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In Merging, Charities Do a Disservice to Clients

By Jeffrey Solomon

With Time Warner jettisoning AOL, and General Motors trying to offload Saab, it's clear that despite the profit motive behind most mergers, the challenges are often too complex to overcome. Nevertheless, the nonprofit arena now faces a wave of merger mania as the frigid economy spurs desperate organizations to huddle together for warmth.

A study released in February by the Bridgespan Group, a consulting firm, found that mergers are taking place in the nonprofit world at the same pace as in corporate America. In many cases, the trend is being driven by grant makers who are eager to encourage efficiencies during a time of economic duress.

But it's a flawed rationale. At last month's annual conference of the Council on Foundations, the dominant conversation was about how, amid economic difficulties, grant makers are encouraging charities to merge in the name of efficiency and offset that which has already been lost.

I was disheartened by the fervor that foundation leaders expressed for this so-called "strategic response" to the economic crisis.

In virtually all analyses of for-profit mergers, the range of failure is 50 to 80 percent. That risk is acceptable to corporate shareholders, who can balance their gains and losses.

But in the case of charities, the losers are generally the beneficiaries of services who have few, if any, alternatives to obtain the support they may be receiving, be it from a food bank or a vocational-training program. Therefore, reactionary nonprofit mergers lack strategic merit.

Stated another way, most mergers fail. In the for-profit world, shareholders risk their own money for the potential of personal gain. But at nonprofit organizations, where board members steward society's charitable dollars, the risk is squarely assumed by society. It is neither strategic nor prudent to gamble society's scant resources when the odds of a merger's succeeding are less than those of the flip of a coin.

The nonprofit world may have been battered by the failing economy. But that should never be an excuse for replacing strategy with convenience, especially since we know that, when combining organizations, culture always trumps both strategy and convenience.

Mergers should never be the first resort for grant makers to encourage, especially when they can take less disruptive steps to create efficiencies. Here are four questions every grant maker should ask in the name of efficiency before uttering the word "merger."

Are we structured strategically? Some 40,000 American foundations (61 percent of all private grant makers) have assets of less than \$1-million.

Those foundations should start by looking inward at their own structure and organizational efficiency. Do they have the best organizational and operational policies and procedures to pass on as much grant money to

worthy causes as possible?

In many cases, those foundations would be far more efficient, with greater capacity to distribute dollars to good causes, were they donor-advised funds at community foundations or other organizations. Foundations should evaluate whether they might better serve their purpose, as well as the larger community, were they not to remain independent.

Should foundation trustees be compensated? We are a nation of volunteers. Recruiting directors for any charitable entity is a challenge. An ability to work hard and offer wit and wisdom are essential. In my roles on foundation and charity boards, I have found that people are ready to serve not for financial remuneration but for the greater good. Yet many foundations continue to compensate their trustees. With tens of millions of volunteers available to foundations, this is an important time to consider whether trustee compensation is an appropriate use of precious resources.

Can we provide shared services that would be better than giving money? Nonprofit groups have too little money and incentive to build a network of shared services and systems that could make individual groups more effective. Small organizations spend a disproportionately high percentage of their personnel costs on benefits because they are "buying retail."

Insurance rates for organizations with 50 or fewer people are not based on the group's size or claims but rather on the demographics in their general risk pool, thus greatly limiting their ability to negotiate. They often buy other forms of insurance from providers who do not understand nonprofit organizations and who charge disproportionately, because risks are not proportionately spread.

With the multitude of small nonprofit employers, grant makers are in a special position to support the development of new services that will make the most of their dollars by building more opportunities for group purchasing, shared services, and other efficient ways to spend. Putting those services in place would allow charities to put more of their money into the causes they seek to advance. The money invested in shared space, group insurance, group purchasing, shared information technology, and marketing assistance can generate a huge return.

Can we invest in leaders? People are the nonprofit world's key assets. At times like this, investment in their professional development declines or disappears. But this is precisely the moment to invest in their development. It's vital that they be equipped to lead and manage in today's environment.

As is well known in the business arena, trouble is opportunity. The nonprofit world needs to take full advantage of this moment of opportunity. But it must do so by thinking hard about the nature of the mission of each organization, its desire to improve the community, and the overall fabric of society.

To rush to satisfy observers or grant makers who value mergers because of the increased power such steps bring to their giving may be far more costly to charities in the long run than the current economic collapse.

Jeffrey Solomon is president of the Andrea and Charles Bronfman Philanthropies. His forthcoming book, The Art of Giving: Where the Soul Meets a Business Plan, written with Charles Bronfman, will be available this winter.