

NonProfit Consolidation

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Guidestar.org maintains a large database of virtually all nonprofits in the US. Guidestar has a search capability that enables users to find specific types of nonprofits. You can type in the keyword “Homeless”, and search those nonprofits registered in Delaware and you will get 48 listings. 19 of those are in Wilmington alone; of those 19; 2 are for homeless animals. So in theory, there are 17 nonprofits in Wilmington that provide services to the homeless. Again in theory, there are 17 different Executive Directors, 17 different annual fund drives, 17 different health plans, 17 different policies related to acceptable dress in the office... you get the picture.

Many funders, among them the State of Delaware, also get that picture. It is rumored that the State will begin pushing for consolidation of smaller State-funded nonprofits as a means to improve efficiency and get “more bang for the buck”. In the for-profit world, corporate mergers will always factor overhead elimination in the number crunching associated with the feasibility and pricing studies. From the funder’s perspective, there are fewer dollars to go around and demand for services is greater than ever. If consolidating nonprofits eliminates overhead and improves efficiency, it’s a no-brainer. Taking a step back though, there are some dynamics specific to nonprofit organizations that should be considered.

Even if their missions align perfectly, in certain areas the newly consolidated whole may not be equal to the sum of its parts.

Volunteers are the backbone of many smaller nonprofits. Most volunteers typically like to see the results of their efforts. Can a newly consolidated and homogenized nonprofit formed from an arranged marriage of two (or possibly three or four) different organizations deliver the same experience? How about if the “surviving” volunteer coordinator came from the other “tribe”? As far as donations are concerned, will donors of the separate organizations continue to support the conglomerate? Try merging a Sussex County nonprofit into a Wilmington nonprofit and see if the Sussex contributions do not decline. In the same vein; often board members are the most prolific donors – will they continue to support an organization if they have been “right-sized” off of the board? Also; the line between what constitutes program functions and what is overhead ripe for elimination is not as clear cut in a nonprofit. The development office may be considered overhead to a certain extent, but it generates revenue.

So let’s say your organization is exploring (or being forced to explore) consolidation with another with a similar mission. How can this best be approached to achieve the maximum benefit (or minimum mission degradation)?

A consolidation should be viewed as an opportunity to get the best of both worlds. Even if one organization is significantly larger than the other, keep an open mind. Review all systems and practices to find the ones which work best. We have seen many smaller organizations with excellent systems or other ways of doing things that could be of benefit to a larger cousin. The same holds true of personnel. One of the unfortunate results of nearly all mergers is downsizing – especially in the administrative functions. In order to emerge with the best people, a brutally honest appraisal of personnel from both organizations is needed.

Consolidation can also be viewed as a time to re-examine assumptions with respect to outsourcing, job descriptions, segregation of duties and other control functions. Where consolidation and workload are concerned, 1 + 1 probably does not equal 1, but that approach might be taken by uninformed management. The administrative workload of the combined organization may be somewhat less than the two separate organizations, but asking one person to do the combined function may be a mistake. IE; If the Business Manager cannot hope to adequately perform in the combined role, will outsourcing payroll help? What will the new job functions look like and are there enough segregation and controls built in to deter theft?

It goes without saying (but we'll say it anyway); a shotgun marriage is rarely a happy event and a forced combination of two nonprofits is no different. If you find yourself in this circumstance, it is best to keep an open mind, re-examine organizational assumptions and avoid fear of change to emerge with the strongest possible organization.

If you need advice on consolidation of Business Office functions or other advice, please don't hesitate to contact us.