Resources

Will Your Association Merger Work?

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In the private sector, mergers and acquisitions are a common business strategy. In the association world, though they are often discussed, they rarely come to fruition.

Why do some nonprofit mergers happen and many other attempts fall short?

An example can help illustrate the challenges. Last year I was asked to facilitate a formal merger process between two trade associations that had been conducting informal discussions for the better part of a year. They failed to reach an agreement and decided to go on as two separate organizations. This despite the fact that

- they share a significant number of members, primarily larger companies paying substantial dues to both associations, and many of these companies worked hard to make the merger succeed
- leaders on both boards expressed enthusiasm for a merger
- there was a consensus that the two associations have complementary programs and services, with virtually no overlap, and could more effectively represent their members if they combined
- financial projections done as part of this process showed major reductions in combined overhead and administrative expenses that would result from a merger, with a higher percentage of dues available to support programs.

So why did the merger process fail to move beyond the preliminary stages?

When private-sector firms contemplate merging with or acquiring another company, the fundamental driver is financial. If the price is right, the deal is usually done.

There are three common scenarios that can motivate associations to consider combining, and initiatives to merge generally result from one or some combination of these three:

- **Financial difficulties.** When one or both organizations are experiencing declining financial health, a merger can be seen as a solution. Combining services and programs while leveraging shared overhead (rent, back office staff, and operating costs) may offer members increased benefits with a more favorable revenue-to-expense formula.
- **Strategic advantages.** When it appears that two associations have complementary skills, programs, and assets and that a combination of the two organizations can create a stronger, more influential group as a result, key leaders may wish to explore a merger.
- **Shared members.** When a number of key companies (in a trade association) or individuals (in a membership organization or other nonprofit) decide they do not want to support two organizations when one might do, or when they see that the combination of the two would better accomplish the mission.

In the example of the two trade associations, merger discussions began from a sense of the strategic advantages and then attracted support from some of the combined members. However, the merger never attracted enough support to move beyond the first phase of negotiations and resolve some of the key differences between the two organizations.

Association mergers benefit no owners or shareholders financially. So, the process in the nonprofit world is fundamentally different than in the private sector. Mergers are inherently very political, based on a calculation about "what's in it for me" by each member of the board, the CEO, and other key stakeholders.

Because nonprofit mergers cannot be driven by purchase price, the key to success is harnessing the motivational factors of decision makers. This can be done only by working through a process to build firm, substantive agreement that addresses the mission and aspirations of both entities.

A decision to merge between two associations requires a consensus-building process that is based on developing a shared perception and belief in

- a compelling case for why change is necessary
- a vision highlighting a clear set of future benefits resulting from a combined organization
- a plan for resolving the many issues related to the consolidation, such as blending boards and committees, staff, finances, and membership in an acceptable manner for both sides.

The most successful and dramatic example I have personally experienced involved a large nationwide association with operations in all 50 states. These state affiliates were individually incorporated, independent organizations. After a period of heightened tensions, the national and state organizations worked together through a very participative, consensus-based strategy development process that highlighted their interdependence and need for collaboration. They then undertook a very participative, consensus-based merger process that won nationwide support, based on the determination of the majority of stakeholders to make organizational changes that would enable them to fulfill their common mission and execute the strategy they had developed together. While the process took time and required dedicated task forces to do significant behind-the-scenes work with the consultants, in the end they wound up with a far stronger merged association.

In contrast, the two trade associations referred to above were unable to commit a core group of representatives to spend the time required to work through the details of a plan both organizations could support, and the formal discussion and decision process was abbreviated and much more positional. (e.g., "We conceded to you on this point, so you need to match us by conceding on another issue.") In my experience, this approach is unlikely to succeed; it does not create consensus on the benefits, the vision, and the way forward through the tough issues.

Association mergers must also address the perceived impact on people involved. For staff leaders, combining organizations generally results in layoffs; there's no need for two CEOs, CFOs, and other executives. For board members, concerns can include board composition, leadership roles, and ability to continue a governance process seen as successful.

Nonprofit organizations exploring a merger should consider the rationale and whether there are significant benefits to pursue. Proceed only if both parties are willing and able to commit the time to the consensus-building process that will be needed to develop a strong plan that will win the support needed in both organizations.

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