

One in Five Charities Considering Mergers to Help Survive Hard Economic Times

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Nearly one in five charity leaders are looking at mergers and acquisitions as a potential way to ride out the turbulent economy, according to a new survey. A poll of 117 executive directors taken in November found serious interest in merging with other nonprofit groups.

A related study found that nonprofit organizations merge at almost the same rate as for-profit businesses.

That study analyzed 11 years of merger filings in Arizona, Florida, Massachusetts, and North Carolina and found that over that period of time the merger rate for nonprofit organizations in those four states was 1.5 percent, not much lower than that for companies, which had a cumulative merger rate of 1.7 percent.

Both the study of merger filings and the survey of executive directors were conducted by the Bridgespan Group, a Boston nonprofit organization that provides management consulting to charities and foundations.

The study found that merger rates varied significantly among different types of nonprofit organizations. In Massachusetts, for example, charities that pro-

vide services for children and families had a merger rate of 7.1 percent, while education groups had a merger rate of just 0.2 percent.

'Fertile Ground'

The co-authors of the report on merger rates say their research indicates that certain characteristics make some nonprofit fields "fertile ground" for mergers, characteristics such as a large number of small organizations, a high degree of competition, and barriers—the need for expensive facilities, for example—that make it difficult for organizations to otherwise increase their reach.

There was also a marked difference between charities and companies with annual budgets of more than \$50-million. In that group, nonprofit organizations' merger rate was one-tenth that of similarly sized corporations.

Financial distress or a leadership crisis—which are more likely to be problems for small charities and businesses—are the two biggest drivers of mergers, says William Foster, a partner at the Bridgespan Group and a co-author of the report.

He says that the difference in merger rates between large non-

profit organizations and their for-profit counterparts is that very few charities look at mergers as a strategic tool to grow and increase their influence. "On the for-profit side, you have a great deal of organizations that sit there and carefully say, 'Is it better to build this new capability ourselves, or to try and acquire it?'" says Mr. Foster. "On the nonprofit side, you have that very rarely."

In the for-profit world, he says, investment banks act as matchmakers, shopping deals to potential merger partners. Nonprofit mergers don't offer the same financial payoff, and as a result, no intermediaries scout for logical charity mergers.

The co-authors of the report think that grant makers could play that role.

Says Mr. Foster: "If even a handful of philanthropic foundations were to take this issue on seriously and be willing to not only fund some of the transaction costs but also provide the kind of information it takes to make matches, it could dramatically change the dynamics."

The new report, "Nonprofit Mergers and Acquisitions: More Than a Tool for Tough Times," is available online at <http://www.bridgespan.org>.