

**Mergers,  
consolidations,  
and  
partnerships:  
A look at  
strategic  
nonprofit  
restructuring in  
Hawai`i**

A report for the Hawai`i Community Foundation  
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A look at strategic nonprofit restructuring in Hawaii**

**Table of Contents**

<b>EXECUTIVE SUMMARY .....</b>	<b>5</b>
<b>INTRODUCTION.....</b>	<b>7</b>
<b>ACKNOWLEDGMENTS: .....</b>	<b>10</b>
<b>CASE STUDY I: THE MAUI SYMPHONY ORCHESTRA AND THE MAUI CHAMBER MUSIC FESTIVAL .....</b>	<b>11</b>
BACKGROUND: THE MAUI SYMPHONY ORCHESTRA.....	12
BACKGROUND: THE MAUI CHAMBER MUSIC FESTIVAL .....	13
THE NEGOTIATIONS PROCESS: .....	14
GOVERNANCE .....	15
THE VIEW FROM HERE – 2002 .....	17
<b>CASE STUDY II: MAUI KOKUA SERVICES AND MENTAL HELP HAWAII.....</b>	<b>19</b>
BACKGROUND: MENTAL HELP HAWAII.....	19
BACKGROUND: MAUI KOKUA SERVICES .....	20
SIMILARITIES AND DIFFERENCES IN PROGRAM SERVICES .....	22
THE NEGOTIATIONS PROCESS .....	22
NAME AND MISSION .....	24
GOVERNANCE .....	25
THE VIEW FROM HERE - 2002.....	26
<b>MERGERS, COLLABORATIONS, ALLIANCES, AND PARTNERSHIPS: ARE WE SPEAKING THE SAME LANGUAGE? .....</b>	<b>29</b>
SUGGESTED GLOSSARY .....	32
LEGAL REGISTRATION .....	32
<b>DISCUSSION OF THE MERGER PROCESS.....</b>	<b>34</b>
<b>PREDICTING SUCCESSFUL MERGERS.....</b>	<b>37</b>
<b>LESSONS LEARNED .....</b>	<b>41</b>
<b>APPENDIX: MERGER AT A GLANCE (MCLAUGHLIN) .....</b>	<b>43</b>
<b>RESOURCES .....</b>	<b>45</b>
BOOKS AND ARTICLES .....	45
ORGANIZATIONAL RESOURCES .....	45

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## **Executive Summary**

Nonprofit organizations in Hawaii, as well as on the mainland, have been struggling to keep pace with the increasing need for their services, while the resources they have traditionally depended upon are decreasing. Some funding sources, recognizing the apparent duplication of services, have urged nonprofits to consider innovative ways of collaboration, including mergers, the most extreme form of collaboration.

Although there have been relatively few mergers in Hawaii, the case studies of two recent mergers can offer insight into the processes, the challenges and the probability of success. Although different from each other in many respects, they demonstrate that organizational strengths can be complementary, and make the whole more than the sum of the parts.

In response to the economic pressures and strong encouragement from government, foundations and individual donors, there has been a proliferation of ways that nonprofit organizations collaborate to more effectively carry out their missions. From cooperation to merger, nonprofit groups are choosing to leverage their effectiveness by joining forces. Unlike the corporate world, which is limited to mergers and acquisitions as vehicles of collaboration, the nonprofit sector is limited only by its imagination in its choice of ways to create partnerships. In looking at the different terms employed by different researchers and scholars in the field, it is evident that we are not all using the same language in speaking of mergers. A suggested glossary of terms with definitions may help to clarify the differences between the choices, and give nonprofits seeking to collaborate a variety of choices other than merger.

An overview of the merger process compares it to courtship and marriage, with similar joys and disappointments. The three phases described by David La Piana include negotiation, implementation and integration. Negotiation is like dating, where the prospective partners spend

time together and get to know each other, implementation, like engagement and marriage, is the legal joining of the two partners, and integration is when, after the initial honeymoon period, the reality of day-to-day living sets in.

Interviews with veterans of mergers and other types of collaborations give tips and advice on forging a successful collaboration, including what they would do differently. What specifically creates an environment for success or failure, what motivated the mergers, economics or outcomes guide those who are thinking of merging. Finally, the information from these interviews and the merger case studies is summarized in Lessons Learned.

## **Introduction**

Nonprofit organizations in Hawaii, as well as on the mainland, have been struggling to keep pace with the increasing need for their services, while the resources they have traditionally depended upon are decreasing at an even faster rate. Nonprofit organizations seem to be proliferating, and the competition for scarce resources grows. Leaders of these organizations are under pressure to do more with less, and are driven to seek creative ways to accomplish more. Some funding sources, recognizing the apparent duplication of services, have urged nonprofits to consider innovative ways of collaboration, including mergers, the most extreme form of collaboration.

In 1999, when the President of the Maui Chamber Music Festival approached the President of the Maui Symphony Orchestra and asked him to consider a merger of the two organizations, there was little information published or available on-line concerning mergers of non-profit organizations. Although the corporate culture of the 1990's used "M & A" (mergers and acquisitions) as a major growth strategy, the profit motivation that usually drove those transactions was foreign to the world of nonprofits. Few nonprofits even considered merging as an option, feeling that dissolution of an organization would be disloyal to the founders, staff or community, and an admission of failure.

In a research report prepared for the Hawai'i Community Foundation in 1999, Dan Watanabe discussed various structures that nonprofit organizations on the mainland were exploring. Watanabe described several efforts, some successful, some not, to build alliances, mergers and collaborations in Hawaii. He reported that the conditions are highly favorable for

the nonprofit community to employ “structural approaches to addressing community concerns and maximizing the use of resources.”<sup>1</sup> These conditions are:

- The nonprofit sector appears to have exceeded the capacity of the community to support (it).
- The nonprofit sector has had a lot of experience with collaborations and the skills learned through that experience would help to lay the foundation for taking a further step.
- The nonprofit sector is beginning to gain experience in the use of the outcomes perspective.<sup>2</sup>

This report describes the mergers of two nonprofit organizations in Hawaii. One was a merger of two classical music organizations on Maui on the verge of dissolution, and the other was a merger of two successful mental health services providers on Maui and O`ahu. The report describes the processes they engaged in, and summarizes interviews with the leaders of the two organizations a year or two after the mergers to identify their challenges and successes, and find out what worked and what didn't.

The language of organizational collaboration used in the merger field is briefly explored, and comparisons are made of the terminology of some of the published authors in the field. A suggested glossary to simplify community discussions in Hawai`i is offered.

Building on Dan Watanabe's research, we conducted interviews with several executives of the nonprofits who participated in mergers that were profiled in his report. We asked them based on their experience, to address these questions:

What factors are most important to the success or lack of success in mergers in Hawaii?

- What conditions create a favorable environment for mergers or collaborations?
- Were program outcomes the motivation for restructuring, or was economics the driving force?

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<sup>1</sup> Watanabe, Dan, “Nonprofit mergers, consolidations and alliances: A strategic option for changing times,” page 2.

<sup>2</sup> Watanabe, Dan, *ibid.* Page 2.

- As pioneers in restructuring organizations in Hawaii, what would they do differently, and what advice would they give others who are considering strategic restructuring?

Their answers to these questions are useful in gauging the potential for successful organizational restructuring options in Hawaii.

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