

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

A report for the Hawai`i Community Foundation
Jean T. Conger
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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.”¹ 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.²

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?

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

² 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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Mahalo nui loa to the following pioneers in strategic restructuring in Hawaii for their patience, cooperation, candor and knowledge in sharing their experiences. The nonprofit community will benefit from their ground-breaking and risk-taking work:

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Case Study I: The Maui Symphony Orchestra and the Maui Chamber Music Festival

When Paul Wells, president of the Maui Symphony Orchestra (Symphony) and John Decker, president of the Maui Chamber Music Festival (Festival) met to discuss a possible merger in the summer of 1999, the two organizations were at the brink of dissolution. Both were approaching two decades of providing classical music on Maui, and their leadership was exhausted, disillusioned and discouraged. The boards and staff had separately struggled with issues of decreasing community support, declining board membership, significant financial deficits, increased competition, (principally from the opening of the Maui Arts & Cultural Center), and difficult relationships with key staff.

The organizational coffers were empty – more than empty, both were in debt. The Maui Chamber Music Festival's Music Directors had yet to be paid for the June 1999 Festival, and the organization had been without permanent staff for more than a year. The Maui Symphony Orchestra's Music Director had resigned the year before, also leaving that organization without staff, and no money to pay someone.

Leaders of the two organizations and the Maui Philharmonic Society, an organization that sponsored concerts for schools, recognizing some of the benefits of joint efforts, entered discussions about the possibility of merging the three organizations due to similar missions and markets. Subsequently, the Maui Philharmonic Society withdrew their participation, citing their different focus.³

Wells and Decker each thought he would be the last president of his organization, and a merger was the only possibility of survival. They agreed to try to forge a merger of the organizations and sought foundation funding to pay for outside facilitation. Against a good deal of opposition, the two presidents convinced their boards of directors to enter into the

negotiations. They were awarded a small grant from the Fred Baldwin Memorial Foundation and hired J/C Consulting Group to facilitate the merger.

Background: The Maui Symphony Orchestra

The Maui Symphony Orchestra prided itself on being a “community” orchestra, and integrating community members who played music as an avocation with some professional musicians, many of whom were employed either part-or full-time by the Honolulu Symphony. Like most arts organizations, they had been heavily dependent on grants and public funding and that funding had virtually dried up. These grants, from local Hawaii foundations and the State Foundation for Culture & the Arts, were mainly for children’ s music education concerts, offered in conjunction with the Maui Arts & Cultural Center and the organization had relied on these funds to partially pay its conductor. Ticket sales were never very high, as the quality of the orchestra’ s product was not at a level to attract any but the most dedicated supporters of classical music.

In addition to the resignation of the Symphony’ s Music Director, its president, Marion Hanlon, M.D., had passed away quite suddenly. An interim president served for about a year. Then, Paul Wells, M.D., a musician who also practiced medicine, responded to Dr. Hanlon’ s last wishes, and took the helm, bringing enthusiasm and a “can-do” attitude to the organization.

Under Wells’ leadership, the Symphony had just taken a leap of faith and hired a new conductor, Stuart Chafetz, principal timpanist and assistant conductor of the Honolulu Symphony, in an attempt to upgrade the quality of the conducting and the performance. For the first time, auditions were being held (rather than allowing all comers to play) and a new orchestra was seated. An accommodation had been reached with the Musicians’ Association of

³ In June of 2002 the board of the Maui Philharmonic dissolved the organization.

Hawaii to allow non-union players to be seated with the professional musicians, for at least the first year, and to allow fewer than the 63 musicians required for O`ahu performances.

Background: The Maui Chamber Music Festival

Since 1982, The Maui Chamber Music Festival had presented a weeklong series of concerts on Maui each June, and also in March of 1998. To date there had been more than 120 programs involving more than 300 artists from 15 countries, including winners of international competitions, major recording artists and soloists, principal chairs of major orchestras, famous crossover musicians, and world-renowned ensembles. Concerts had offered unique programming with a wide variety of chamber music from solo performer to chamber orchestra. The concerts had featured all string, brass and wind instruments, as well as piano, voice, percussion, guitar and banjo, in every combination. Dr. John Decker, President of the Festival, was chairman and founder of RainSong Graphite Guitars. He had been part of the Maui Chamber Music Festival (Festival) since its inception in 1982. The Festival was founded by Colin Cameron, the CEO of Kapalua Land Company, and developed partly as a marketing tool for the Kapalua Resort. For nearly 20 years Kapalua provided transportation and luxury accommodations for the musicians, and the concerts were held at the Kapalua Bay Hotel and at the Ritz-Carlton Hotel. The company also provided the marketing and promotion for the Festival. Founding Festival Directors Yizhak Schotten and Katherine Collier were and remain the Festival Directors of the “Strings in the Mountains” Chamber Music Festival in Steamboat Springs, Colorado, a six-week long series of chamber concerts. They personally selected the musicians and the programs each year, and the Festival enjoyed a reputation for high quality musicianship in an informal and friendly atmosphere.

The Negotiations Process:

Three board members from each organization and the facilitator spent a day reviewing the missions, values, strengths and weaknesses of the two organizations and discovered that they had much in common. Their values and mission were very similar and their strengths were complementary. They both now had strong musical directors, name recognition, a dedicated core audience, longevity, and both had been “down but not out,” and were programmatically on the rise. Both had either recently retired or were in the process of retiring their debts. The Symphony’s strong community base and the Festival’s reputation for artistic excellence complemented each other.

The weaknesses they shared were a lack of fund raising initiative, inadequate financial controls and reporting, no administrative staff, and an absence of effective operating infrastructure. They both also suffered from a paucity of community commitment to classical music. A major difference was that while the Festival was bordering on board “burnout,” the Symphony had recruited a new and enthusiastic board of directors.

All members of the negotiating group agreed that there were many benefits to the merger and that any drawbacks (i.e., the Symphony’s payroll brought a larger financial risk exposure, and that the Festival brought a smaller audience, and therefore less revenue) could be worked out. Some of the benefits that might accrue from the decision to merge were: Increased donor interest, goodwill and community support for the two organizations working together, stronger board by combining the two, potential for increased artistic excellence, administrative cost savings, audience sharing, artistic and operational synergy, and enhanced educational programming.

The next task was to craft a new “merged” mission statement and purpose:

Mission: We believe that high quality classical music is timeless, that it enriches our lives, deepens our understanding of ourselves and is an essential element of our community and our culture.

Purpose: To coordinate, promote, and provide the availability of quality classical music for Maui.

Governance

The new interim board would consist of the entirety of the combined boards, with each organization reserving the right to refuse to seat one member from the other board. No other board members would be added or removed, and any vacancies occurring in the first year would be left unfilled. The merged board would govern for one year only, at the end of which they would be replaced or re-elected based on a governance structure to be worked out during the year. The officers of both organizations were also incorporated into the new executive committee, with Paul Wells agreeing to continue as President and John Decker agreeing to be Vice President. Although most of the experts on mergers discourage this structure, for these organizations it was the only structure that could win approval.

Other agreements reached that August day included:

- The merger document would be drafted using the Symphony bylaws as reference, and would be modified to reflect the agreements reached and ratified;
- Each organization's board members would be responsible for retiring any debt or financial obligation outstanding at the time of the merger;
- Any current financial agreements, contracts or obligations would be disclosed at the September board meetings;

- The Presidents and the Treasurers would meet with a mutually agreed-upon CPA to discuss the merger, review each organization's financial records and address the financial implications;

Since neither organization had paid staff, both were being run completely by volunteers.

This worked in favor of the merger, since the choice of an executive director is a shoal on which many mergers founder.

Bob Richardson, a Maui attorney and a former member of both boards, drafted the Agreement of Merger, dissolving the Festival into the Symphony, under the 501(c)(3) of the Friends of the Maui Symphony. The new name would be *The Maui Symphony Orchestra and Festival (MSO&F)*. Because both organizations had relatively good name recognition on Maui, combining the two names rather than attempting to market a new name was important.

It was now up to the representatives of each group to win approval from their boards. In the past, the two organizations had a sometimes less-than-friendly rivalry, and old resentments were difficult to suppress.

Dr. Wells: "At first, the Symphony board of directors did not want to merge. They had just hired Chafetz as conductor and worried that the merger would not really help the Symphony. Personal and cultural issues between the boards, long-time rivalry, and personal misunderstanding stood in the way. We overcame them by building very strong community support. One member of the Festival board, an attorney who had formerly been a board member of the Symphony, was strongly in favor of the merger and he just refused to give up."

As noted, each organization agreed to be responsible for eliminating its prior debt. The Festival sent out a mail appeal to its list and succeeded in eliminating its debt and bringing a

modest sum to the merged organization. The Symphony, however, was still carrying a long-term loan on its books at the time of the merger.

Dr. Decker: “After the merger, the Festival members of the board feared that there would not be enough funds left to conduct the Festival, traditionally held in June, the end of the fiscal year. However, this fear was not strong enough to abandon the merger.” The merger was completed in October of 1999, and was the first non-profit merger in the State of Hawaii, according to the Department of Commerce and Consumer Affairs, the agency that regulates non-profits in Hawaii.⁴

The View from Here – 2002

In the first year the support of the community, the rave reviews for performances, and the board’s surge in fundraising all pointed to a successful merger. There was a great deal of encouragement and cooperation from the leadership of the Maui Arts & Cultural Center. While the board was not yet ready to hire an executive director, for fear of making such a financial commitment, they engaged a fund development consultant to train the board, guide their fundraising efforts, and write grants. The organization depended on volunteers for producing the concerts in the first two years.

The first indication of the community’s excitement came at the fundraiser organized by the MSO board of directors, the Mayor’s Ball, which raised \$25,000, a first for the Symphony. An appeal to the Festival mailing list enabled the Festival to pay the Music Directors for the prior season. Two articles in the Maui News, heralding the new conductor and announcing, “new life had been breathed into the Festival” preceded a season opener in October that had people applauding until their hands were sore, with one standing ovation after another.

⁴ There have been other mergers, but they were not on record as mergers, and may not have been reported to the Department of Commerce and Consumer Affairs.

Revenues increased beyond the board's wildest expectations, through season ticket sales, grants and individual donations. However, the expenses of producing a professional orchestra were also well beyond expectation. Even with union concessions, the cost of seating the orchestra was more than double the cost of the previous combination of community and professional players. The contract concerts that had provided about 35% of the previous year's income evaporated when the concert costs escalated. In order to maintain the quality of the orchestra and the programs, larger numbers of players were required. The cost of airfare increased, and more players had to be flown in from Honolulu. Revenues generated by board fundraising were well in excess of what both organizations combined had raised in previous years. In spite of that, the organization survived the year only by canceling one concert, presenting guest artists without orchestra from another, loans from board members, and donations by the president.

In the second year, the board hired an executive director, Kent Stewart, who had experience in working with classical music organizations. The first post merger board election was held, and while many of the interim members of the board dropped off, new, enthusiastic and active board members were recruited. New alliances and sponsorships are being created, and there is pride in the artistic product of the organization.

While the merged group still struggles economically, the artistic success and the expansion of educational programming has helped in gaining significant County funding. A key to the revitalization was a freshness, optimism, and renewed energy, all of which created a climate in which change was possible. There is hope that the positive changes will continue, as the Maui Symphony Orchestra & Festival struggles, along with performing arts groups nationwide, to maintain its high quality and still pay the bills.

Case Study II: Maui Kokua Services and Mental Help Hawaii

The inter-island merger between Mental Help Hawaii and Maui Kokua Services, two providers of a broad range of mental health services in the state, proved to be more complex. Both had experienced increased competition for funding, decreases in support from the Adult Mental Health Division, and increased stress and workload for staff as the behavioral health care system moved to a managed care model. For several years, the agencies have talked informally about collaborating for mutual strength and support. The change in executive leadership at Maui Kokua Services in 2000 provided the catalyst that shifted conversation from the talking stage to a serious consideration of merging. A grant for a merger feasibility study was awarded by the Hawaii Community Foundation, and a consultant was engaged to facilitate the process.

Background: Mental Help Hawaii

Mental Help Hawaii, then known as The House, Inc., was established in 1973 as the first non-profit agency in the State of Hawaii addressing the need for community-based residential housing and rehabilitation services for persons with mental illness. The agency mission is to provide housing and rehabilitation services to assist such persons in achieving their optimum level of self-care in the community.

By 2000, Mental Help Hawaii had grown from a single program to an agency with sites dispersed throughout Oahu and on the Big Island of Hawaii. Community based housing services were provided in urban settings and in individual houses, apartments, townhouses, or other residential settings. Agency residences are physically integrated into the community, and every effort is made for these residences to approximate other homes in their neighborhoods.

Complementary services provided by Mental Help Hawaii included case management, psychosocial rehabilitation, respite, and crisis placement and intervention services.⁵

The board of directors of Mental Help Hawaii was composed of 18 members, most from O`ahu, many of whom had served for a number of years. It was a stable and mature group who worked well with the Executive Director and each other, with a high level of camaraderie. In addition to the governing board, the east Hawaii Advisory Committee provides a bridge between the program service area and the local community.

The Advisory Committee is made up of diverse community constituencies, including consumers, has no governing powers, but is part of the overall agency service system. Its role is to help insure service accountability through its focus on the interaction between the needs and perceptions of people in the service area and the programs, resources and manner of operation of the agency. The Advisory Committee provides advice and recommendations to the Service Area Director who manages the programs in the local community. The Board of Directors appointed the Advisory Committee.

Joanne Lundstrom, the Executive Director of Mental Help Hawaii, had been with the organization since its beginning, and has directed its growth from a single residence to the multi-site, inter-island agency that now exists. She saw the merger as an opportunity to take advantage of the expertise that both organizations brought to the table, that there was an existing power base and by merging there was room to expand the services.

Background: Maui Kokua Services

Maui Kokua Services was established in 1976 with primary funding from United Way to create the Information and Referral Center and Volunteer Service Bureau. The service goal was to develop and update an information and referral system for Maui County on all available

⁵ Mental Help Hawaii, Grant Request to Hawaii Community Foundation, page 1

community resources, follow up on referrals made, and recruit volunteers and assist in coordinating their efforts in the community. This was accomplished and Maui Kokua Services' HELPLINE was created.

Since its inception in 1976 and subsequent incorporation in 1980, Maui Kokua Services had grown and evolved to provide a spectrum of essential mental health services to the people of Maui County including the islands of Molokai and Lanai, linking those in need with those who could help. The specific programs offered to achieve this objective include the HELPLINE, crisis outreach, clinical mental health services, case management, community education and residential placement.⁶ With the resignation of the former Executive Director in 2000, Tom Vendetti, PhD. was appointed as the Executive Director of Maui Kokua Services. Tom was very much in favor of the merger, and helped to convince the board members that it was worth exploring. Since Maui Kokua Services was perceived as the smaller of the two organizations, the board was anxious about the potential loss of identity and loss of services on which it felt Maui County had come to depend.

Maui Kokua Services' Board of Directors was composed of twelve community members who represented the Island of Maui. Most of the members had served for a number of years, were deeply committed to mental health services and were very interested in MKS merging with Mental Help Hawaii. However, they were also concerned that the services for Maui remain at current levels. Their attitude was one of vigilance, with cautious optimism, and they were pursuing the merger because they knew that organizational funding for the future was an issue. The board wanted to expand the program to include some residential programs and transitional housing, but had been unsuccessful in acquiring the funds to expand, and saw Mental Help

⁶ Mental Help Hawaii, Ibid.

Hawaii's success in that area as a great benefit. The Executive Director encouraged the board to pursue a merger as the best solution for the organization.

Similarities and Differences in Program Services

Both organizations provided crisis intervention, stabilization, clinical support, case management and psychosocial rehabilitation, towards sustaining quality of life in the community for consumers. Mental Help Hawaii had focused mainly on acquiring and providing affordable, therapeutic community residences, and had only recently, in Kona, established a crisis stabilization service. Maui Kokua Services had focused on crisis intervention, and had been interested in adding transitional and supportive housing service to their array of programs. Maui Kokua Services provided staff training in crisis intervention to the Mental Help Hawaii Kona staff, and Mental Help Hawaii had offered consultation to Maui Kokua Services as they considered expansion to include housing.

Both organizations were accredited through the Rehabilitation Accreditation Commission and both provided care coordination services under a contract with HMSA – Community Care Services. The major differences between the organizations were that the focus of expertise for Maui Kokua Services was in clinical care and the focus of expertise for Mental Help Hawaii was in psychosocial rehabilitation and residential services. The organizations also served distinctly different geographical areas: Mental Help Hawaii provided services on Oahu and the Big Island, and Maui Kokua Services offered programs on Maui, Lanai and Molokai.

The Negotiations Process

The consultant conducted a feasibility study over a four-month period to determine if there was enough common ground to facilitate a merger of the two organizations. Separate meetings of the officers of Mental Help Hawaii and the board of Maui Kokua Services were held

to identify questions, concerns and a survey of attitudes toward the merger. The consultant used the templates provided in Thomas McLaughlin's publication⁷ on mergers for comparative analysis of various factors such as bylaws, finances, personnel policies, contracts, and to review and compare documents at the offices of both organizations. A comparison sheet "Merger at a Glance" (Appendix A) compares the major characteristics of the two organizations.

The consultant reviewed the contracts each agency had with funding agencies, to determine if there were any agreements that would prohibit the merger. Management staff discussed the prospect of merger with their funding sources, and the response was positive. The recommendation was to move forward with negotiating the merger, based on compatibility of mission, each organization coming to the table with complementary services, expertise and sound financial positions, and there being no impediments from funding sources.

The next phase of the merger process involved forging agreements on the name, the mission, and the governance structure of the merged organization. Core group representatives were appointed by the presidents of the two organizations, and included both board members and agency administrative staff. The Core Groups met separately and together, depending on the tasks in which they were engaged. The name and form of governance were central to the merger, and consequently, were also very sensitive to the board and staff. The consultant led discussions separately with each organization and when agreement was reached, submitted the final language of the agreement to both organizations for approval.

The full board of Mental Help Hawaii had delegated the negotiations to the Core Groups, but the members were kept informed throughout the process. Maui Kokua Services' board was smaller, and a greater percentage of the board was involved in the negotiations. A key to the

⁷ McLaughlin, Thomas A., Ibid.

success of the merger was that both chief executives had been in close communication throughout the process, and there was a significant amount of communication between staff counterparts, so some items that might have become issues were resolved “off-line” and didn’t have to come to a full group. The board members were not involved in the administrative aspects of the merger, being rightfully more concerned with “big-picture” matters than with the operational aspects.

Name and Mission

The new name of the organization was one of the first issues to be addressed, but it was debated right up to the last minute. Initially, each group confided that their name had always been a problem as people were not sure what “Kokua Services” were, and Mental Help Hawaii was always being pronounced as Mental Health Hawaii and being confused with the Mental Health Association. Several variations were floated, and both groups wanted to be sure that their former identity was included. When we thought an agreement had been reached in October, we moved forward, only to find in November that the agreement had not held. A new name, Mental Health Kokua, was chosen, and the group moved forward with forging a mission statement.

The mission of the new organization was hotly discussed in the core groups, and changed several times over a period of weeks. The thorough dissection of each word and diligent discussion of services, present and future, resulted finally, in a mission statement that all could adopt:

“All citizens should have the opportunity to live and participate in and contribute to their communities. Through specially designed services and settings, Mental Health Kokua helps those in Hawaii who are in mental distress, emotional crisis

or recovering from serious mental illness achieve their optimum level of recovery and ability to function in the community.”

Governance

A major issue of the negotiations was the governance structure of the new organization. Mental Health Hawaii, used to working with an Advisory Committee in East Hawaii, proposed Advisory Committee status for those board members who wanted to continue their participation with the new organization. Since Mental Help Hawaii would be contributing the majority of the financial assets of the new organization, the board thought that they were assuming the most risk, including financial responsibility, and therefore should be the decision-making entity.

The Maui Kokua Services board wanted to insure that there would be no cuts in services to the Maui consumer community and that Maui Kokua Services staff members' jobs were protected. To achieve that, they wanted representation on the new organization's board of directors, not Advisory Committee status only, as was the case in east Hawaii. An agreement was reached, and the Maui Kokua Services board of directors changed to an advisory board. New language in the bylaws provided for representation of no less than two persons on the board of directors from each county advisory committee. As a result, the Advisory Committee in east Hawaii also gained representation on the board of directors.

The final meetings of the Core Groups took place in November, and the final revisions to the agreement were made. At their November board meeting, the Maui Kokua Services board recognized that any agreement was a “good faith” document and that once they dissolved the organization into Mental Health Kokua, the new organization's board would have the power to do what they wanted, since they would be in the majority. They also agreed that the new board

would have the responsibility to change the agreement should it become organizationally necessary.

At the December meeting of Mental Help Hawaii, when the final decision was to be made, discussion of the new name came up again. A few board members expressed their dislike of the name, aired their concerns about the governance structure, and their desire to edit the mission statement. Others, who had been part of the Core group argued that these things had been discussed and decided and should not be rehashed. Finally, to break the impasse, a “preamble” to the merger agreement was drafted by one of the board members, an attorney. It stated:

“The following items reflect discussions of members of the Boards of Mental Help Hawaii (“MHH”) and Maui Kokua Services “MKS” prior to the merger of MHH and MKS. While future governing principles will be subject to change as circumstances may require for the best interests of the merged entity, the items below reflect the principles the two Boards believe appropriate to initially govern the merged entity.”

The agreement was adopted, and merger papers were filed with the Hawaii Department of Commerce and Consumer Affairs on January 1, 2001. The merger was legally complete, but the difficult task of creating the new organization was just beginning.

The View from Here - 2002

In March of 2002, board members and staff completed a post-merger survey of their attitudes towards the outcome of the merger. The results indicated an overall positive perception of the venture by both staff and board but there was a significant difference in board and staff members’ perceptions of the disruption caused in actual day-to-day operations by the merger. In response to the statement “The merger has caused serious day-to-day disruption in our services

and administration,” board members strongly disagreed while staff members were more toward the middle of the scale (1.9 for board and 3.4 for staff on a scale of 7).

Some of the troublesome issues were foreseen but not addressed before the merger, such as the fact that the two organizations were using two different operating systems (Macintosh and PC), and the accounting software was incompatible. Personnel policies and procedures had been reviewed by the consultant as part of the merger process and suggestions made for making changes, but (partly because the core group was intent on completing the merger by January 1 and partly because the leadership thought the issue was easily solved) the changes were not adopted before the merger, and all parties now agree that more attention should have been paid to them prior to merging.

Integrating staff has not been without its rough spots, not so much due to different agency cultures, as differing approaches to the details. The staff on Maui has had a challenge in adjusting to a central administration on O`ahu. The organization has grown so much that it has not been easy for everyone to get to know each other in a short time. By January 2002, staff size was well over a hundred, spread over several sites on O`ahu and neighbor islands.

With the merger has come growth. The annual operating budget for 2002 is in the \$4.5 million range, and is projected to be nearly \$8 million in 2003. Agency program development and capital acquisition continues, with expanded case management services, new vans, new service sites, and new transitional beds on Maui. Four housing units in Hilo have been purchased, a HUD house in Kona has been opened and a new transitional facility leased. Crisis counseling programs have been expanded to Hilo and Kauai as a result of the merger. The number of clients served has tripled, and board membership now includes both Maui and Big Island representatives.

On the horizon is a major capital campaign initiative; an opportunity to extend the agency services to Kauai, through an outreach to homeless mentally ill people program on the island; and the challenge of addressing “NIMBY-ism” (“Not In My Back Yard”) in Maui, as they acquire properties for residential treatment and transitional housing.

The success of the merger was based on a number of factors, according to Joanne Lundstrom, Executive Director of Mental Health Kokua. “It was successful in part because the agencies went into it with agreement on the process, an objective facilitator made a difference, and everyone was on the same page. There was an understanding from the very beginning that one organization would emerge as the operating agency.”

The staff leadership of the agencies liked each other, had worked together before and they recognized that each was coming from strength. The two organizations, although of different sizes and with different programs, were equals in their commitment to their clients, their abilities to build strong programs and their strong reputations in the community. The merger accomplished what the organizations set out to do – complement the clinical expertise of Maui Kokua services with the success in residential settings of Mental Help Hawaii, creating a new agency that benefited from both.

Mergers, collaborations, alliances, and partnerships: are we speaking the same language?

In response to economic pressures and strong encouragement from government, foundations and individual donors, there has been a proliferation of ways that nonprofit organizations cooperate to more effectively carry out their missions. From cooperation to merger, groups are choosing to leverage their effectiveness by joining forces. Although the for profit and nonprofit communities are both required to organize as corporations, 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 ways to create partnerships.

In researching the language of nonprofit collaboration, one encounters commonalities and differences in definitions among the scholars who are the most widely quoted in the field of nonprofit mergers: David La Piana (“Strategic Restructuring”) and Thomas McLaughlin (Nonprofit Mergers and Alliances, a Strategic Planning Guide). With respect to the actual term “merger,” La Piana and McLaughlin both agree that they involve a change in the corporate control structure.

In terms of the process of forming such a collaborative structure, La Piana uses the term “strategic restructuring” to describe a set of structures that involve more formal, written commitment than collaboration. The range of options is described on a continuum of autonomy and integration of the organizations.

La Piana defines integration as a “strategic restructuring that includes changes to corporate control and/or structure, including the creation and/or dissolution of one or more organizations.” For example, two organizations merge, with one being dissolved into the surviving entity, or both being dissolved into a new corporate entity. This phrase has caught the imagination of many, as nonprofit organizations seek to be more strategic in their thinking and

operational planning. Integration can be negatively viewed as giving up control, or it can be positively viewed as creating a more cohesive organization. However, when there is a high degree of integration, there is usually a surrender of autonomy or control to one entity.

In 1999, Hawaii nonprofit consultant Dan Watanabe wrote a report for the Hawaii Community Foundation on nonprofit mergers, consolidations and alliances and their potential for Hawaii. He included in it three basic definitions:

Mergers: two independent organizations decide to head in a common direction, one entity is dissolved, and the other survives.

Consolidations: both organizations are dissolved and a new third organization is created into which the assets and programs of both are poured.

Strategic alliances take on many forms, one of which may be useful to examine more fully is the development of a management service organization which several nonprofits contract with for a variety of services (from back room operations, to marketing, to actual program delivery). Programmatic collaborations and partnerships can be seen as forms of strategic alliances. The partnering organizations continue to exist in these scenarios.

Watanabe surveyed a number of organizations in Hawaii who had engaged in or explored a variety of collaborative efforts and found many interesting and creative examples of strategic alliances, but no consolidations and only one true merger (where one organization was dissolved). His definitions are included in the table below, along with a comparison of some of those of La Piana and McLaughlin. The order of the descriptions is based on level of integration necessary for each.

Description	Integration Level	LaPiana	McLaughlin	Watanabe
One (or more) independent organization is (are) dissolved into another organization (only one survives)	High	Merger	Merger	Merger
Two or more independent organizations are dissolved into new organization	High	Merger	Merger	Consolidation
Two or more independent organizations create a new organization for some administrative or programmatic functions	Medium	Management Services Organization or Joint Venture	Alliance	Strategic alliance
One independent organization (subsidiary) is managed by another (parent), which, through a bylaws change, is either the sole member of the subsidiary organization's board, or the subsidiary organization's bylaw	Medium	Parent-subsidiary	Management Company	Management Service Organization (Strategic alliance)
2 or more organizations share or contract for services in a formalized way for economies of scale (all retain independence)	Low	Administrative consolidation	Alliance	Management Service Organization (Strategic alliance)
2 or more independent organizations collaborate on programming	Low	Joint programming	Alliance	Strategic alliance

Mergers or consolidations are usually considered permanent relationships as the dissolved organization relinquishes its IRS tax-exempt status. They are often highly integrated relationships, and generally require a good deal of forethought and pre-planning. As organizations are encouraged to engage in exploration of possibilities for collaboration, it may be intimidating to discuss such a permanent relationship at the outset, much as it would be premature for a couple to discuss their possible marriage on a first or second date.

Suggested Glossary

Below are listed some suggestions for discussion purposes, in order of (least to most) permanency and integration.

Collaboration: Planning and jointly undertaking an activity with responsibility and accountability shared equally as appropriate (arts festival, public service announcements, joint purchasing).

Alliance: A group of organizations loosely organized around an issue or concern for purposes of addressing the issue either on a long-term or short-term basis with a shared leadership (coalition or network).

Partnership: More formal relationship for purposes of program delivery or contracting; roles and responsibilities should be part of a written agreement (collaborative grant funding, memorandum of understanding).

Management Company: Contractual relationship where the management company controls prescribed functions (such as accounting, purchasing, human resources, etc.) and the contractor autonomously operates programs.

Merger or Consolidation: Permanent relationship where two or more independent organizations are legally joined and only one survives (merger) or all participating organizations are dissolved into a new organization (consolidation).

Legal Registration

The Hawaii Department of Commerce and Consumer Affairs (HDCCA), the agency that regulates corporations (both nonprofit and for profit) does not formally recognize categories except mergers or consolidations for joining of entities. Therefore, only reconfigurations that

require a name change, the surrender of a 501(c) (3) corporate designation or the creation of a new corporate designation have to be registered with the HDCCA.

Discussion of the Merger Process

Mergers, like most good relationships, develop over a period of time. There are at least three stages in the developmental process of a merger. David La Piana defines them as the negotiation phase (from intent to decision), the implementation phase (from decision to legal reality), and the integration phase (making the organizations into one).

The negotiation stage, when the organizations are exploring the feasibility of the merger, determines whether there is compatibility, checking out each other's programs and finances, and deciding whether or not to merge. The negotiation stage ends when there is a decision to merge or not to merge. (It should be noted that many mergers are not achieved for a variety of reasons, and hopefully there will be no hard feelings between the parties if the merger is not concluded. After all, they may still be working in collaboration). Participants in the merger discussions should feel comfortable about calling the negotiations off if they encounter an obstacle that they cannot overcome.

Once the decision is made to merge, the implementation stage begins, attorneys prepare documents, there is full disclosure of assets and liabilities, stakeholders are notified, and this stage ends when the legal papers are filed. The final phase, Integration, is the one that is the most complex and time-consuming as the two organizations are blended into one. Planning for integration is essential, and can be started as soon as the decision to merge is made, even before the legal reality of the merger.

One could compare the phases of a merger to courtship and marriage in our western culture: dating can be compared to the negotiation stage, the engagement through the actual wedding can be compared to the implementation stage, and integration is like the rest of their lives!

The Negotiations stage of the merger process is like dating, where the partners spend time together and get to know each other, build trust and find out if they have enough in common before they commit to a lifetime together. can be assisted by an independent consultant or facilitator, and by a task force of board (and, where appropriate, staff) from each potential partner. This stage The organizations may want to use an independent consultant to check out issues such as the financial condition of both organizations, the status of required returns to the IRS, funders, if the withholding taxes have been paid, and what the status is of any debts or judgments against the organization. The issue that most often derails a merger is deciding who will be the chief executive of the organization, and it should be addressed very early on in the Negotiations stage.

The Implementation stage, where the legal documents are drafted, is similar to an engagement, when the family secrets get revealed and the “pre-nuptial agreement” is drafted. Name, mission, and governance structure, are decided, and other issues that should be resolved in this stage are personnel policies, disparities in salaries, and MIS issues like incompatible computer operating systems, upgrade requirements and costs, software preferences (it is surprising how attached to WordPerfect people are when faced with having to use Microsoft Word or vice versa!), fiscal year end dates if they are different, and accounting systems compatibility. Deciding when the merger should take effect is important to closing the books for each organization, and contracts may need to be aligned as well. In this stage, the merger agreement to be filed is drafted.

Finally, the Integration stage, after the merger is legally accomplished, is the longest. There is a honeymoon period, and then reality sets in – the day-to-day realities of working together may take some adjustment on the part of both parties. Toothpaste tubes and

housekeeping habits can be compared to word-processing formats and supervisory expectations, and are often based on “how we used to do it.” Integration depends on many complex factors such as geographic proximity, blending of organizational cultures, and the commitment of leadership to make it a planning priority, rather than expecting it to “just happen.” By the time the legal merger has been accomplished, all of the serious concerns should have been addressed.

Predicting Successful Mergers

To identify the factors that are most important to the success of a merger, 15 people were interviewed, all of whom had played key roles in a merger or other type of strategic restructuring,⁸ whether they proved to be successful or not (sometimes there is more to be learned from failure than from success). Their answers to the questions posed provide some insight to the factors that influence the success or failure of mergers and collaborations.

What factors were most important to the merger's success or lack of success?

- **Compatibility** – Most critical to success seemed to be compatibility of mission purpose, and values, followed by compatible cultures (“how we do things” - is one board more risk-taking or more conservative in its decision-making than another? Does one group perceive itself as “grass-roots” and the other “corporate?”). The integration of staff and board is easier if there is good communication between the two organizations. The groups that seemed best able to weather the inevitable rough waters of merging were those that had had some experience working together prior to the merger.
- **Process** – Development of a clear but speedy process for managing the merger was an important factor for success. Having an outside, independent facilitator with experience who keeps everyone on the same page and keeps the process moving fast enough that it doesn't bog down in the details, but not so fast that key decisions are bypassed. Going in to the merger with “eyes open” was important, and feeling that with due diligence (investigating the finances, compliance issues and grants management) so there would be no nasty surprises down the road helped to put the negotiators at ease.
- **Merger of Equals** – The fact that each organization comes from a position of strength, not necessarily of size or budget, but of competence and position of respect in the

community made a difference in the success of the mergers. If one group is weaker or is in trouble, it tends to enter the negotiations “one down,” and may not feel able to negotiate the best possible agreement in the merger. That can lead to feelings of victimization or resentment in the future, with successful integration much less likely.

- **Trust and openness** – Several respondents cited sensitivity to the feelings of the group, and making sure everyone feels “heard,” and helping to establish trust between the two organizations. Taking the time to get to know each other in work and play settings contributed to a feeling of collegiality and trust.

Were program outcomes the motivation for merging, or was economics the driving force?

- Economics and the economies of scale that could be realized by merging were the motivation for many of the organizations that have pioneered mergers in Hawaii. Sharing similar customers or clients and markets, although providing different services provide a motivation to eliminate competition for funds and achieve the economies of coordination of services.
- Growth of the organization was cited as a factor by two organizations, and the diversification of their services. The merger partner provided a service that was a good fit in completing the package of program offerings, or would be a compatible co-tenant to maximize the use of shared space.
- Similarities in mission, purpose and programs were motivators for some organization, but without doubt, economics were not far behind.

⁸ As Dan Watanabe found, not all of what organizations are calling mergers are “legal” mergers, i.e., where one organization was dissolved.

What conditions created a favorable environment for merger or collaboration?

- Having champions on the board of directors and in senior staff to advocate for the merger. These individuals could help the larger group work through a rough spot or get over a perceived obstacle.
- Not having to eliminate any staff through the merger helped to gain cooperation. Either not having an executive director, having a vacancy in the position, or the current holder not wishing to continue in the position helped to eliminate a major impediment.
- Although funding cutbacks would not seem to be favorable, several organizations cited them as a reason for exploration of mergers and collaborations, and the need to be creative in the search for resources.

If you could do something different, what would it be?

- We went into the merger with some information, but not all that we would need. We needed human resources expertise, accounting assistance in merging the two systems, and MIS assistance to align two different operating systems. We would budget about \$50,000 more for these services.
- Resolve the pay equity issues early in the negotiations, create job descriptions so that everyone knows up front what their new position will be; we are still dealing with that issue 5 years later.
- Address the governance structure very early before the merger, perhaps use another model for merging (other than parent-subsidary or management company), so that the lines of authority are clear. Give the board more responsibility for fundraising for their programs.
- Be firmer in my decision-making (from a board president), not second-guessing myself about whether everyone was in agreement.

What advice would you give to other organizations considering a merger?

- Plan carefully – it's almost always essential to bring in someone experienced from the outside to facilitate, someone who is sensitive to people's biases, fears and agendas, but who is also perceived by both parties to be objective. Develop an operating plan for the process – setting out when and how it is going to happen and who is making the decisions. Particular attention should be paid to creating the post-merger board, and who will be on it. In implementing the plan for the merger, do it with openness and create a continual feedback loop, and as soon as possible, update or create a new strategic plan.
- If it is planned well and the mesh between the two organizations is good, then it should be successful. There is a lot of paperwork, so don't be daunted by that. The major issue is integrating the cultures. A merger offers major opportunities for efficiencies that couldn't be realized otherwise.
- Think it through – is it part of your organization's overall plan, or is it a move of desperation? If the latter, think about it again! Be fully committed and aware of the benefits because people will challenge you on it, but not so committed that you are locked in, and not open to opportunities or information you had not considered before.
- Understand your mission – have clarity of vision and values.
- Be open to your partner, establish a sense of trust and develop common goals.
- Keep focused on the objective so you don't get caught in the little stuff, the usual office politics stuff and will be exacerbated by the merger. Understand it will be a roller coaster, and don't despair.
- Three things: communicate, communicate, communicate!

Lessons Learned

To summarize, some of the lessons learned from the two case studies of recent mergers in Hawaii and interviews with key participants in other Hawaii mergers over the last few years are:

- **Compatible missions, values and organizational cultures offer the best chance for success.** If one organization sees itself as informal, spontaneous and “outside the box thinkers” while the other sees itself as traditional, detail-oriented planners and “playing by the rules,” there may be serious incompatibility problems.
- **The merger should be between equals.** Equals doesn't have to mean equal in size of budget or number of staff, but equal in the feeling that each organization could merge or not merge, and retain its self-confidence and the respect of the community. If one partner feels, or is perceived to be, less equal than the other, that partner may feel that it is at a disadvantage in the process. Two weak organizations do not make a strong organization!
- **Know your partner organization.** If you haven't worked with them before, find out who they have worked with and talk to them, explore the things you have in common, ask lots of questions and if you are not satisfied with the answers, ask some more.
- **All merger partners should give themselves permission to call a halt to the process** if they feel uncomfortable or reach an insurmountable obstacle to the negotiations - better to keep a good neighbor than end up with a bad partner.
- **Use an objective, experienced outside facilitator to help plan and manage the process.** Someone who has no vested interest in whether the organizations merge or not, someone who can be sensitive to, and work to uncover, the underlying fears, concerns, hopes, etc. of the parties, and tactfully help address them. An outside facilitator can also

keep the process on track, without being distracted by the day-to-day operation of the organization.

- **Communicate openly and honestly with each other** – take “educated” risks, be open to new ideas, try to listen with both heart and mind, put aside assumptions and unrealistic or unshared expectations.
- **Budget for the unexpected.** Be sure that there is a fund to cover unexpected expenses, like the cost of new software, or severance pay for employees who may not choose to be part of the new organization.
- **Don’ t be discouraged by negative reactions from board or staff.** Keep focused on the increased outcomes and benefits of the merger for your clients and your community. Most people initially react negatively to change, and fear the unknown. Invite them in, keep them informed, and recognize that it will be a “roller coaster ride,” as one veteran put it.

Appendix: Merger at a Glance (McLaughlin)

Official Name	Maui Kokua Services	Mental Help Hawaii
Tax Status	501(c)(3)	501(c)(3)
Mission	...Offers assistance to all community members who are in emotional distress. We are committed to developing and maintaining programs in response to community mental health needs. Maui Kokua Services achieves this through the 24-hour HELPLINE, crisis intervention, clinical mental health services, case management, residential programs, fiscal administration, and community education.	...to provide residential facilities and social rehabilitation services to meet the physical, social and psychological needs of persons recovering from severe mental illnesses and to assist them to achieve their optimal level of independent living.
Multi-Corporate Structure?	No	Yes
Size of Current Board (Minimum/Maximum)	12 (7/21)	17 (6/24)
Geographic Service Areas (Cities, Towns, etc.)	Maui County (Maui, Moloka`i, Lana`i)	Oahu, Island of Hawai`i
Types of Services	Crisis outreach, residential crisis shelter, 24 hour counseling, case management, community education, sexual assault counseling, substance abuse counseling	Transitional and supportive housing and services, residential crisis shelter, social rehabilitation, homeless outreach, case management, community education and respite care
Number of Programs (does not count sites but distinguishable program services)	7: (HelpLine, Crisis Outreach, Outpatient Therapy, Case Management, Public Education, Sexual Abuse and Assault, and Substance Abuse Recovery)	5: (Transitional housing, with on-site staff, Supportive Housing with part-time staff on call 24 hours, Homeless Shelter and Services, Case Management, and Respite Services)
Total Revenue FY99-99	\$1,599,699	\$2,616,369

Official Name	Maui Kokua Services	Mental Help Hawaii
Major Funding Sources	Governmental Sources (88%), Program fees, (8%), United Way (2%)	Governmental Sources (66%), Provider fees (13%), Program fees (12%), United Way (3%)
Total Assets	\$249,891	\$2,207,200
Profitability (18/12)*	-2% (\$-24,696/\$1,599,699)	-7% (\$-176,762/\$2,616,369)
Number of Employees	41	48
Percentage of Fundraising Revenues (1a/12)*	1% \$12,500/\$1,599,699)	4% (\$92,919/\$2,616,369)
Overhead Percentage (44C/44A)*	14% (\$225,144/\$1,624,395)	8% (\$199,672/\$2,589,721)

*All numbers refer to lines on IRS 990 Return

Figure 4. Merger at a Glance. (c) 1998 John Wiley & Sons, Inc., *Nonprofit Mergers and Alliances: A Strategic Planning Guide*.

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Organizational Resources

Jean T. Conger
J/C Consulting Group
83 Wahelani Street
Kula HI 96790
808-876-1205
jcconsultinggrp@aol.com
Elliot Pagliaccio

Merger Management
The Rensselaerville Institute – TRI
690 Saratoga Road –PMB#130
Burnt Hills, NY 12027
518-377-1567
www.tricampus.org

David La Piana
La Piana Associates
510-655-3455
www.lapiana.org