MANAGING

Governance and Regulation

From Mergers That Didn't Stick, Lessons Emerge for Other Charities

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Mergers that fail can be like marriages that go sour; in both cases, communication is key.

TIPS FOR MAKING MERGERS GO SMOOTHLY

- Make sure the problems a merger is intended to fix are fixable.
- Anticipate supporters' questions.
- Assess early what each group would gain—and lose—by joining forces.
- Keep expectations realistic.

NEW YORK

IF THERE WAS A HONEYMOON after the merger of Long Island College Hospital, in Brooklyn, with Continuum Health Partners, in New York in 1998, few remember it. The bickering began early and dragged on for years, but divorce didn't seem inevitable until the doctors went public.

Several physicians told a crowd gathered outside the hospital's entrance in 2008 that Continuum had withheld money from the 150-year-old institution, needlessly cutting patient services and endangering the hospital's future.

The wrangling continued for three more years. Continuum threatened to declare Long Island College Hospital bankrupt. A group of the hospital's physicians complained to state regulators that Continuum had breached state health-care laws. Continuum denied this, and the state health department found no evidence to support the allegations.

Unable to make peace, Continuum this spring sold Long Island College Hospital to SUNY Downstate Medical Center, a state hospital in Brooklyn.

The former partnership "was not a well-conceived marriage," says Continuum's chief executive, Stanley Brezenoff.

The Long Island-Continuum debacle was one of the nastier failures among nonprofit mergers but hardly an isolated case. The most spectacular breakup happened before the marriage. In March the proposed partnership of Operation Smile and rival Smile Train dissolved weeks after the two international charities, which both perform surgeries for facial deformities, announced that they would merge.

Good Intentions

Since the economy went sour, the popularity of partnerships and takeovers has been on the rise. Some groups hope to save on operating expenses by joining with nonprofits that share similar goals. Some boards believe they will ensure their charities' future by eliminating a rivalry for limited resources within a community. Sometimes grant makers encourage charities to team up to avoid duplicating services or costs.

But sometimes, good intentions aren't enough to cement a partnership. Charities that have been through failed mergers say getting hitched should proceed cautiously or they will end up in divorce.

Weeks after the Long Island College Hospital breakup, some physicians blamed the former hospital directors for not anticipating problems. "The [former] board should have protected themselves and LICH better," says Toomas Sorra, a gastroenterologist and past president of the Long Island hospital's medical staff.

Mr. Brezenoff, of Continuum, said the merger might have faced long odds from the start: "The weight of the financial problems, the structural difficulties, were beyond our ability to fix."

He also blames uncooperative doctors. "There was no basic acceptance of goodwill on our part, and they brought no goodwill," says Mr. Brezenoff. "That I believe is why that one failed."

Best-Laid Plans

Every nonprofit alliance carries the potential to fail, say several executives, including some who have attempted several mergers.

Even with detailed planning and agreeable boards, mergers are tough to pull off because human beings are invested in the well being of their organizations. It's not easy for anyone to hear that the leadership, the goals, or a beloved service he or she has spent years building are no longer valued.

> *"Often in a merger, the process moves quickly, and it's difficult to disseminate communications that quickly."*

What's more, mergers cost money. The path to trimming overhead and workers can take time, sometimes after hiring consultants to negotiate agreements. Dissatisfied donors may withhold gifts.

The recession has caused some executive directors to halt merger plans for fear that the costs would be too high. Of course, disentangling two charities from each other costs money, too.

"The real problem with mergers is they are almost always predicated on the goal of efficiency and economy, and the reason we have nonprofits does not rest on efficiency and economy," says Peter Frumkin, director of the RGK Center for Philanthropy and Community Service at the University of Texas at Austin. Instead, he says, charities are about devotion to a cause or mission.

Anticipating Questions

Many charities took a more sober view of mergers after the shotgun marriage, and quickie divorce, of two high-profile charities got national attention.

For years, two groups that perform cleft-lip and cleft-palate surgeries on needy children worldwide, Operation Smile and Smile Train, had been bitter rivals, competing for each other's donors and overseas partners. They share similar goals but approach the work differently. Operation Smile, in Norfolk, Va., teams with some doctors overseas but also flies them worldwide to provide medical services. Smile Train, in New York, teaches and equips local doctors in countries such as India and China to perform surgeries.

Three weeks after the proposed venture—to be called Operation Smile Train—was announced, the two boards called off the arrangement.

In those few weeks, Smile Train's supporters had balked. Medical personnel spoke out against the move.

One donor set up an online petition asking the attorney general of New York to stop the merger. Draft documents leaked to the press alarmed donors who feared that money would be squandered. Some donors were sent e-mail messages, using a list stolen from Smile Train, says Priscilla Ma, Smile Train's executive director. (Opponents of the merger did not return *The Chronicle*'s calls seeking comment.)

Both boards decided the best plan was to forgo the merger. "Too much time was spent addressing questions from donors," Ms. Ma says. "Perhaps there could have been better planning" to explain the proposed union to donors and medical personnel who assist the charity.

Keeping all sides informed is important but hard to do, says Howard J. Unger, Operation Smile's chief executive.

"When a major transition is occurring—such as a proposed merger—it is critical to communicate the organization's direction to all parties," Mr. Unger says. "But that takes time, and often in a merger, the process moves quickly, and it's difficult to disseminate communications that quickly."

Last-Minute Change

The time and expense of prepping for a merger might be reduced if board members first consider what a partnership could accomplish, say charity leaders.

Case in point: Family Eldercare, in Austin, Tex., decided in 2009 to begin the process of merging with Meals on Wheels and More, which had plenty of space in its new Austin headquarters. Executives now admit it wasn't a perfect match. Family Eldercare focused on personal care for homebound clients, while Meals on Wheels fed them. The groups hired a consultant to lead the merger discussions. Employees sought

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