CHAPTER 1

A Valid Strategic Option for the Future

The best time to consider a merger or an alliance is *before* it is necessary, when coming together with another organization will mean combining strength with strength, and when the collective energies and creativity of the two or more entities can be used proactively instead of being sapped by the demands of crisis management. Without an external market mechanism to prod and enforce these kinds of strategic decisions, many nonprofits wait until the time comes when an alliance is not viable and they must choose between merging or going out of business. At that point, it is too late. An alliance will be a waste of time, and a rescue merger will be far more difficult and probably less effective than a merger made in less desperate circumstances. One of the primary objectives of this book is to make the case for nonprofit mergers and alliances as a preferred strategic option, not as a last-minute decision made in despair.

The single most compelling reason to merge nonprofits or to consider developing an alliance is to tap into complementary strengths. Many times, two different organizations come together and in the process discover unexpected sources of strength in the other: the ballet company with excellent administrative systems merges with a dance troupe with high public recognition; a small clinic that owns its own building merges with a larger set of clinics that needs to diversify its asset base; a chief executive with good "outside" skills brings her organization together with another whose chief executive officer is excellent at overseeing operations; and so on.

Note: Why Mergers Have a Bad Name

One of the reasons why mergers may have a negative connotation for nonprofit board members and managers, aside from the botched for-profit mergers the media have covered so thoroughly, is because of when they occur. In any industry experiencing consolidation, weaker players will always be the first to merge or go out of business. What the casual observer does not realize is that whatever bad things may happen to such an organization after a merger, such as services being shut down or people losing jobs, would almost certainly have happened without a merger, and probably worse would have occurred.

Good leaders read the signals of their environment, and nonprofit leaders are no exception. For many decades, nonprofit board members and senior managers have been astutely reading the messages sent by funding sources, government regulators, and social leaders. Universally, these signals said, "Grow. Expand your services. Create more organizations. Innovate and grow."

Nonprofits responded. Beginning in the mid-nineteenth century with voluntary child welfare and mental health organizations and continuing throughout the past century with the modern hospital, symphony orchestras, economic development groups, museums, civic leagues, associations, and charter schools, the nonprofit form of organization has witnessed a tremendous growth in scope and application. Today, the voluntary sector is a crucial—and increasingly acknowledged—element of the American economy.

Along the way, something subtle but very important occurred. Nonprofits by nature are intermediary organizations, serving as private buffers between the individual and government. While acting as an intermediary for a particular part of society, they serve as the proving grounds for social values and as vehicles for interpreting potential changes in those values. Consequently, nonprofits as a class invariably reflect the times in which they were created. On a practical level, this happens because they must solve most of the same economic challenges that any business must solve: assuring a demand for their service or product, selecting and hiring staff, overseeing operations. At a higher level, it happens because nonprofits represent one way in which society attempts to prevent or mitigate what could be a major dysfunction.

Thus, the mayor of an early-twentieth-century mill town invited an order of nuns to create an orphanage for children whose parents were killed or maimed by unsafe manufacturing processes; a major national advocacy organization mobilized an unprecedented campaign of fundraising and research to eradicate polio; and nonprofits have joined the burgeoning effort to find environmentally responsible answers to the fossil fuel dilemma. What all of these and countless other programs had in common is that they were the product of a unique mix of social, economic, cultural, political, legal, and other forces.

The individuals who lead these programs must negotiate an individualized balance of all these forces in order to be successful. It is an underlying theme of this book that the way that balance is achieved is on the verge of changing dramatically. Put simply, the way to be successful as a nonprofit organization will be very different in the twenty-first century than it was in the past 50 years.

Government's Retreat

The starting point for this difference is a central reality. For nearly 30 years, government at all levels of our society has taken a step back from its traditional role in responding to social needs. The New Deal and the Great Society were two vivid examples of government taking unprecedented initiative in key areas of society's needs, and the 2010 passage of the health care law was notable for its uniqueness.

In the meantime, as government was shrinking its area of responsibility, nonprofits were growing both in size and numbers. The growth trajectory over the past 20 years has been more consistent and more positive than that in many for-profit industries. As a result, in many areas, the nonprofit sector now has both the opportunity and the responsibility to assume some of that leadership role. It is well positioned and well experienced to do so.

In recent years, there has been a steady stream of messages from business leaders and others that there are "too many nonprofits." In this view, nonprofits have proliferated to the point where there are costly redundancies and overlapping services. Funders grumble that more and more nonprofits are pursuing the same philanthropic dollars, and civic leaders have begun to wish out loud that there would be what they delicately term "consolidations."

These are well-intended observations, but they miss the point. The reason that there is a surplus of nonprofits is not because there has been mindless growth but because for many years the prevailing philosophy of funders and government officials has been "Let a thousand flowers bloom." In the 1960s, certain kinds of foundation funding was implicitly based on the notion that if a human services program could produce three to five years' worth of success, the federal government would fund it permanently thereafter. For two or three decades, there was widespread innovation and experimentation, so it made sense to try many different approaches to see what works.

Today, however, in most parts of the nonprofit sector, we cannot sustain a thousand flowers anymore. Instead, we need a few dozen oak trees. We now know what works as a response to most dysfunctions, and the task is to set about doing it on as large a scale as is necessary and sustainable. The problem is not with the effort and the public spiritedness and the energy that lies within those hundreds of thousands of nonprofits; the problem lies in the way they are structured, particularly their capital structure. But after years of growth, those mature parts of the nonprofit sector now have substantial resources locked up in aging program models and out-of-date corporate structures. Those resources are both financial and human, and we must find a way to tap into them as never before. Nonprofit collaboration through mergers and alliances is a crucial means to make this happen.

For many parts of the nonprofit sector, mergers and alliances must be one of the primary strategic choices of the future.