



Transcript of KnowledgePlex Live Chat

Guests: Ellen Lazar, Neighborhood Reinvestment Corporation
Rachel Bratt, Tufts University

Moderator: Carol Wayman, National Congress for Community Economic Development

Date: October 24, 2002, 2pm – 3pm EDT

Sohini Sarkar

Hello and good afternoon. I am Sohini Sarkar with the Fannie Mae Foundation. On behalf of the Foundation, I would like to welcome you to today's Knowledgeplex chat on *CDC Mergers: Current Trends and Future Implications*. I would also like to introduce and welcome our guests, Ellen Lazar, executive director of the Neighborhood Reinvestment Corporation and Rachel Bratt, professor at the Department of Urban and Environmental Policy and Planning at Tufts University. Both have extensive experience about CDC mergers, from both micro and macro perspectives. I would also like to introduce Carol Wayman, director of Policy, Research Development and Advocacy at the National Congress for Community Economic Development, who played a key role not only in helping us put the chat together, but she also agreed to serve as the moderator for this session. Last, but not least, I would like to acknowledge Lynsey Wood from Neighborhood Reinvestment, who will be working with Ellen on today's chat. Now I will let our moderator, Carol Wayman, take us from here...

Carol Wayman

Welcome to this discussion of a critical organizational capacity issue for the community development field: the impact of merging community development corporations on their communities. We appreciate The Fannie Mae Foundation for hosting this discussion on strategies that best serve our communities.

Rachel Bratt

Hello from Rachel Bratt

Ellen Lazar

Welcome everyone, we are delighted to be here today.

Carol Wayman

Please send your questions in, I will be reviewing and posting them throughout the discussion.

MHL

Are groups really merging or is this more of a theoretical discussion?

AmyB

Research indicates a growing pressure on nonprofits to merge. What is truly the scope of the phenomenon? Is it national in scope or contained to certain specific regional and political contexts?

harold

There is pressure on nonprofits to merge. What is truly the scope of this phenomenon?

Ellen Lazar

Several of the NeighborWorks organizations are merging. In fact, we have detailed the experiences of one, Neighborhood Housing Services of Greater Nassau, in a recent handbook online.

Rachel Bratt

Groups are definitely merging. In the research I recently completed for the Fannie Mae Foundation we found a number of instances of mergers. I studied two in depth, in Portland, Oregon and Cleveland, Ohio.

John Blat

We have had some real mergers here. We have had some slow failures that turned into mergers or more accurately, asset acquisitions. I think we will see more of it here.

cdbg_rocks

What are some of the benefits of mergers?

Rachel Bratt

Mergers can create larger, stronger, more diverse organizations that better meet the needs of the community.

Maude C

What are the key controversies/challenges of merging?

Ellen Lazar

There are some key challenges – especially concerns about the impact a potential clash of organizational cultures have when CDCs (organizations) with different work cultures merge. How can one navigate such tensions? Concerns about potential clashes over issues like race, ethnicity, and gender when organizations are merged are also important. How can we best handle these issues? There is a serious concern that organizations led by African Americans, Asian Pacific Islanders, Native Americans, and Latinos are targeted for mergers with white-led organizations. According to the Committee for Responsive Philanthropy, organizations led by minorities receive significantly less support from corporate and private grant-makers. Could this pressure on nonprofits to merge be a way to decrease the influence of minority-led organizations? There are also concerns that groups are being co-opted into accepting inadequate resources and doing more with less.

totco1

Many groups are being threatened with mergers, due to geographical size or a misperception that they are not quantitatively productive.

Joan Straussman

How do funders view mergers?

Ellen Lazar

Funders in some communities are encouraging mergers. Neighborhood Reinvestment, as a major funder, is encouraging mergers, where appropriate.

Rachel Bratt

Funders in general should not push groups to merge. It is best, based on my research, for funders to help guide organizations, but for organizations to lead the merger itself. An organization will probably be most likely to succeed if it grows organically from the organizations themselves.

kim cutcher

Are these forced mergers?

Rachel Bratt

Kim, I believe that in some cases mergers are probably being pushed a bit too hard by funders. I don't exactly want to use the word "forced", since I did not observe that in my case studies.

harold

What are some of the specific conditions under which an organization (especially CDCs) should consider merging?

Ellen Lazar

i. Challenges to organizational capacity. ii. Financial insolvency or a great deal of financial difficulty. iii. When an organization has not been able to adequately meet the needs of its community or complete deals over a period of a few years. iv. Opportunity reasons.

zhangyan

How do you decide which nonprofits should merge and which should not? At what level should such decisions be made?

Rachel Bratt

Yan, for the most part, the organizations themselves should make the decision to merge. The board, staff, and the community should do this at large, in consultation with the local community development support community.

Ellen Lazar

Yan, the organizations themselves, with the board and executive staff leadership, should decide when a merger is appropriate. Although intermediaries may be involved, the impetus should be at the local level.

Joan Straussman

Are there any examples of mergers where the communities themselves, the customers, and the beneficiaries have been a part of the merger process?

Ellen Lazar

In the NeighborWorks network, over 50 percent of the board is composed of residents. Since the board makes key decisions around mergers, clearly the residents are involved.

Colette Thayer

What indicates that a merger has been successful?

Ellen Lazar

Colette, there are no clear performance measures. For experience from a successful NeighborWorks Organization, visit Neighborhood Reinvestment's web site and read about the merger that led to the Neighborhood Housing Services of Greater Nashua, in New Hampshire:

<http://www.nw.org/network/pubsAndMedia/publications/commDevResources/merger.html>

Rachel Bratt

Colette, to the best of my knowledge, no good performance studies have been conducted yet. However, some potential measures are community perceptions of organizational strength, ability of organizations to get resources and do development work. Also important is the general morale among staff and the sense in the community that the new organization is doing well.

Maude C

What are some alternative models/interim steps to mergers?

Ellen Lazar

Organizations can work together on joint venture projects and sharing space, staff and resources. For example, the Massachusetts Association of CDCs has operated the CDC Community Business Network (CBN) since 1997. It is collaborative of 10 community development corporations that provide small business technical assistance, access to capital, financing, and training entrepreneurs in Boston's neighborhoods. The network collaborates among the organizations and arranges the sharing of staff.

Rachel Bratt

Maude, there are a number of interim steps. First, it is a good idea for groups to work together on projects in order to develop trust among themselves. Second, groups will want to work with an organizational consultant assigned to each group.

AmyB

What types of factors are important in leading organizations to consider merging? Is it largely a funding issue?

Ellen Lazar

Amy, one of the experiences that we've had has been around succession planning for executive directors. Mergers often provide a great vehicle for establishing new leadership.

Rachel Bratt

Amy, factors to consider include the number of groups in an area and the extent of the competition for resources. CDCs also need to look at the market dynamics of their community: are fewer deals feasible due to a lack of property or resources? Also, will a merger allow the organization to

develop a more coherent community development strategy? Then there are financial concerns to consider.

zhangyan

Have you looked at the similarities and differences between mergers of for-profit entities and mergers of nonprofits?

Ellen Lazar

A lot of the steps that organizations have to take are very similar. For example: dividing the process into manageable phases, hiring outside facilitator(s), performing due diligence, etc.

cdbg_rocks

How do you go about re-involving a board member whose position is eliminated due to a merger?

Rachel Bratt

This is a tough issue. The hope is that the boards will be involved in all the discussions and that, hopefully, most of those who want to continue participating will be able to do so, even if their role is informal.

totco1

Rachel, I agree with that statement.

Ellen Lazar

What you want to have is a meeting of the minds between the two boards, which includes resolving human resource issues.

cdbg_rocks

What impact might CDC mergers have on stability/sustainability of organizations?

Rachel Bratt

Hopefully, a merger will strengthen the capacity of the group to do community development work. I saw this in Cleveland very clearly.

Ellen Lazar

In our experience, it had a very positive effect on sustainability.

- i. Groups that merged have reported savings based on economies of scale and increased efficiency.
- ii. Larger groups can be more visible and benefit from increased exposure.
- iii. Larger organizations tend to have higher staff quality (retention) because they offer better salaries and benefits.
- iv. Broadening the range as well as depth of services. A group can offer all the services that it used to take two organizations to provide. This can result in stronger organizations better situated to address regional issues, through getting rid of typical problems.
- v. Can help weaker organizations get back on track.

Mergers might function more as acquisitions, with a stronger organization taking on the staff, target area, and mission of a struggling organization due to financial insolvency or poor senior leadership. This may occur when an organization has not been able to adequately meet the needs of its community or complete deals over a period of time.

Kathleen

What is your opinion of a merger between a CDC that do housing and economic development and a community organization that does social services - both targeting the same areas?

Joan Straussman

Do you know of any examples where the merger has been between a non-profit that does primarily housing and one that provides other services, rather than the merging of two organizations with similar programmatic focus?

Rachel Bratt

In the merger that I studied in Cleveland, there was a merger of a housing development group and another group whose work was primarily focused on economic development. This appears to have worked well. I do not know of any mergers with social service providers.

Ellen Lazar

Most NeighborWorks organization mergers have been between housing groups. Often these mergers broaden their geographic area.

zhangyan

What are the pre-conditions for CDCs to pursue a merger? What are the risks associated with a pre-matured merger?

Rachel Bratt

CDCs need to do strategic planning, assess competition, availability of resources, as well as market changes in their area.

Ellen Lazar

I think that the biggest risk is bad feelings between the boards, which can make a prospective merger in the future impossible. They really need to take their time to examine the positive and negative possible effects.

Sohini Sarkar

Are there any “best practices” guidelines available to CDCs that are contemplating mergers?

Ellen Lazar

Check out Neighborhood Reinvestment's web site for a good example and best practices for nonprofit mergers at <http://www.nw.org/network/pubsAndMedia/publications/commDevResources/merger.htm>

Rachel Bratt

Concerning best practices, I have not seen that specifically. But in the report that I just completed, and that will be published soon, there are two detailed case studies of mergers, along with lessons learned.

harold

Is it safe to assume that there is a threshold for the number/size of CDCs that a region can support?

Rachel Bratt

Harold, there is no fixed number. But markets change and the CDCs working in that area need to be aware of how the number of groups is impacting their ability to do development.

Ellen Lazar

Harold, I really don't think there is a specific number. Some areas can support a lot of activity, while others get saturated after awhile.

Maude C

In my experience, the pressure to merge has often been political. What is the best way to address that?

totco1

Many CDCs are not purely bricks-and- mortar organizations. Often they may be the only groups that are fostering community activism. Is it possible that in such cases they are perceived as a threat and thereby “de-funded” or forced to merge?

Ellen Lazar

Again, those putting on pressure for a merger need to work closely with the Board. The Board needs to ensure that there is a meeting of the minds with all community stakeholders.

Rachel Bratt

Maude, funders should not push CDCs to merge too hard. A merger really should come from the organizations themselves. Funders should not be forcing mergers. I doubt that such an approach would prove workable over the long term.

cdbg_rocks

Are you aware of any organizations that merged, but then realized it wasn't working out and split up again?

Rachel Bratt

I am not aware of any such groups. Does anyone have experience with that?

Ellen Lazar

I am not aware of any that have merged and then split up. We have had some initial discussions that did not result in a merger due to conflicts.

Sohini Sarkar

Do you think mergers will increase the efficiency of the community development industry in the long run? Or, are we blindly following a for-profit strategy without customizing it to the specific needs of the nonprofit world?

Rachel Bratt

I believe that a merger is healthy when it is clearly in the best interests of the community, as well as the organizations. The fact that stronger organizations likely emerge from the merger will have positive impacts on the CDC industry.

Ellen Lazar

I think mergers will increase the long-term sustainability of the CDC field. The three that I have seen, in St. Louis, San Diego, and Orange County, have increased the resources, both human and financial, for the community in the long run. It permits greater scope of activity.

zhangyan

How big a role did the market play in these recent mergers?

Rachel Bratt

To the extent that market pressures are, in some areas, creating fewer housing development opportunities, CDCs may need to diversify their activities, and a merger may be the best way to do that.

cdbg_rocks

You mentioned before that there is no set number of organizations that can be supported. Do you think that the market determines that?

Rachel Bratt

To a certain extent, yes. If there are too many groups, too few resources, and not enough development opportunities, the market is obviously a critical factor.

Sohini Sarkar

Do you have any thoughts about the succession issue in CDC mergers? Any ideas on how best to deal with such issues?

Ellen Lazar

We've found that mergers provide an opportunity for organizations to manage some of their human resource challenges, including succession planning for executive directors.

Sohini Sarkar

How do you get foundations to ally with CDCs in considering a merger - not necessarily requiring it, but supporting the discussion?

Rachel Bratt

Talk, talk, and more talk. Also, funders can help in terms of making funding and technical assistance available to groups that want to consider that.

Ellen Lazar

Neighborhood Reinvestment has put substantial grant money and technical assistance into facilitating mergers. We have not required mergers, but have supported locally based decisions.

Carol Wayman

How long should grant-makers be involved in supporting the new organization?

Ellen Lazar

Forever! Organizations need long-term, core operating support.

Rachel Bratt

Funders should make sure that they continue funding the newly merged group at the same level that the separate organizations received, for at least one year. After that, the new group will continue to need support for the long-term, but hopefully at a somewhat lower level than the two separate groups.

Sohini Sarkar

What, if any, should be considered as an appropriate exit strategy?

Ellen Lazar

Organizations should maximize their ability to create sustainable resources for the organization. Be that as it may, most of these organizations will continue to need philanthropic dollars.

john nelson

Do you have any experiences with CDCs/CDFIs that have collaborated by combining assets in such a way as to gain access to the capital markets?

Ellen Lazar

Yes, in San Diego. An inner-city housing group merged with a group that has done farm-worker housing. Together, the whole is greater than the sum of their parts, and provides a wide range of housing possibilities that attract the capital markets.

cdbg_rocks

In the cases that you studied, did the funders simply combine the funds that they were previously giving to each CDC for the new organization, or did they give a lesser amount, but more than either CDC had gotten previously?

Rachel Bratt

The funders kept the funding at the pre-merger level for the first year, then after that the amount decreased, taking into account that there were lower overhead costs. I believe the amount was more than either had received.

Ellen Lazar

In our experience, the organizations have had opportunities to increase their resources as a result of the merger.

john nelson

What are the models for mergers that have resulted in the "new" CDC being able to do especially high level (i.e.: large capitalization) deals?

Rachel Bratt

John, I don't have any specific information on that. But I would bet that could/will happen.

Ellen Lazar

It is interesting. Some of the mergers have resulted in much more sophisticated deals. By expanding their tool chest (from homeownership to include multi-family and revitalization, for example), they are able to develop more complex projects.

Kim Cutcher

How long does the process take?

Rachel Bratt

Based on my two case studies, a merger is likely to take several years, possibly with some twists along the way.

Ellen Lazar

The process could take a while -- a year to a couple of years. During the merger process, the organization needs to continue its business. With external facilitation, a merger can be rendered more manageable.

Kathleen

Does it make sense for a city to get together and discuss how best to work with the CDCs and other sub-recipients on how best to serve the population? Or should the neighborhoods themselves lead the discussion on how they would like to be served?

Rachel Bratt

It is always a good idea for the city to become involved and to work with the CDCs. It is also fine for the residents themselves to lead such discussions. Both are appropriate strategies.

Carol Wayman

What is the role of city and state CDC associations in pursuing management options, including mergers?

Rachel Bratt

There are a number of city and state support organizations for CDCs. These are absolutely critical in supporting the work of CDCs. Both Massachusetts at the state level and Cleveland at the city level have really strong support groups. Cities and states should encourage the formation of such groups.

zhangyan

Have the community members been involved in these processes?

Ellen Lazar

NeighborWorks organizations are composed of residents. Therefore, they are involved in the process along the way.

John Bruno (UECDC-QLLC)

CDCs generally are criticized for lacking a clear vision and purpose. The concept of merger would seem to have the potential to cloud this vision even more. What are your thoughts?

Rachel Bratt

John, I think if the merged organization is clear about its mission, there should not be any difficulties in this regard.

Kathleen

Will funders see merged organizations as more viable and be more willing to fund, assuming core competencies?

Rachel Bratt

Kathleen, hopefully, yes. But I want to underscore that many groups that are merging may also have strong capacities. A merger may or may not involve a group facing difficulties.

Carol Wayman

Are there other ways to broaden the scope and achieve economies of scale besides mergers?

Rachel Bratt

CDCs, whether or not they merge, need to assess whether they can broaden their mission and diversify into other areas. I do not know if this would amount to an economy of scale, however.

Ellen Lazar

Many organizations that we work with have broadened their scope by expanding their service area beyond neighborhoods to metropolitan and regional areas, and some have expanded into the entire state.

MHL

What are some resources for groups that are considering mergers?

Ellen Lazar

Some key resources for mergers are *Strategic Restructuring*, Chapin Hall Center for Children, University of Chicago, 1999. *Merging Nonprofit Organizations: The Art and Science of the Deal*, by John A. Yankey, Barbara Wester Jacobus and Kelly McNally Koney, Mandel Center for Nonprofit Organizations, 2001.

Joan Straussman

Is there a list of materials/documents an organization that is considering merging with another should have from the other organization to help guide its decision?

Carol Wayman

The National Congress for Community Economic Development at www.ncced.org and National Community Capital Association at www.ncca.org can help with that.

cdbg_rocks

So, are we going to wake up one morning and find that all CDCs have merged into one *uber* organization, a la Time-Warner-AOL-Nabisco?

Rachel Bratt

I really, really doubt that. And that would certainly not be the goal of the CDC industry.

Ellen Lazar

One would hope not. We hope organizations continue to maintain their local authenticity and commitment to their communities.

Carol Wayman

We are going to end this on-line chat now. Thanks to all of you for your questions. We hope this was useful for you. Thank you Rachel Bratt and Ellen Lazar for sharing your thoughts. Finally, I would like to thank the Fannie Mae Foundation for hosting this session.