

CONSIDERING NONPROFIT MERGERS & ALLIANCES

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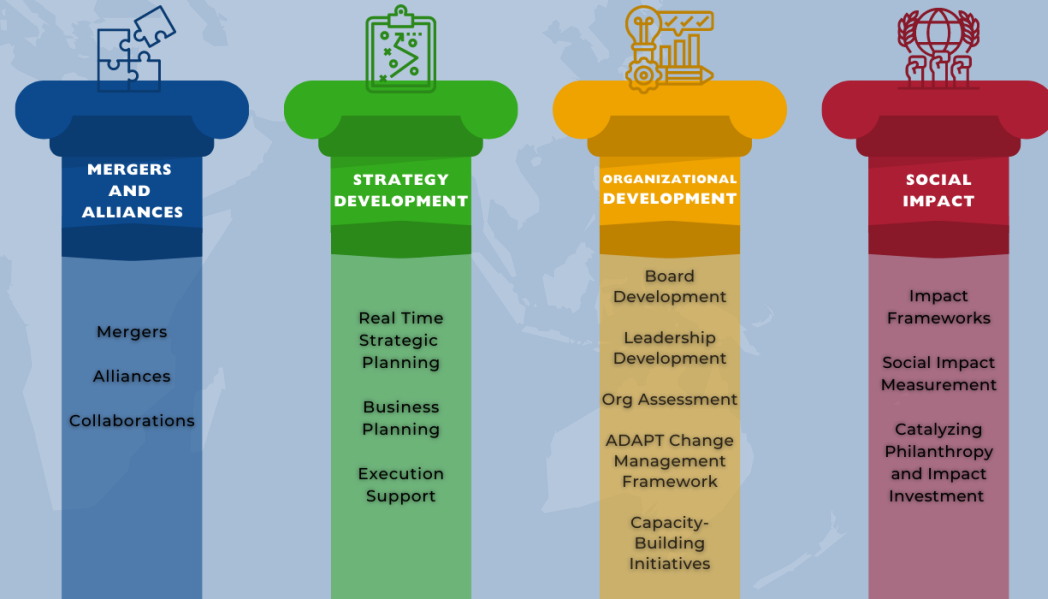
Who We Are

La Piana Consulting is a national firm serving the social sector since 1998.

We partner with nonprofits and philanthropy to develop and deliver customized solutions.

We work in four areas:

- Mergers and Alliances
- Strategic Planning
- Organizational Development
- Social Impact Investment



What Exactly is Nonprofit M&A?

- At La Piana Consulting, Nonprofit M&A refers to **Mergers and Alliances**: Strategic partnerships that **change the business model** of two or more organizations
- Nonprofit M&A goes beyond short-term collaboration and typically includes a legal agreement, though there often is no exchange of money
- Options include nonprofit organizations owning for-profit subsidiaries

The Multiplier Effect

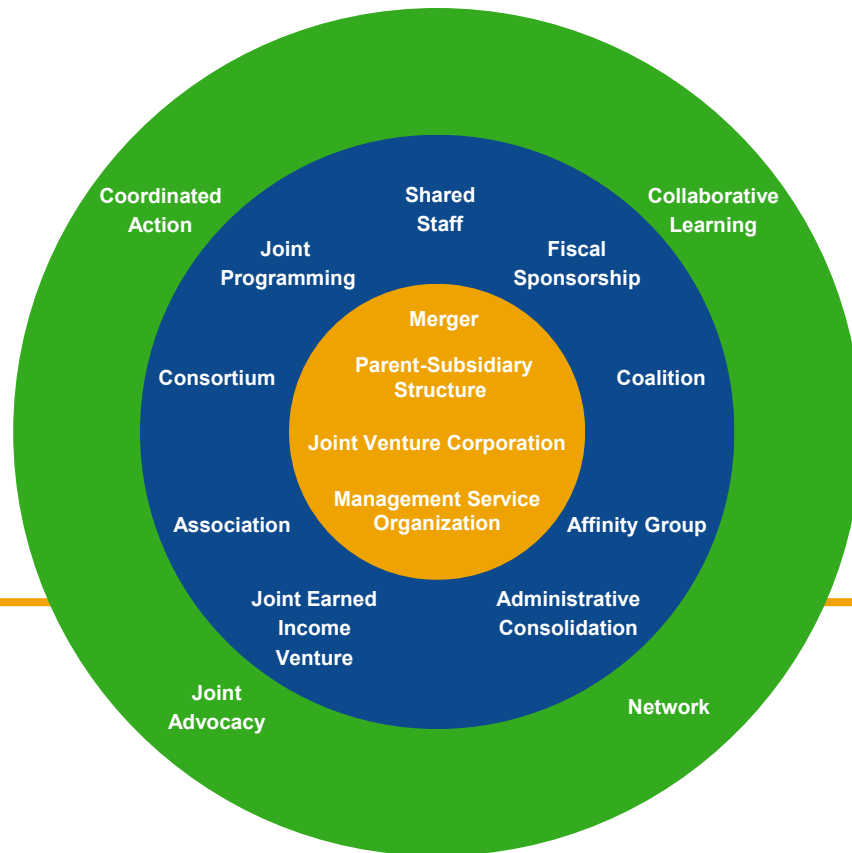
Collaboration enhances the capacity of organizations to achieve a common purpose.

Commitment to “mission impact,” not a particular organizational structure, frees up creative exploration of how to achieve this.



The Collaborative Map

- Collaboration
- Alliance
- Strategic Restructuring



Nonprofit Organizations Motivations for Encouraging Partnerships



Form Follows Function

What is the goal to be achieved?



What can be done together that cannot be done separately?



What is the right level of collaboration?

Clarifying Mergers

- Mergers are common but raise many questions since most organizations don't commonly undertake them
- A merger creates one unified organization, with fully combined governance, operations, finances, identity, and accountability.
- Successful mergers require strong alignment in mission, populations served, and long-term goals
- Mergers can exist between 2 or more organizations
- The word acquisition can be part of a merger process but in reality, you can't "purchase" another nonprofit
- But, even without being an "acquisition," mergers often involve asymmetry since one organization may be larger, stronger financially, or more operationally mature
- Technical part of a merger can include the terms acquisition and dissolution around merger



Going Beyond Mergers

As mentioned, mergers are common, but you can also take some actions without a full merger...

- Combine specific skills and expertise,
- Consolidate administrative and program areas
- Enhance service offerings or expand reach
- Eliminate redundant administrative or programmatic activities...

Strategic Restructuring beyond mergers may be right for you, as such goals are often well served by highly integrated and permanent partnerships.

Parent- Subsidiary
Structure

Joint Venture
Corporation

Asset Transfer

Management Services
Organization

Shared Services & Back-End Office Sharing

Definition: Collaborative arrangements where multiple nonprofits share administrative functions or physical resources to reduce costs and improve efficiency

What is typically shared?

- Human Resources (recruitment, benefits administration, staff)
- Finance & Accounting
- IT Support & Technology Platforms
- Marketing & Communications
- Office Space, Equipment & Facilities

Why do organizations take this approach?

- Cost Savings
- Access to Expertise
- Efficiency & Standardization
- Capacity Building
- Collaboration & Innovation

For-Profit v. Nonprofit M&A

- Has owners who base business decisions on a financial bottom-line.
- Can use financial incentives to encourage an “acquisition”.
- May create efficiencies through staff reductions.
- Process revolves primarily around due diligence (lawyers, financial analysts, and accountants analyze the transaction).



**For Profit
Organizations**

- Has a volunteer board whose role is to uphold the public trust– it must base decisions on mission impact and alignment with shared values.
- Grounded in mission and advanced by trusting relationships between leaders.
- Partnership may be more about positioning for growth than eliminating redundancies.
- Often must first determine whether there is alignment of vision, mission and values before committing funds to due diligence



**Nonprofit
Organizations**

M&A Myths and Misconceptions

1. Ending negotiations without a decision to joint forces is failure
2. M&A is the result of financial crisis or poor management
3. M&A means losing your identity and your history
4. M&A must have a winner and loser
5. Funders will reduce support if two or more grantees combine
6. M&A is about saving money



- **Warning:** Mergers work best when both organizations are on firm financial footing. Being in a situation of financial precarity limits the success of a potential merger and puts the organization that is not in a strong financial footing in a difficult negotiation position.



The Merger Process in a Nutshell

1

Assessment

Goal: Learn about your potential merger partner to assess fit

- Mission fit & strategic alignment
- Financial due diligence
- Geography and reach
- Culture fit
- Staffing and unionization
- Funder mapping
- Stakeholder perceptions
- Risk tolerance

2

Negotiation

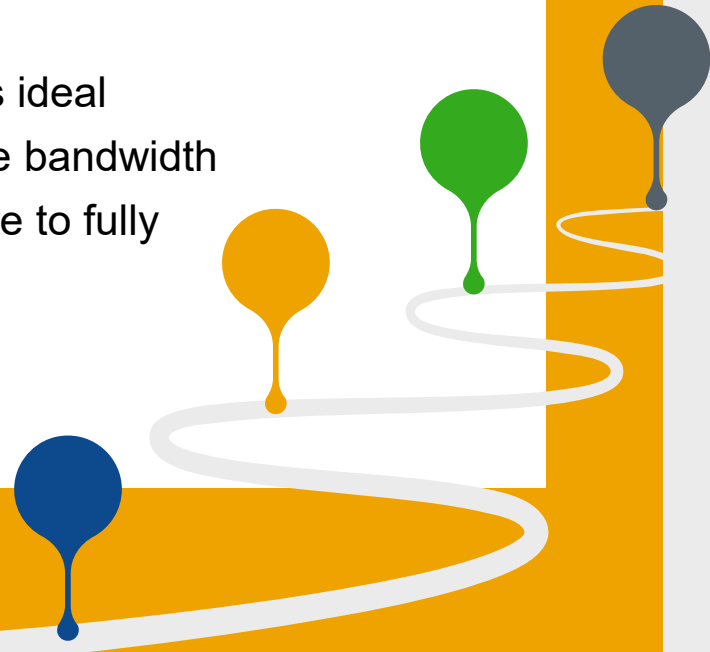
Goal: Confirm agreement on how the legacy organizations will be integrated

- Governance structure
- Organizational leadership
- Org & Legal structure
- Programmatic offerings
- Decision-making and bylaws
- Compensation structures and HR policies
- Cultural integration approach
- Facilities and tech integration
- Branding and communications

Navigating an M&A Process

Timeline:

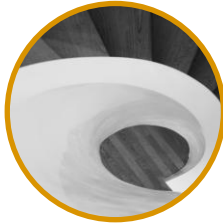
- Assessment can take **1-12 months**
- If no time pressure, **3-6 months** for **negotiation** is ideal
- Timeline depends on priority issues and committee bandwidth
- After agreement, it can take **12-18 months** or more to fully operationalize the integration
- True cultural integration may take additional time



Potential Outcomes to Consider



Status Quo
plus business
model change



Spin-Off
("sell-off")
Assets &
Continue



Merger or
Other Form of
Strategic
Restructuring



Dissolve &
(maybe spin
off)



A
Combination
of Factors

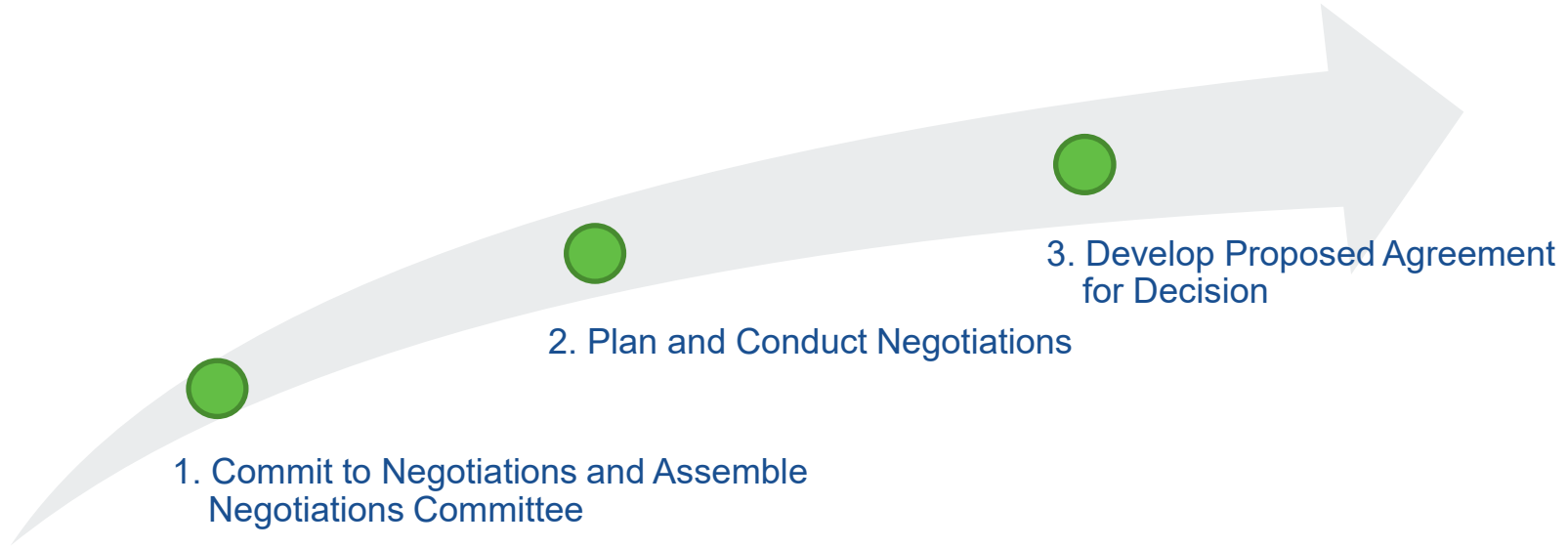


M&A Success Factors



Negotiations = Planning

The negotiation process gives potential partner organizations the opportunity to envision, in detail, how they might operate in a strategic partnership or merger



M&A Resources Needed



Negotiations:

- Third-party consultant to facilitate assessment and negotiations
- Support for financial and legal due diligence
- Legal support (attorneys) to finalize draft legal agreements, submissions to regulators, board resolutions, bylaws

Integration Planning & Execution:



- Support for board, leadership, and cultural integration
- IT support to integrate systems / data
- HR / Legal support to integrate staff
- Marketing / Communications /Branding support
- Consulting support for strategic planning for the combined organization

Ok, I'm interested. Where do I start?

Taking the first steps

1. Clarify your reasons for wanting to explore a partnership
2. Identify the strongest partner(s) for what you want to achieve
3. Reach out to the leader of the organization to gauge interest
4. Share basic information on each organization
5. If there is agreement, have each organization form a formal committee and begin formal discussions



Mergers **do not fail** because organizational leaders can't integrate their financial systems or IT...



Mergers **can fail** because people tend to hold onto their individual cultures and identity rather than create a new organization.

Resources



Merger and Alliance Toolkit

Blogs on mergers, lessons, and trends

Case Studies highlighting real-world examples

Additional Reading for deeper learning

La Piana
DRIVING SOCIAL IMPACT since 1998