dire questions of viability, and supported dozens of mergers and partnerships.[1] Many organizations that we work with are faced with the stresses of day-to-day operations and do not have the bandwidth to look very far into the future.

Fast forward to January 2020: the emergency of the COVID-19 pandemic, sectors of the economy in freefall, increased health and human service needs, and a projected impact to nonprofit organizations unprecedented in modern times. Issues of financial solvency, a dramatic need for compassionate civic care, and a social safety net have all peaked at the same time. It is with this context in mind that we prepared this white paper to address some of the critical needs, conceptions, and misconceptions nonprofits now face in this historic crisis. Case examples and data are drawn from Jan Glick & Associates' past decade of merger and partnership engagements and is intended to serve three purposes:

- Outline step by step processes and benefits for partnerships and mergers, and what factors should motivate a nonprofit to explore these options.
- Address three common misconceptions about nonprofit mergers that we observe repeatedly.
- Promote data-driven analysis based in real-life case examples rather than organizational theory or data drawn from private sector mergers and consolidations.

We believe that these lessons and data apply across the nonprofit sector, regardless of sub-sector. Our work spans sectors including the arts, human services, youth development, health care, poverty alleviation, environment, sports, faith-community, and many others. Prior to COVID-19, partnerships and mergers may have been more readily top-of-mind in the human services sector; post-COVID-19, all sub-sectors will face the same challenge: *Is my business model able to survive?*

Without clear and comprehensive discussion about this question by civic leaders, boards of directors, government and philanthropic funders, and communities themselves -- rebuilding communities, many of whom are reliant on the fabric of the nonprofit sector to help make them complete -- will range from challenging to impossible. Therefore, the recessionary lessons from post-2008 survival are even more urgent for today's post-COVID recession.

[1] Jan Glick & Associates is a strategic organizational development firm based in Seattle. We have served nonprofit and government clients in the Pacific Northwest and also across the US since 1996. Case studies and experience for the Nonprofit Turnaround book and this working white paper are drawn from an extensive client base and multiple sub-sectors across the nonprofit sector. We draw on the breadth and depth of our experience, make observations about trends, and include reviews of the literature about nonprofit mergers and the heath of the sector as a whole.

2. How the Difficult Nonprofit Operating Environment Affects Nonprofits and Consolidation

Ten years ago I published a book, *Nonprofit Turnaround, A Guide for Nonprofit Leaders, Consultants and Funders*. The book was published in the middle of the Great Recession, although the book's case studies and research were all performed in 2007-2008, just prior to the recession. Over the course of 20+ workshops and presentations from my book tour across the US over the following year, one macro-economic theme emerged at every event; namely, that economic conditions -- e.g., **government and philanthropic funding levels for nonprofits -- were unlikely to ever return to pre-recession levels**.

Now, with COVID-19, the nonprofit sector is facing another recession that by many indications will be worse than 2008-2010. This is compounded by the fact that by the time COVID-19 emerged in early 2020 funding levels were already lower than at the beginning of 2008.

In the ten years since Nonprofit *Turnaround* was published, JGA's engagements have fostered key lessons that have emerged to supplement those in the book, particularly on partnerships and mergers

External Factors Now Outweigh Internal Factors in Nonprofit Survivability. If we were going to update *Nonprofit Turnaround* today, the primary revision we would make is in the first chapter, which refers to the degree to which a nonprofit's struggles (financial, operational, etc.) are caused by factors within management's control versus those factors caused externally. Pre-Great Recession, my research in the mid-2000s indicated that despite a very difficult nonprofit funding and operating environment, nonprofit management and leadership generally had the ability to control the organization's success. Even before seeing how the post-COVID recession plays out, if we were to publish a second edition now, our experience shows, and we posit, that external funding conditions truly and fundamentally work against nonprofit sustainability. The data on this is clear. For example, as *Nonprofit Turnaround* was in its final production phase in 2009, the Great Recession was starting to impact the sector, data from Johns Hopkins Center for Civil Society Listening Post Project showed the percentage of nonprofits experiencing fiscal stress had increased from approximately one-third in 2006, pre-Great Recession, to nearly 80% in 2009, during the middle of the Great Recession.

By 2018, notwithstanding a robust economic recovery (and Federal bail-out of multiple sectors of the economy), such weaker funding conditions had taken a quantifiable toll without an commensurate 'bounce' in nonprofit revenues. A 2018 national study *The*

Financial Health of the United States Nonprofit Sector[2] indicates just how fragile the health of the nation's nonprofit organizations really was prior to January 2020, with:

- 7-8% technically insolvent, with liabilities exceeding assets
- 30% facing potential liquidity issues, with minimal cash reserves and/or short-term assets less than short-term liabilities
- 30% having lost money over the previous three years
- ~50% with operating reserves of less than one month.

Emerging Trends in Strategies for Sustainability and Survival. Over the past ten years, it has been interesting to observe which organizations reach out to our firm for help, when, why they do, and the results. While helping guide multiple nonprofits through turnarounds, the majority of the demand has been has shifted towards partnerships, consolidations and, more than any other structure[3] -- mergers. To be sure, some organizations have continued to successfully evolve, developing creative programming and funding models in response to the Great Recession, even launching new lines of business. But with the reality of a financially and resource-stressed nonprofit sector overall, it is no surprise that we have increasingly received inquiries that looked to partnerships as a solution to long-term viability.

- *What help do organizations seek?* While turnarounds involve operational efficiencies, restructuring, ramping up fundraising, and a host of other internal changes to retain the organization's autonomy, a merger or partnership need comes from acknowledging that any version of the status quo won't work. Once leadership faces viability challenges, JGA's experience over the past decade is that nonprofits increasingly seek help finding, brokering, and negotiating with merger partners to achieve a new and more viable structure. We believe this shift in emphasis reflects leaders' unsuccessful attempts to turnaround a standalone organization because of the truly unforgiving economic conditions.

- *When do organizations reach out?* One theme from the 2010 book that has stayed the same is the delayed reaction time by nonprofit leaders to take the difficult steps and acknowledge the precariousness of their organization's business model along with initiating real strategic change. Organizational culture, including consensus decision-making, operational stresses (time, staff, community conditions driving demand), pressure executive leadership to do more with less, and the constant need to fundraise-fundraise-fundraise, have each been factors for many of our clients' slow reaction time.

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[2] *The Financial Health of the United States Nonprofit Sector, by* Oliver Wyman, Sea Change Capital Partners and GuideStar, 2018

[3] Merger is used in this instance as a generic description for several legal structures including consolidations, mergers, subsidiary structures, asset transfer transactions and interlocking boards, as described on pages 17-18.

And, despite many of our clients' relatively weak financial positions, we have found a partner for over 90% of the organizations seeking one. Partnerships are not valued solely on a cash position; they are enhanced by the value of the service offering, dedicated staff, and a driving passion for a shared mission. Indeed, it is a good deal for the "acquirer" to obtain such organizational expertise and passion, even if the struggling nonprofit has low reserves or is otherwise weak financially. While we will explore this in more depth later, for now let us just say that despite the mission-driven focus of many acquisitions and partnerships, any organization seeking a partnership should still act as quickly as possible, before their assets – human, financial and other – decline too far. There is indeed a level below which a partner is unwilling to bail out a failing nonprofit. And if employees sense a downward spiral, they too will bail on a nonprofit too fast for it to hold the seams together.

- *Health Care Reform: A Key Factor Driving Consolidation for Health and Human Services Sectors.* The Affordable Care Act (ACA or "Obamacare") was signed into law in March 2010, and it was widely predicted, and since has been widely observed, that health care reform as an external factor is driving significant consolidation in both profit and nonprofit sectors. Health and human services are the largest nonprofit sub-sector, and 35% of our firm's partnership, development, and consolidation work has been in the health care arena; when combined with human services, the two sub-sectors comprise over half of our partnership work.

  The Affordable Care Act expanded Medicaid coverage to millions more low-income Americans and signified Congress's intent to recognize, insure and provide behavioral health services on-par with physical healthcare. Unfortunately, due to the complexity of health care reform, the Affordable Care Act has had unintended consequences regarding its goals. Medicaid expansion benefitted millions of Americans, yet for nonprofit, community-based providers that deliver direct health care and commensurate services, the law has not significantly helped them survive. Small nonprofit providers of health services are facing a landscape in which consolidation is often a necessity. Federally Qualified Health Centers (FQHCs)[4], while qualifying for Medicaid reimbursement rates better than other community-based providers, certainly are not what any CPA would describe as financially thriving. And other nonprofit health care

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[4] Federally Qualified Health Centers are community-based health care providers that receive funds from the US government to provide primary care services in underserved areas. They must meet a stringent set of requirements, including providing care on a sliding fee scale based on ability to pay and operating under a governing board that includes patients. Federally Qualified Health Centers may be Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Health Centers for Residents of Public Housing. FQHCs receive 'enhanced' rates for their services with the intent to assure wide provision of health care access across the US.
The defining legislation for Federally Qualified Health Centers (under the Consolidated Health Center Program) is Section 1905(l)(2)(B) of the Social Security Act.
https://www.hrsa.gov/opa/eligibility-and-registration/health-centers/fqhc/index.html

providers fare even worse. Community Mental Health Centers and other nonprofits providing behavioral health services are finding reimbursement rates unsustainable. Up until February 2020, immediately prior to the COVID-19 pandemic, many nonprofit health care leaders commiserated that only the insurance companies are benefitting from the Affordable Care Act, and that only they and larger hospital and health care systems would ultimately survive.

With this brief history in mind, the remainder of this white paper covers significant lessons that we have learned from our experience with twenty-six partnerships, mergers and consolidations since the Great Recession[5], provided in the hope that these may help nonprofits navigate what we expect to be another downward trend in the funding environment after COVID-19.

The lessons learned are covered in the following five sections:

Section 3: Motivations for Nonprofit Consolidation
Section 4: Benefits of Nonprofit Consolidation
Section 5: What to Expect When Structuring a Consolidation or Merger
Section 6: Are Nonprofit Mergers Successful?
Section 7: Conclusion: Lessons from the Great Recession are Applicable Post-COVID

[5] In addition, we incorporate partnerships, mergers and consolidations lessons gained from our practice prior to 2009, though, as noted these were fewer in number until post-Great Recession.

3. Motivations for Nonprofit Consolidation

Motivations for nonprofit consolidation vary, yet we have found some typical misconceptions about motivation and purpose, perhaps due to a misapplication of private sector approaches to the nonprofit experience. It is critical to understand actual motivations because these motivations will drive the analysis of benefits, due diligence processes, and the final structure of the deal. Going in understanding both motivations and misconceptions of restructures and consolidations can be very helpful for a nonprofit leader.

Limited literature does not present a full understanding of motivations for consolidation. A review of the nonprofit literature suggests that restructuring in the sector is primarily motivated by financial necessity or need[6], such as survival of services that would otherwise be lost[7], improved efficiencies, and reduced competition. Yet, a limitation in the literature is that there is not a great deal of information available on this topic overall, and much of what is available is either based on:

- Document review only
- A small number of case studies
- Drawing analogies from data on corporate consolidation.

The dearth of strong research and literature is problematic as we face the challenges of post-COVID-19. Understanding the rich tapestry of community outcomes best served via a strong and healthy sector is a vision that we share with nonprofit leaders and that is particularly critical at this juncture. Leaders in the sector, and others who care about the outcomes driven by the sector, need a better and more practical understanding of the purposes, experiences of, and roadmaps towards its preservation, in the greatest degree possible.

JGA's twenty-six merger and consolidation projects since the Great Recession provides a deeper analysis of the nonprofit operating environment and how that difficult environment affects the motivations for, and practices of, nonprofit consolidation. Our team has facilitated hundreds of meetings with nonprofit boards, prospective partner organizations, and worked hand in hand with the CEOs and dedicated merger or partnership committees of these organizations.

Based on these projects, JGA's teams have observed that stakeholders often begin consideration of restructuring/merger discussions based on their impressions from their own experiences and/or media coverage of corporate mergers. Yet we find that there are several fundamental misconceptions about nonprofit mergers based on over-

[6] *Managing Nonprofit Mergers: The Challenges Facing Human Service Organizations. Amy D. Benton & Michael J. Austin. Pages 458-479 | Published online: 09 Nov 2010.*

[7] *Nonprofit Mergers and Alliances Second Edition Thomas A McLaughlin. 2010. John Wiley & Sons, Inc.*

reliance on private sector practices. The first of these misconceptions is about motivation. Corporate M&A seeks to strengthen some combination of profitability and shareholder value, by improving the strategic position of the corporation. **Yet we have observed that at least 50% of the nonprofit restructures we have worked on have been primarily motivated by a desire for program and service continuation, in the face of a resource-poor operating environment**. In short, they seek to continue the civic-nonprofit mission to build a better community and assure the continuation of valuable community services. This motivation is logical, because the financial picture described in the 2018 financial study of the nonprofit sector[8] clearly describes an operating environment in which it is extraordinarily difficult to invest in the sorts of robust systems that would allow any organization to efficiently perform its critical functions – from contracting and fundraising, to service delivery, to HR and IT practices. Typical corporate M&A motivations simply don't apply in most nonprofit restructures or consolidations, as the revenue sources, profit-margins, and shareholder benefits simply don't apply.

The difference in corporate versus nonprofit motivation for partnerships is summarized in the table below.

[8] *The Financial Health of the United States Nonprofit Sector, by* Oliver Wyman, Sea Change Capital Partners and GuideStar, 2018

Table 1: Comparison of Motivation for Merger/Consolidation between Profit and Nonprofit Sectors

Factor	Profit	Nonprofit
Strategic Fit: A "Must" for Mergers & Acquisitions	**Yes: Same motivation**	**Yes: Same motivation**
Resource Environment	➢ There is a market for goods and services ➢ Sales exist ➢ Profits exist, often high ➢ "Sky may be the limit"	➢ Services needed ➢ Revenues often restricted ➢ Administrative overhead nil ➢ "Profit" or net income, typically do not exist ➢ "Low ceiling"
Profitability considerations	➢ Seek to strengthen market position by filling out a portfolio, or ➢ Buy vs build	➢ Small profitability sought at best (aside from hospitals & larger health care systems)
What is the real goal?	**Strengthening some combination of profitability and shareholder value**	**Survival of mission, programs, and services for community benefit**

In summary, a strategic fit is critical for both corporate and nonprofit mergers and acquisitions. And, there are systems efficiencies gained with increased scale and reduction of duplicative functions in nonprofit consolidations as well. Yet the driving motivations between the sectors are different beyond those entry-level criteria, even with respect to the magnitude of the benefits.

4. Benefits of Nonprofit Consolidation

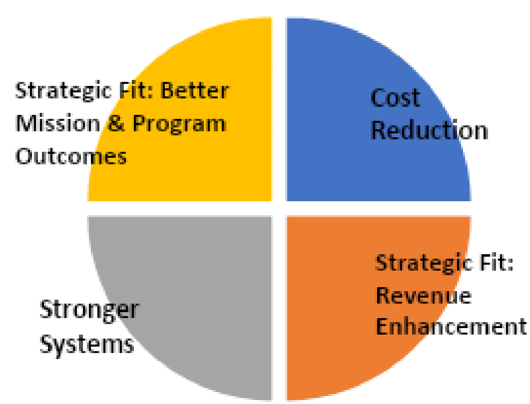
Efficiencies Occur Due to Increased Scale. Sticking with the theme of "why" merge or consolidate (organizational motivations), we have observed that the efficiency benefits gained due to increased scale are often misunderstood. Many people assume that the efficiencies gained from scale are similar in nonprofit consolidation to corporate consolidation. Yet the truth is that nonprofit scale is tiny compared to for-profit, "corporate" scale and, therefore, not perfectly analogous. The average US nonprofit budget is under $1M. The US Small Business Administration divides small businesses into a variety of sectors, some of whom are characterized as small businesses with annual budgets as high as $500M, **meaning nonprofits are 500 to 1000 times smaller than a small business, and on the order of 100,000 times smaller than a Fortune Company**. Scale for nonprofits exists, however it is just a much, much smaller benefit. This means that when internal systems are developed such as HR, IT, financial management, program delivery systems, etc., they all benefit from increased scale and greater experience, but the financial gains may again be modest, especially if compared to the corporate world.

Cost savings from scale are real, yet modest when compared to the corporate world. Examples include:

- A larger scale parent organization allows for lower organizational insurance rates.
- Overhead costs for all administrative functions can be spread across a larger budget/more programs, allowing for reduced overhead on a per program basis. This can be critical to address contractual and grant limitations on overhead percentage.
- Administrative departments and staff can take on a larger volume due to margin-based volume efficiencies. For example, after a merger of a 50-staff nonprofit into one with 100 staff, a single HR director may be able to administer HR services for all 150 staff at only a marginally higher cost than when she was administering such services for the original organization, thereby saving the cost of an outsourced HR contract for the smaller organization.

In summary, nonprofit organizations find real, tangible benefits in the scale achieved through nonprofit partnerships and mergers. We have found that there are typically four categories that the benefits of strategic fit and efficiencies due to scale fall into, as shown in Chart 1.

Chart 1: Nonprofit Consolidation: Efficiency Benefits Fall Into Four Categories



Examples of cost reductions are described earlier in this section, and the following is an analysis of efficiency benefits from the other three categories.

Strategic Fit for Better Mission & Program Outcomes

Because the nonprofit sector is driven by "cause-capital", rather than by financial returns to shareholders, any successful partnership will anticipate maintaining and preferably strengthening its mission and program outcomes.

Strategic Fit Is Both a Key Precursor and Key Benefit of Partnerships. As noted in Section 3, strategic fit is a key precursor for nonprofits considering consolidation, and whether it is the primary motivation, or comes secondary to survival, our experience indicates that it is a must-have condition for feasibility of any partnership or merger. It is also a key benefit.

Strategic fit typically falls into two categories, in which the parties either have similar or complementary programs or services:

- *Similarity of Mission/Programs.* Organizations having similar programs or services are the simplest and most logical to understand, in that the partnership indeed offers benefits such as increased number of clients served, market share, scale, or expands the volume and/or reach of organizations providing similar programs and services.
- *Complementarity but Unique Mission/Programs.* Complementary programs or services require a more complex analysis. In the health care arena, an excellent example of complementary programs and services can be found in "fully integrated, managed care," or FIMC, in which treatment programs for both body (physical health) and mind (behavioral health, which includes mental health and drug or alcohol treatment) are combined, creating a shift to whole-person care**.**

Complementary Strategic Fit:
Organization B's services fill out a portfolio of services offered By Organization A

Mission and program benefits from 'strategic fit' represent some of the most important common goals between parties; they provide a clear common vision for all stakeholders to embrace. Examples of strategic fit include:

- Merger of an early learning organization with deep expertise in home visiting and advocacy into a larger early learning organization with a broader scope of early learning services.
- Merger of a human service organization with a significant research role into a human service organization with a broader range of services can provide both deeper and broader services to the community, with continuous improvement in evidence-based practices.

Impact of Nonprofit Mergers and Consolidation on Staffing Misconceptions. Often the key asset in a nonprofit is its people, and the biggest driver of post-partnership benefits is the staff. One of the biggest misunderstandings about nonprofit mergers regards staff retention.

Since nonprofits serve community needs, we have not seen resulting entities reduce front line staff. There is simply no call for nonprofits to reduce service levels, rather, there is a constant need to increase service levels. Because the vast majority of nonprofit jobs are service delivery or program jobs, as opposed to administrative jobs, this translates into very little job loss in nonprofit consolidation and merger transactions (if there are staff reductions or redeployments, these are sought outside of programs). Many of the smaller organizational consolidations for which we have consulted have had zero job loss.

To the extent that there are jobs lost in nonprofit consolidations and mergers, we observe the following characteristics:

- *An Executive Director or CEO position is eliminated.* This may be due to an interim Executive in place, or alternatively an Executive who voluntarily resigns/eliminates their own position, by putting the good of the community above their self interest in keeping their job. While an executive may see the opportunity and therefore agree to or promote the elimination of one of the CEO positions, in many cases, the ED or CEO is offered a senior executive position in the consolidated organization.

- *Some savings in elimination or reduction in administrative positions* such as finance, human resources, information technology.

- *A position is eliminated, but staff is offered another job in the organization*: In larger nonprofit consolidations where there may be some benefit to reductions in the administrative departments, we have seen several deals where the remaining organization finds positions that are unfilled and can reassign employees to open roles.

Strategic Fit for Revenue Enhancement.

A successful consolidation or partnership can, and indeed should, benefit revenues. Consider the following examples from our practice:

- Larger contracting departments with greater capabilities and experience in insurance billing can obtain larger insurance payments than an organization's smaller staff.
- Larger development departments with a Chief Development Officer, Major Gifts Officers, Event Managers, and development associates can do a much better job with donor development than the precursor organization's one or two-person development staff.
- The strategic fit of larger and/or complementary programs may engender larger grants and contracts from institutional funders.

Stronger Systems

The fourth category of efficiency benefits as shown in Chart 1 regards stronger internal systems that result from partnerships and consolidations, with common efficiencies described by the following examples:

- *Better, more comprehensive technology and staff systems.* Larger nonprofits can often afford better databases, donor management platforms, accounting, enterprise management platforms, IT network hardware and software, and HR management systems. This is a fairly common benefit of consolidation.

  Similarly, the fact that an organization has a larger staff devoted to the function this translates into better performance and better outcomes. Which leads to another common efficiency benefit:

- *Stronger Internal Systems Result from Staff Redeployment.* With increased scale, there is often a redeployment of capital to create stronger internal systems. For example, the remaining organization may decide not to eliminate the sole finance employee of the new partner organization, even though the scale of the finance department of the consolidated organization would indicate that the position is redundant. Instead, when the finance department already includes several staff, including a CFO, a Controller, and accounting clerks, and the previous organization's sole finance staff – a finance director or manager - is identified as a good fit for a new position they have been considering, s/he may be slotted in to the new position. Therefore, potential efficiency in the finance department from the merger translates into a stronger finance department overall, with stronger financial management systems rather than just cost savings.

> While the example above applies to the finance department, we have observed the same systems strengthening effect of consolidation on many organizational functions and departments, including IT, compliance, contracting, etc.

In summary, we have observed the benefits of nonprofit partnerships to be very real in all four categories of benefits noted above. Indeed, as a board chair of one of our multi-party transactions said to his colleagues, “Do you really believe that staying small and competing with one another for resources is going to get us where we are trying to go?”

Nonprofit partnerships, consolidations and mergers don’t provide a silver bullet solution to weak financial positions. Such transactions will not create a sudden dramatic improvement in capacity to deliver services or sustain services at a vastly improved financial level. Yet, we have seen that nonprofit mergers and consolidation do, in fact, provide a strategy for improved viability. Their benefits are real. However, they require courage to pursue, and a selfless view of the client, the community, and organizational sustainability before a leader’s own job security. Job security is itself a myth, especially in an already struggling organization.

5. What to Expect During a Consolidation or Merger Process

Most organizational leaders in the nonprofit sector begin considering nonprofit consolidation or merger with very little, if any, prior experience in these types of organizational structural transactions *in the nonprofit sector*. While some board members and executives may have experience from the private sector, as we have seen, many of the motivations and benefits of a nonprofit merger or partnership are unique to the nonprofit sector. Several of the most common lessons learned are described below.

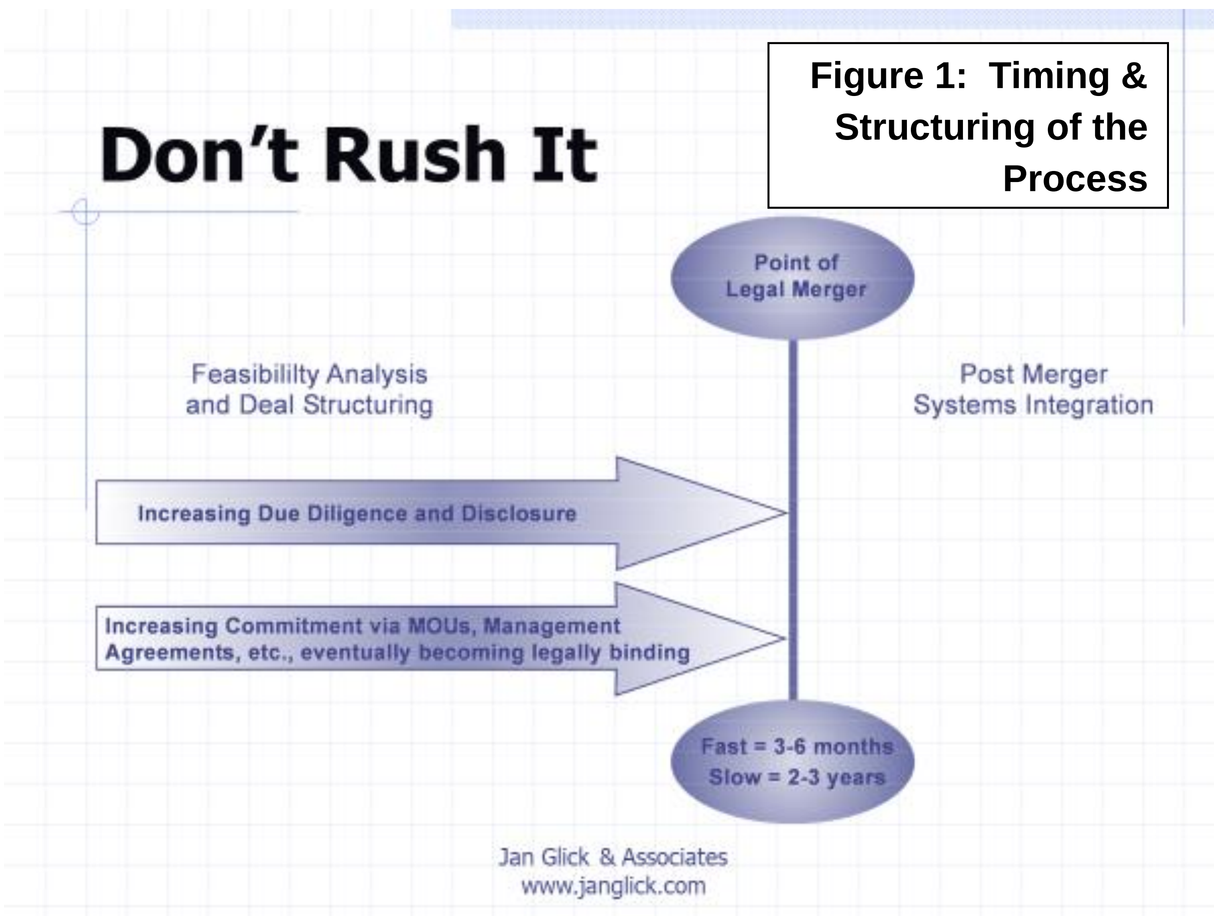
Some loss of control is normal and should be addressed in the negotiation process. When your leadership reaches the point of reaching out to a partner organization to explore whether they may be interested in a partnership, most likely your team has reached a point where they understand and embrace many of the motivations and benefits of such a transaction. In addition, they will have come to some level of understanding that they will lose a significant degree of control over the governance and management of programs and functions that your organization has previously administered. Yet, the issue of control represents a form of currency that the exploration and negotiation process will soon apply. As the other party learns more about your organization, your services, your finances and operations, and a structure for the new, consolidated organization begins to emerge, we have seen that nonprofit leaders tend to gradually accept the loss of control. The subject can come up many times over the course of a months-long due diligence and negotiation process. Be assured that this is normal, the feelings need to be expressed, and the manifestations of this loss of control may translate into specific terms and conditions for the transaction.

Time is of the essence. Several of our clients have said to us in the first one or two meetings, "I wish we had reached out to you a few years ago." This was also a key theme in our turnaround research; indeed, many organizations wait longer than they should to pursue a plausible end strategy. Thus, the single most important take away that we can give any nonprofit facing significant challenges is to recognize that time is precious. Especially in a resource-constrained operating environment, your organizational reserves may be dropping each year, and you may be struggling with disproportionate staff turnover, among other problems. If an organization waits too long to begin thinking about consolidation, its options dwindle as its programmatic, human and financial assets may

Lesson Learned: Patience

In the vast majority of transactions we have worked on, we have observed that the typically larger, stronger entity is significantly more methodical, and therefore slower, in performing its own due diligence to get to the point of finalizing and signing. This can lead to frustration on behalf of the partner seeking to consolidate. Yet, the stronger entity is being understandably careful in its diligence to avoid taking on any unknown or unnecessary risks.

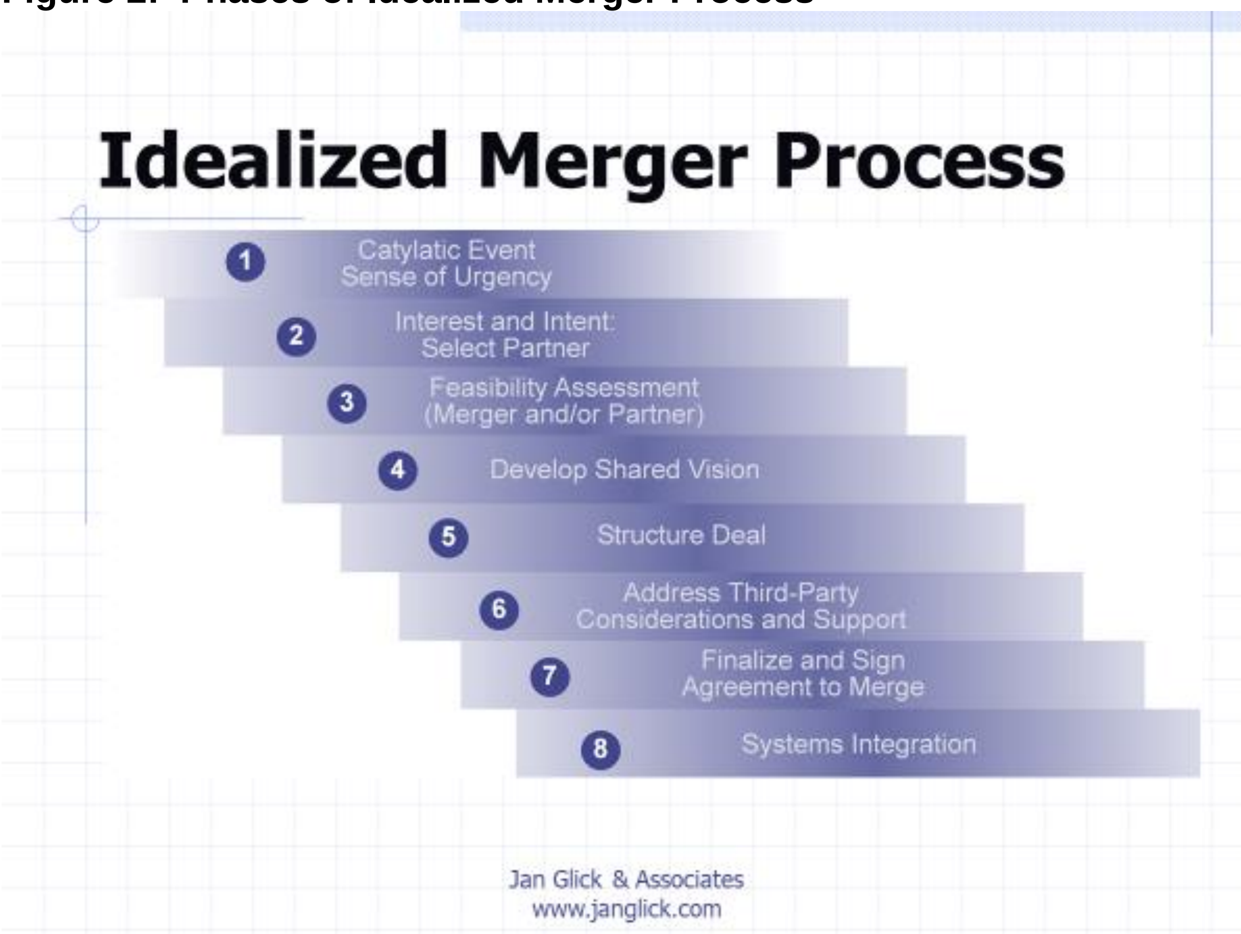
Figure 1: Timing & Structuring of the Process



diminish, leaving less time to find and negotiate with partners, and putting unnecessary pressure on the selected/desired partner to negotiate the deal and make a decision.

This time paradigm is especially vivid in the vast majority of the deals upon which we have worked. In each transaction, we have observed that the typically larger, stronger entity in the negotiation is significantly more methodical, and therefore slower, in performing its own due diligence to get to the point of finalizing and signing. This can lead to frustration on behalf of the partner seeking to consolidate. Yet, the stronger entity is understandably being careful in its diligence to avoid taking on any unknown or unnecessary risks. Figure 1 shows how the structuring of the deal, the methodical nature of the due diligence process, and the time it takes, cannot be rushed. This is a critical lesson for many organizations facing the crisis caused by COVID-19, suggesting an immediate need to begin the process should organizational assessment show the need to restructure in order to retain mission, programs and services. It is also worth noting that the fast (3-6 months) and slow (2-3 years) timelines represent the ends of the spectrum, with most of the transactions that we have engaged in falling in the 12 month range.

Figure 2: Phases of Idealized Merger Process



Typical Elements of the Due Diligence and Negotiation Process. There are typical elements in nearly every partnership, consolidation or merger process. Figure 2 shows an idealized eight phases, the first few of which have been alluded to earlier. Several aspects of the underlying process are described below, also reinforcing why time is of the essence in beginning exploration and identification of prospective partner(s). These phases are not always linear, and phases often overlap, but the general flow described in Figure 2 provides a helpful framework of what to expect.

- *Due Diligence Process and Timeline.* Once an organization experiences a sense of urgency sufficient to seek a partner (Stages 1 and 2 in the optimal merger process), a process of feasibility assessment and due diligence (Stage 3) begins. All restructuring transactions require a degree of due diligence by both parties, to assure and confirm strategic and program related fit, and to manage risk. For smaller organizations, there may be only 10-20 documents to review during this process; for larger, there could be many hundreds, which may require dedicated staffing to manage the document transmittal, access, and analysis.

- *Structure and Negotiating of the Deal.* Stage 5 is commonly the longest phase, during which the parties negotiate and structure 'the deal.' In addition to motivations for and ultimate benefits of the partnership there are some key lessons about specific structures that come up during the partnership development process.

  - *Legal structure often based on risk management considerations.* As detailed in the chart characterizing our consolidation projects in Section 7, below, we have guided projects using the following legal structures:

    - *Merger*: One organization is legally absorbed into the other, leaving a single entity that holds all the assets and liabilities of the precursor organization.
    - *Asset Transfer*: One organization transfers its principal assets to the other, thus some or all liabilities stay with the precursor organization, which subsequently addresses the liabilities through contingency planning and/or insurance before dissolving as an entity.
    - *Subsidiary*: Through a variety of legal structures such as establishing the parent organization as the sole member of the other organization, the entities can operate as essentially merged, while allowing unlimited flexibility as to a timeline or level of investment in subsequent integration or systems enhancement efforts.
    - *Consolidation*: This model is typically used in cases where the organizations prefer to create a new brand or a new market presence. A new nonprofit is formed and the precursor entities

can either merge into the new entity or, to manage risk, the precursors can transfer assets to it.

- *Other partnership structures*: A variety of other structures exist. The two that we have experienced in these 26 projects are a management support contract, where one organization buys administrative and/or program services from another, and a joint venture for construction and launch of a new human services facility.

- *Governance/board composition allocations typically equitable*. For many of the legal structures described above, we have found both parties typically willing to allocate board seats proportionally to the relative financial strength and/or size of the precursor organizations.

- *Financial investments usually occur through shared staffing and systems, though some include direct investments*. Only three of the 26 transactions we have worked on involved a direct financial investment, and these terms were handled no differently than other terms and conditions. The vast majority instead resulted in a parent organization's investment in the consolidation in the form of shared staffing and systems described in section 4.

- *Branding frequently retained as legacy of organization seeking to partner*. Branding is a common term that is negotiated in nonprofit partnerships, mergers and consolidations. While we have observed wide variation as to how branding is handled, in the vast majority of projects we have worked on, the value of the precursor organization's legacy and brand has been retained through terms such as retaining their name by becoming a subsidiary nonprofit or an agreement to become "Organization A, a Program of Organization B."

- *Staff retention a common outcome*. As described in the benefits of consolidation, staff retention is very common in nonprofit mergers, and an agreement on staff retention (such as a time-limited employment guarantee for employees meeting performance standards) is a relatively common term of the agreement. If this intent is communicated early in the process, it can quell staff worries and misconceptions from corporate mergers.

  While executive staff retention varies from transaction to transaction, in some cases retention of the CEO or other members of the executive team can be a key element of the process that allows a transaction to move forward.

- *Confidentiality kept majority of the time.* Confidentiality is a component of the process that we view as critical for many reasons, but specifically to allow the board and executive team adequate time for careful and detailed exploration of a complex and impactful decision outside of a more public eye. However, as financial problems have increased over the years, we have seen a few processes that have either leaked out or become common knowledge in the field or the community.

- *Timeline: All integration issues will not be resolved by the closing date.* It should not be expected to resolve all consolidation and/or integration terms and conditions by the closing date of the transaction. Some issues can be deferred until after closing. Indeed, if all such issues would need to be resolved by the closing date, we would probably see very few mergers or partnerships come to fruition – there is simply too much to integrate. Many consolidation structures allow room for subsequent establishment of operational matters at the partner's own schedule, after closing. At the far end of this spectrum, a "non-fully integrated subsidiary" can operate indefinitely without integrating or even addressing any particular function, system or department.

Terminology Matters. Finally, terminology is critical in nonprofit partnerships. Only rarely, for instance, have we seen partners in the nonprofit sector willing to be referred to as being "acquired." Such sensitivity to terminology is the most vivid for strong organizations seeking partners with whom they have a strategic fit and where they are seeking the partnership to build strength upon strength, and where survival is not an issue. However, regardless of the capacity of the "partner seeking partner," this organization typically asks for the transaction to be referred to as a merger, a partnership, an affiliation, a consolidation or in fact any description other than an acquisition, even if the organization seeking to partner has significantly fewer resources than the party with which they are seeking to partner.

6. Are Nonprofit Mergers Successful?

A large body of research and literature shows that approximately seventy-five percent of corporate mergers are not successful because staff, internal systems and cultures have not been fully integrated or optimized after the merger. Yet what such analyses don't cite, is whether the share price of the corporation indeed increased, and shareholders benefitted[9]. As noted in Table 1 above, motivations for corporate mergers are primarily based in profit potential. And with that as the primary motivation, such corporations wouldn't necessarily have the motivation to invest adequately in post-merger integration to achieve what they may perceive to be secondary goals.

Conversely, we believe the data is clear that nonprofit mergers work. In 2019, we invited a sample of Executive Directors and CEOs of the organizations from which the case study findings in this article are derived to speak to a group of over 30 youth provider nonprofit organization executive leaders (with budgets ranging between $250K-$25M). These leaders are in an intensive sector conversation about both the systemic challenges for and survivability of their organizations. When asked the question of nonprofit mergers and partnership -- "Would you do it again?" -- these executive leaders unanimously stated yes, absolutely. One of these CEOs stated that he is very comfortable knowing that in 50 years, long after his passing, the services he is proud of helping to conceive and grow in his organization will still be around, provided by the parent organization. His comment on the significance of preserving the organization's mission, as well as the experiences of many others cited herein, speak to the clarity of what nonprofit partnerships, consolidations and mergers seek to accomplish. Our experiences with nonprofit consolidation and mergers confirms and deepens the still limited information available in nonprofit literature, that the goals of consolidation have indeed been achieved if the services survive because the new or remaining organization is financially solvent and viable for the long term.

Notwithstanding overall successes in these merger processes, and while we are a strident advocate for investment in post-merger integration of staff, departments, and systems, we have seen that even large nonprofits have financial limits in how much they invest in post-merger integration, because even large nonprofits have financial limitations. Thus, we don't feel that success with post-merger integration is, by itself, the single most appropriate benchmark for gauging success of the deal. Rather it is a best practice. The facts that the services remain, that some efficiencies have been gained, that revenues can be raised more easily, are all reasons these CEOs say they would do the deal again.

[9] At the announcement of a merger, generally the acquiring company stock price or valuation drops, and the company being acquired goes up in price because the market assumes it is being bought at a premium. However, in the long-term the acquiring company generally increases stock or enterprise value.

7. Conclusion: Lessons from the Great Recession are Applicable Post-COVID

With the emergence of the global pandemic COVID-19, we have seen many nonprofits seek and obtain relief through the initial COVID stimulus packages passed by Congress. The Federal CARES Act and Payroll Protection Program is a very helpful short-term stimulus, providing several weeks of what amounts to an unrestricted federal grant (converted from a loan) for many nonprofits.

Yet, looking beyond the short term benefits of the Payroll Protection Program, and other short term survival strategies (including use of reserves, cost cutting, layoffs and furloughs of staff and temporary suspensions of operations), much of the nonprofit sector will be facing very hard decisions about service continuation later this year, particularly if public health strategies to contain future localized outbreaks require additional stay-at-home orders and social distancing.

We expect ongoing interest in consolidation across all sub-sectors of the nonprofit sector post-COVID 19, for example:

- Arts organizations face vanishing ticket sales,
- Health & human service organizations providing in-person services struggle with the costs of social distancing, personal protective equipment and whether their service model lends itself to online or socially-distant programming,
- Membership associations face diminished dues collection,
- Government contracting dollars will diminish due to decreased tax revenues (sales taxes decrease with social distancing, consumer purchasing confidence and buying power affected by unemployment; income tax revenues will be similarly affected), and
- Fund development is far more competitive, while also challenged as foundation portfolios shrink and corporate philanthropy is diminished as profits decline, depending upon the sector.

Lessons from the past recession, laid out in this working White Paper, are applicable in increasing understanding of consolidation options and processes for the sector.

Organizational resilience will be defined not only by an organization's reserve levels at the beginning of the crisis, and how well they are able to retain or re-hire staff, but also by how prepared they are to analyze how a recession and ongoing public health concerns will impact the long term demand for their services, and plan their future accordingly, perhaps at a reduced scale or with creative approaches to service delivery that appropriately incorporates technology or other strategies that we are now using every day. In a way, this is a type of sustained 'crisis planning' – not one based on a singular event, but a series of shocks to organizational operations that may continue well into 2021 and perhaps beyond. Organizational resilience will also be defined by ‘smart partnerships’

Organizations that are prepared for such analyses and decision making, and that do a good job planning *as early as possible* for a post-COVID-19 world, will have greater options. They will be in a better position to negotiate with funding agencies. If they are seeking a partnerships or merger, organizations will do best to plan now for scenarios that retain the greatest possible level of remaining programmatic, human and financial assets. Organizations with the highest possible assets will most interest potential partners, as we have seen that partners generally do not want to bail out a nonprofit that has only nominal resources. As such, planning now for long term service continuity will be critical for many organizations. Retention of as many assets as possible will be more important than ever, since even large nonprofits like hospitals are financially struggling with deep losses and layoffs due to COVID-19.

While it is too early to predict exactly what the world will look like in 2021 and beyond, we will see re-shaping of the nonprofit sector. It is our hope that funding partners, both government and philanthropic, will thoroughly understand the precarious position that so many nonprofit organizations are in, not just now but increasingly over the past few decades. A strong nonprofit sector is critical to civic recovery, locally and globally. Nonprofit organizations facing the future will derive their greatest strength in effective planning right away, with support from partners, and advocating for a sustained and collective role in assuring the health and welfare of our communities moving forward to a post-COVID world. In the meantime, the role that nonprofits are playing in trying to maintain absolutely critical programs is nothing short of phenomenal, and we salute the boards of directors, executive leadership and frontline staff who remain committed to their mission-driven work. We hope that the experiences from Jan Glick & Associates’ specific work around partnerships and mergers will be useful as we move through the next decade. Stay safe, be healthy, and know that you are appreciated.

8. Characteristics of the Projects

Our team at Jan Glick & Associates has coached, guided, consulted, or facilitated on twenty-six (26) nonprofit partnerships, consolidations and mergers since the Great Recession in 2009. When added to the 5 other partnerships, consolidations and mergers we consulted on prior to 2009, these projects have involved seventy-seven (77) discrete nonprofit organizations, with a variety of different legal and organizational structures.

Organizational sizes ranged from all-volunteer organizations up to several $100M+ agencies, with a median size of the partner seeking a partner of $1.05M revenues, and median parent organization $13.5M in revenues. Several of these transactions fell within a regulated environment, such as healthcare.

Nearly two-thirds of the projects resulted in completed partnerships, consolidations, or mergers. Two-thirds of those were mergers in a colloquial sense, of which one-third were mergers in a legal sense and another one-third achieved “merger” through an asset transfer process. While half were in the health and human services sector (consistent with the representation of those organizations in the sector as a whole), our work has spanned several nonprofit sectors, representative of ongoing interest in partnerships and mergers as a beneficial strategy for sustainability of the community causes that our sector serves.

Snapshot of Jan Glick & Associates 26 Partnership, Consolidation and Merger Projects Since 2009		
	Percentage of Projects	**Number of Projects**
Resulted in a completed partnership, consolidation or merger	73%	19
Breakdown of the 19 completed, by legal structure of deal:		
Merger	32%	6
Consolidation	11%	2
Subsidiary	16%	3
Asset Transfer	26%	5
Partnership/Other	11%	2
Number of Multi-Party Partnerships, Consolidations and Mergers	12%	3
Organizations that needed help identifying a merger partner	31%	8
By Sector		
Associations	15%	4

Healthcare	35%	9
Human Services	15%	4
Sports/Recreation	7%	2
Early Learning	8%	2
Foundations	8%	2
Affiliate of National Organization	4%	1
Faith-Related	8%	2

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