Creative Sustainability: Joint Venture to Merger

Leveraging Partnerships for Success!
WORKED FOR:
✓ Mankato Area Board of REALTORS®
✓ Valley Industrial Development Corporation
✓ Scholarship America
✓ Minneapolis Regional Chamber of Commerce
✓ Nonprofit Innovations LLC
✓ Children’s Museum of Southern Minnesota

SERVED ON:
✓ Greater Mankato United Way – Board and Exec Committee
✓ South Central College Foundation Board & Exec Committee
✓ Mankato Area Foundation Board of Directors and Chair of Strategy & Governance Committee
Nonprofit Profession

- It’s a BUSINESS
- It’s a TAX STATUS
<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Contributions Deductible?</th>
</tr>
</thead>
<tbody>
<tr>
<td>501(c)(1)</td>
<td>Corporations Organized under Act of Congress (including Federal Credit Unions)</td>
<td>Yes</td>
</tr>
<tr>
<td>501(c)(2)</td>
<td>Title Holding Corporation For Exempt Organization</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(3)</td>
<td>Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, to Foster National or International Amateur Sports Competition, or Prevention of Cruelty to Children or Animals Organizations</td>
<td>Yes</td>
</tr>
<tr>
<td>501(c)(4)</td>
<td>Civic Leagues, Social Welfare Organizations, and Local Associations of Employees</td>
<td>No, generally*</td>
</tr>
<tr>
<td>501(c)(5)</td>
<td>Labor, Agricultural, and Horticultural Organizations</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(6)</td>
<td>Social and Recreational Clubs</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(7)</td>
<td>Fraternal Benefit Societies and Associations</td>
<td>Yes</td>
</tr>
<tr>
<td>501(c)(8)</td>
<td>Domestic Fraternal Societies and Associations</td>
<td>No, generally*</td>
</tr>
<tr>
<td>501(c)(9)</td>
<td>Benevolent Life Insurance Associations, Mutual ditch or irrigation Companies, Mutual or Cooperative Telephone Companies, etc.</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(10)</td>
<td>Post or Organization of Past or Present Members of the Armed Forces</td>
<td>No, generally*</td>
</tr>
<tr>
<td>501(c)(11)</td>
<td>Black Lung Benefit Trusts</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(12)</td>
<td>Withdrawal Liability Payment Fund</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(13)</td>
<td>Veterans’ Organization (created before 1880)</td>
<td>No, generally*</td>
</tr>
<tr>
<td>501(c)(14)</td>
<td>Title Holding Corporations or Trusts with Multiple Parent Corporations</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(15)</td>
<td>State-Sponsored Organization Providing Health Coverage for High-Risk Individuals</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(16)</td>
<td>State-Sponsored Workers’ Compensation Reinsurance Organization</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(17)</td>
<td>National Railroad Retirement Investment Trust</td>
<td>No</td>
</tr>
<tr>
<td>501(c)(18)</td>
<td>CO-OP health insurance issuers</td>
<td>No</td>
</tr>
</tbody>
</table>
Service Areas

- Arts, Culture & Humanities
- Education and Research
- Environment and Animals
- Healthcare
- Human Services
- International
- Public, Societal Benefit
- Religion
US Nonprofit Growth

– Meanwhile, the number of US nonprofits actually grew 7 percent between 2007 and 2011 to 1.58 million, an average of nearly 40 nonprofits per US zip code.²

Reality

- Multiple constituents – all have voices
- Legacy way of doing things
- Staff fear losing their role
- Loss of control
Nonprofit Professionals

- Politically Adept
- Independent
- Creative
- Economizing
- Bold
- Sure-minded
- Passionate
- Resourceful
- Brave
- Multitaskers
Strategic Alliances

- Partnerships and collaboration are strategic alliances between nonprofits that are intended to achieve greater impact than any organization could generate on its own.
- These alliances exist along a broad spectrum of approaches, ranging from less integrated associations and coalitions to more highly integrated joint programming, shared services, and legal mergers.
Strategic Alliances

- Joint Venture
- Cooperative
- Merger / Acquisition
Why Nonprofit Mergers Continue to Lag

– Despite growing support for nonprofit mergers, promising combinations often stumble over three emotionally charged issues:
  – getting the boards aligned
  – finding roles for senior staff
  – blending the brands
  – OTHERS?
Why Nonprofit Mergers Continue to Lag

- Creating a due diligence process that overcomes these hurdles can increase the likelihood that a merger will succeed.
  - https://ssir.org/articles/entry/why_nonprofit_mergers_continue_to_lag
“I’m Writing One Check”

– “You figure out how to use it.”
Mission First

WHAT IS YOUR MISSION?
Key Areas in Due Diligence

- Finance
- Governance / Operations
- Communication, Marketing and Expansion of New Entity
- Staffing & HR
- Programs & Services
- Strategic Direction
Due Diligence

- Finance
  - Assumption of debt & liabilities
  - Capital asset ownership
  - Disposition of major assets
  - Insurance
  - Staff compensation
  - Pricing of services
  - Dues schedule
  - Reporting structure/frequency
Due Diligence

- Governance/Operations
  - Board structure and composition
  - Board member nomination procedures
  - Election of Officers of new entity
  - Leadership appointments
  - New board member terms
Due Diligence

– Communications, Marketing & Expansion of New Entity
  – Initial market area or constituency to be served
  – Expansion plan – additional markets to be served
  – Related communications and marketing efforts
  – Name of new entity
Communication Strategies

- Board Members
- Staff
- Volunteers
- Members
- Donors
- Competitors
- Clients
- Customers
- Founders
Mergers hold far more potential to create value in the nonprofit sector than most people realize. But at least four barriers were preventing that potential from being achieved:

- A lack of knowledge about when and how to think about mergers and acquisitions.
- A dearth of funding for due diligence and post-merger integration.
Why Mergers Fail

– A lack of matchmakers to create an efficient “organizational marketplace” through which nonprofits could explore potential merger options.

– A tendency to look at mergers reactively, as a route out of financial distress or leadership vacuums instead of proactively as an effective growth strategy.

– https://ssir.org/articles/entry/why_nonprofit_mergers_continue_to_lag
Indicators of Merger Success

- Improved image, reputation, or public support
- Improved, expanded, or preserved services
- Increased quality of operations
Indicators of Merger Success

- Increased efficiency of operations
- Improved financial stability
- Development of a positive organizational culture
  - MAP for Nonprofits
Creative Sustainability

- Partner, Partner, Partner
- Think Big
- Get your Governance Right!
  - Who leads, how the board functions, lifecycle – where are you now? ..... Keep track and make sure your board is aligned
- Drop old laggard programs
- Ask young people what they want!
- Think carefully about staff and openings and if you really need to replace that person
- Cross train
- Let go of the reins....you’ll gain more than you will lose
Thank You!

Creative Sustainability  |  Louise Dickmeyer
louise.dickmeyer@cmsouthernmn.org
507-344-9104