Bucks County Center for Nonprofit Management

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Nonprofit News

Merge Ahead?

by Bruce Boyd

As charitable resources shrink along with the economy, nonprofits and their funders are looking for ways to maximize their impact and minimize their costs. Increasingly, they have identified nonprofit mergers and alliances ("M&A") as strategies for helping nonprofits survive -- and hopefully even thrive -- in this new economic reality.

A recent study by the Nonprofit Finance Fund found that 42 percent of surveyed organizations either had developed a program in partnership with another nonprofit in the past year or planned to do so in the coming year. Nearly 20 percent expressed an interest in conducting a merger feasibility analysis, and five percent indicated that they had recently merged with another organization or intended to do so soon.

Meanwhile, foundations across the country have begun hosting workshops to help grantees explore opportunities to collaborate. Some foundations, including the San Francisco Foundation and Dayton Foundation have set up funds to cover the up-front costs of M&A. Through its Collaboration Prize, the Lodestar Foundation has collected M&A case studies that it will soon begin sharing through a searchable database.

Of course, no sensible soul thinks that M&A is a magic cure-all for economic woes. Nearly everyone agrees that increased efficiency and effectiveness are good -- at least in theory -- but some commentators fear that a rush to merge could hurt the nonprofit sector. With that in mind, let's explore what philanthropists should know about the pros, and possible cons, of nonprofit mergers and alliances.

Done well, nonprofit mergers and alliances can help the organizations involved pursue their missions more effectively. They can enhance impact, increase capacity, expand geographic reach and open doors to new funding opportunities -- for one or both organizations involved or, in the case of a merger, for a single organization that succeeds them. They can also produce long-term cost savings through economies of scale and the consolidation of overlapping services.

In today's economy, such savings could be crucial to both nonprofits and their funders. In the wake of a 30 percent drop in foundation endowments, many philanthropists believe that the smaller pool of funding simply cannot sustain the 1.5 million nonprofits now operating in the United States. They view mergers, back-office consolidations and shared programming as necessary means to leverage reduced resources and minimize the loss of needed services.

Still, successful M&A is more easily discussed than accomplished. For instance, mergers (and other forms of meaningful collaboration) often depend on an organization's leadership prioritizing the institution's mission above the institution itself. They may require personal selflessness, since, in the case of a merger, some staff, including executives, may lose their jobs. There may also be cultural clashes between partners and enough upfront costs and third-party expenses -- from feasibility studies to new IT and back-office programs -- to undercut even well-laid M&A plans. Successful M&A generally requires major upfront investments of money, time and patience. The returns on those investments can be big, but they

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are mostly realized over the long term––over the next few years, not the next few months.

Little wonder, then, that our research shows that nonprofit mergers and alliances are far more likely to succeed when forward-thinking organizations put mission first and think strategically about how they can most effectively work together to achieve shared goals. When motivated merely by financial fears or forced at the hand of a donor, M&A efforts are far more likely to fall flat.

In the end, today's financial challenges may provide an impetus for some nonprofits to have more open discussions -- both internally and with potential partners -- about their future direction. An increase in available funding for restructuring may also lead organizations already considering a merger to go ahead and take the plunge. But nonprofits and their funders should remember that, in this sector, M&A isn't just about the bottom line. Rather, they should support mission-driven M&A efforts that seek to improve services as well as financials.

Philanthropists can help in a variety of ways. They can bring together grantees with overlapping interests to discuss common problems and possible solutions. They can sponsor educational activities that raise awareness about M&A. And, of course, they can directly fund the aforementioned costs. The point of such investments, however, shouldn't just be to help nonprofits weather the current economic storm. The larger goal is to build better services for the future.

About the Author:
Bruce Boyd is Principal and Managing Director at Arabella Philanthropic Investment Advisors, a national philanthropy consulting firm that works with individual philanthropists, family foundations, institutional donors, and corporations to make their giving more effective. Mr. Boyd leads Arabella Advisors' Chicago office.

You can learn more about investing in nonprofit M&A by visiting this web page: http://www.arabellaadvisors.com/pages/IssueBriefs.html

Conflicts of Interest and Insider Deals in the Non-Profit Sector

By Abbey Nash

It would be difficult to find any regular news viewer who doesn't know at least something about the corporate scandals that led to the downfall of major corporations WorldCom and Enron. In order to raise the operating standards of public corporations, Congress passed the Sarbanes-Oxley Act in 2002, named after the two congressmen who urged the act through congress. The Sarbanes-Oxley Act (Sox) includes requirements about conflict-of-interest policies, auditing and even board responsibilities for public boards and corporations. In the wake of Sox, as well as the nation's realization that even non-profit charities are prone to scandal in governance, some non-profits seem to be making progress towards improving accountability and public transparency. However, according to the results of a recent study, many non-profits remain disturbingly opaque.

In 2007, the Urban Institute of Washington D.C., conducted a study of 5,100 non-profits. The study found that at least 20% of non-profit groups make insider deals with board members, 21% have purchased items from companies affiliated to a board member, and 71% of non-profits do not require their board members to disclose their financial interests in entities that do business with their organizations. Further, more than 70% of the surveyed non-profits do not have conflict-of-interest policies that would help to insure that insider deals are easily identified as posing a conflict of interest. Finally, 26% of boards that oversee organizations with less than $100,000 in expenses have members who are related to each other, as do 19% of boards in organizations with up to $500,000 in expenses (Panepento).

While these statistics are somewhat startling, some experts believe that the results are overblown. When non-profits purchase goods from companies affiliated with their own board members, the board members are often able to negotiate reduced rates. Some experts consider these kinds of below-market rate transactions an "in-kind contribution of sorts" (Paepento). Others, however, contend that these kinds of practices on the part of non-profits may prompt lawmakers to create Sox-like legislation for the non-profit sector - legislation that would create extra work for already over-worked and under-staffed charities (Paepento).

Many non-profit organizations, both local and national, are urging self-regulation before legislation is passed that would demand certain requirements of non-profits. Organizations like GuideStar and Independent Sector have published literature urging the charitable world to do a better job of regulating itself, including checklists that call on non-profits to begin to "develop a culture of accountability and transparency," "adopt a conflict-of-interest policy," and "adopt a statement of values and code of ethics" (Jenson). Researchers agree that these kinds of controls would help to decrease the frequency of insider deals and underhanded dealings of some nonprofit boards.

As a result of these efforts, several nonprofit groups are making progress toward improving accountability and governance practices. In its 2007 study, the Urban Institute found that since Sox was passed in 2002, 47% of groups that reported having a conflict-of-interest policy have either created it or revised it. Additionally, 46% of the nonprofits surveyed have created or revised

Raise More Funds Through the Mail

by Jim Wellen, Principal JWA Consulting

Just as in investing, it pays to diversify your group's fundraising. Direct mail is a proven technique to generate more funds and visibility.

For many groups, direct mail means sending out an annual year end appeal. Period. You can almost certainly raise more funds by mail without more a major additional commitment of staff time or funds. Just follow the methods, described below, used by many successful charities:

1. Mail early and often. Many groups are afraid that if they mail too often, donors will think they are wasteful. Unfortunately, while you are being sensitive, your donors are getting and responding to frequent renewal mailings from other, more aggressive groups. Out of sight means out of mind. Try asking for a gift in the mail at least every quarter. You can measure your cost to raise a dollar for each additional letter to show your board how much profit the increased mailings generate.

2. Use direct mail to build a base of supporters who can become prospects for major or planned gifts. Direct mail fundraising is relatively expensive and inefficient - much like special events. Its' real advantage is that it enables you to identify supporters who can become larger donors or planned giving prospects. Examine your lists to see who your long term or wealthy supporters are, and then contact them by phone or in person. Set a goal of how many direct mail donors you'll contact each month, to thank them, report on what you are doing with their gifts and to get to know them.

3. Keep replenishing your list. Even the best donor lists atrophy over time. Regularly mail to new event participants, to people that you have served or other people that have a connection to your group. You may also consider swapping mailing lists for a mailing with other similar groups or purchase mail responsive lists from list brokers. Donor acquisition is a long term investment that will pay big rewards over time.

4. Creative considerations: Following these techniques should make your appeal letters more effective and increase your net income:

♦ Tell a story. Don't just describe what you do and give statistics. Talk about one person who benefited from your services to illustrate your need.

♦ Use more short sentences and short paragraphs, but vary your style and content.

♦ Personalize your letter and include a date line. There is no reason to address a long term donor as "Dear Friend."

♦ Write with emotion and back it up with facts, not the other way around.

♦ Use your P.S. to stress your key point and the ask. It is very widely read part of the mailing.

♦ Don't stick to one page. If people are interested, you will have more time to make your case in a longer letter. Long letters almost always raise more than short letters.

♦ Make the opening and closing paragraphs "sing."

♦ Write as if you were approaching one person. Avoid jargon and big words.

♦ Ask for a specific amount and tell what the money will accomplish

5. Include your web address in the mailing. More than ever, fundraising today is integrated. Direct mail prospects may go online for more information or to make a gift. Make sure that your message on your website and mailing are consistent and reinforcing.

6. Test, test, test. One of the beauties of direct mail is that it is easy to measure what works. If you have a large list, you can check a single variable with a small sample, verify what works and roll out the complete mailing with the more successful technique. With one client, we tested a mailing with and without teaser copy on the outside of the envelope. Based on the results, we knew what to use with the entire list.

For advice or help to implement this or other fundraising ideas or programs, contact jim@jwaconsulting.net or call 609-238-8903.

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whistleblower policies and 54% have created separate audit committees (Paepento). As these statistics illustrate, many non-profits are actually becoming more business-like in their structure, in an effort not only to avoid the legislation passed on public boards and companies, but in order to more effectively enact their organizational missions.

Abbey Nash is a graduate student at Arcadia University's English department. The previous article was recently completed for Barbara Sheehan's Grant Writing for Non-Profits class.

Are you reading a colleague's issue of Nonprofit News? Did you know that many of our announcements are only sent via e-mail? To be placed directly on all of our mailing lists, please contact Liz Vibber at 215-343-2727 or lvibber@bbco-cpa.com.

BBCo Community Bulletin Board

We are pleased to accept your submissions of jobs and special announcements. E-mail directly to: Liz Vibber, lvibber@bbco-cpa.com. For a more complete listing, visit our website at www.buckscountynonprofit.com

www.buckscountynonprofit.com/grants
The Bucks County Center for Nonprofit Management is pleased to announce a new feature, the *Grants* page. Look for listings of grants and deadlines you may have missed!

www.buckscountynonprofit.com/bulletinboard.htm
The Bucks County Center for Nonprofit Management's Community Bulletin Board includes job postings, announcements and available board positions. To submit your information to the Bulletin Board, free of charge, please contact Liz Vibber at lvibber@bbco-cpa.com

Job Postings include:
Community Conservatory, a dynamic community school of the arts, has an opening for a Registrar.

Manna on Main Street is seeking a Case Manager to advance the mission of Manna on Main Street by delivering advocacy, assessment, counseling and case management services to individuals and families.

The Sunshine Foundation seeks a professional to serve as Director of Development.

Ivy Hill Equestrian Foundation is looking for an Administrative and Marketing Director.

NONPROFIT MANAGEMENT TRAINING SEMINAR SERIES--Fall 2009

The Bucks County Center for Nonprofit Management is pleased to announce our seminar dates and working topics:

Tuesday, September 15th --(8:30-12:00) **An Introduction to Social Networking for Your Nonprofit** *Facebook, Twitter, Linked-In*

Wednesday, October 14th--(8:30-12:00) **Braving the Marketing/ Communications "S.W.A.M.P.": Special Events, Websites, Advertising, Media Relations, and Publications For the Harried Nonprofit Professional**
Phil Arkow, !deas

Thursday, November 5th-- (1:00-4:00pm) **Which Bus Is Your Board On? Board Governance and other Motivational Ideas to Empower Your Board** Liz Vibber, MS & Cindy Bergvall, CPA

All sessions will be held at the PA Center for Biotechnology, 3805 Old Easton Rd., Doylestown.

Cost is $35 per person ($30 for clients of Bee, Bergvall & Co./ BCCNM). **Special Offer:** 1 board member attends free with a paid staff member.

Liz Vibber 215-343-2727 or e-mail lvibber@bbco-cpa.com. More information and registration forms are available at http://www.buckscountynonprofit.com/training.htm

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