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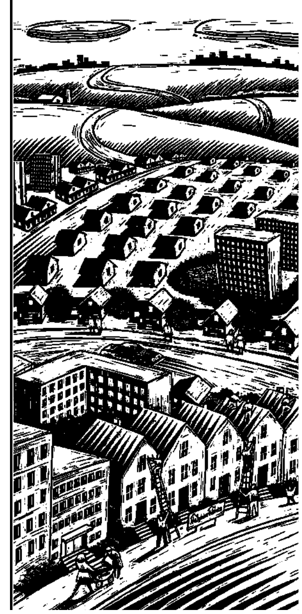
Bridging the Organizational Divide

The Making of a Nonprofit Merger

John Emmeus Davis



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The Rise of Nonprofit Collaboration

Nonprofit, community-based housing development organizations have only recently become significant players in the provision of affordable housing, at least in the United States. Historically, this job was left either in the hands of builders, developers, lenders and landlords of the business sector or in the care of agencies, planners and policymakers of the public sector. Only in the past 30 years has the provision of affordable housing moved beyond the familiar domains of the market and the state. A host of nonprofit organizations is now playing a larger role in constructing new housing, rehabilitating older housing, managing rentals and bringing home ownership within the reach of thousands of people for whom the American dream has proved elusive.

The growth of these third-sector organizations has been both rapid and impressive, but it also has been uneven. Across the country, there are places where nonprofit housing development organizations are both plentiful and productive, supported by sophisticated networks of interorganizational collaboration, public funding, private financing and technical assistance. There are many other communities, however, where no nonprofits are engaged in affordable housing or where the ones that do exist are very new or very small, accounting for only a handful of new housing units every year.

Lying between these two extremes are those communities where multiple nonprofits of varying size serve a similar geographic area, each producing a modest but respectable number of housing units; each competing for constituents, funding and development opportunities; each struggling to survive. The organizations that find themselves in this uncomfortable situation often confront a special set of challenges. They are productive, but not prolific. They are effective, but not efficient. They are successful, but not sustainable. Indeed, they are frequently quite precarious. The loss of a single staff person, the delay of a single project or the adverse decision of a single funder can threaten not only their short-term chances for success, but their long-term prospects for survival.

Those who sponsor and fund such organizations sometimes find themselves in a situation where competition among multiple nonprofits is weakening them all. In these cases, the sponsoring and funding organizations have taken different tacks to address this problem. In some cases, they have acted to strengthen every nonprofit, while working to increase the division of labor or the division of territory among them. In other cases, they have acted to strengthen one (or more) nonprofit at the expense of the others, culling weaker performers from the herd.

While these have been the most common approaches for dealing with the weaknesses that organizational competition and duplication can sometimes create, a third alternative has been gaining ground. Multiple nonprofits, operating within the same jurisdiction, are being encouraged to collaborate – even to the point of merging their programs, assets and hard-won identities.

Why is collaboration gaining in popularity? A financial explanation would be that it is becoming harder to find enough resources to strengthen every nonprofit to the same degree, funding multiple nonprofits to serve a similar clientele in the same locale. There is also the political reality that public and private funders find it difficult to choose easily (or accurately) which nonprofits should live – and which should die. There is a practical explanation as well. Collaboration is becoming a strategy of choice simply because it is proving to be an unusually effective way of achieving greater productivity, efficiency and sustainability. When a collaborative (or a merger) is carefully crafted, the nonprofit partners do a better job together than they did apart.

This is not true in every case, of course.

Collaboration is not always the best way to address the weaknesses that can arise from multiple nonprofits serving the same locale and competing for the same resources. Merger is not always the best way to craft a collaboration. (The urge to merge can, in fact, blind the most well-intentioned funders and leaders of nonprofit organizations to considering other, perhaps better, ways of joining nonprofit corporations together.) Even when collaboration –

or, for that matter, a corporate merger – seems the best choice in a particular situation, it does not always succeed. The form, funds or staff of the collaborative may prove inadequate. Unanticipated problems, inherited from one or more of the participating (or merging) organizations, may jeopardize the partnership. Or collaboration may fail because the commitment of the partners was half-hearted from the start or because the spirit of cooperation that drew them together evaporates.

Beyond such obvious and general conclusions about the success, or failure, of nonprofit collaborations, little can be said with certainty about the ingredients for a successful collaboration – especially among housing development organizations. These affordable housing collaborations are too recent and too few to know precisely what does and does not work. They are too varied in form and function to apply too quickly the lessons learned from one case to another.

Nevertheless, it can be said with some confidence that the seeds for success (or failure) are probably sown quite early. What happens during the process of exploring, negotiating and joining together the merger organizations will determine to a large degree how well they will work together, how long they will stay together, and how effectively and efficiently they will use the resources made available to them during their time together. Admittedly, a good process is insufficient by itself to guarantee the success of a planned collaboration. It is, however, a necessary condition – and a solid foundation – for all that follows.

What makes a good process? What has to happen in the early days of exploring, planning and implementing an affordable housing collaboration if it is to have a good chance of succeeding – and enduring?

The recent merger of two nonprofit housing development corporations in Nashua, New Hampshire, provides an opportunity to answer questions like these, at least in a preliminary fashion. The process of completing the merger of French Hill Neighborhood Housing Services (FHNHS) and the Greater Nashua Housing and Development Foundation (GNHDF), which were combined to form Neighborhood Housing Services of Greater Nashua, consumed nearly a year and a half. The merger was candidly discussed. It was expertly planned. It was carefully executed. It was respectfully monitored and generously supported by outside funders, including the Neighborhood Reinvestment Corporation, which paid for the handful of consultants who helped make this merger happen.

It may be too soon to proclaim the product of this process a complete success. This judgment depends on whether gains in productivity, efficiency and sustainability eventually result from the consolidated organization that was created. But it is not premature to suggest that the process itself succeeded. It did what it was supposed to do, while meeting most of the expectations of those who designed it, funded it and contributed numerous hours of their own time toward making the merger happen.

Working as well as it did, there may be lessons in this process of organizational matchmaking for other communities considering nonprofit mergers of their own. Nashua is worth a second look, therefore, examining what was done to bring FHNHS and GNHDF together and reflecting on what went right, and what went wrong, in making this merger a reality. ■

Creating the Conditions for Collaboration

Nashua is located in southern New Hampshire, 10 miles from the Massachusetts border. Although small by comparison with the nearby cities of Manchester and Boston, Nashua is the second largest city in the state, with a population of 85,000. Forty years ago, the city had about half as many residents. Most of the population growth has occurred since 1980, when many Massachusetts residents began moving across the border to avoid paying state income and sales taxes. Nashua offered other attractions as well: housing more affordable than any in Massachusetts, safe neighborhoods, pleasant surroundings, and a downtown that was undergoing reinvestment and revitalization. In 1997, *Money* magazine named Nashua one of the best places to live in the United States.

The population boom of the 1980s, while welcomed by the city's boosters, had an adverse impact on lower-income residents seeking housing they could afford, either to purchase or to rent. The price of housing spiraled higher every year. Home ownership moved out of reach, even for moderate-income households. In the rental market, vacancies moved downward; rents moved upward.

Although all of Nashua's neighborhoods experienced this upward pressure on housing prices, those with higher concentrations of poverty felt it most keenly. Two in particular, the French Hill neighborhood and the Tree Streets neighborhood, saw housing prices increase rapidly in the early 1980s without any improvement in housing conditions. Both of these dense, residential neighborhoods contained many dilapidated buildings, vacant lots and substandard apartments. Property changed hands in these neighborhoods and rents went up, but little was invested in the revitalization of the housing stock.

Two nonprofit housing development organizations were founded in Nashua during the late 1980s to tackle these problems. They were very similar organizations. Each was engaged in the provision of affordable housing. Each was committed to neighborhood revitalization as an integral part of their housing work. Each was funded from the same pots of federal, state and municipal money, along with whatever private contributions they could attract in a given year.

There were also differences. The firstborn of these Nashua nonprofits, the Greater Nashua Housing and Development Foundation (GNHDF), was established in 1988. Its founders and directors were members of municipal government, the public housing authority, the business and banking community, and social services organizations who had grown increasingly concerned about the lack of affordable rental housing, worsening conditions and rising crime in the neighborhoods closest to Nashua's downtown. GNHDF was created to work on all of these problems.

Operating initially out of offices provided by Nashua's public housing authority, GNHDF later relocated to a former school building in the Tree Streets neighborhood, sharing space with the city's community-policing program. With a tiny staff made up of an executive director and a part-time administrative assistant, GNHDF got off to a slow start, developing only 27 units between 1988 and 1997. At first, its efforts were scattered throughout the city. By the mid-1990s, however, GNHDF began concentrating on the Tree Streets neighborhood, constructing affordable rental housing and partnering with the Police Athletic League to run after-school programs for the neighborhood's children.

Nashua's other nonprofit housing developer, French Hill Neighborhood Housing Services (FHNHS), was incorporated in 1991. It received a NeighborWorks® charter soon after. Its target area, French Hill, lay on the opposite side of the central business district from the Tree Streets neighborhood. From the very start, FHNHS was distinguished from GNHDF less by geography, however, than by structure and program.

Unlike GNHDF, which was governed by a self-perpetuating board, FHNHS was a membership organization with a majority of its board drawn from, and elected by, its members. Most of the members were residents of the French Hill neighborhood. Unlike GNHDF, moreover, FHNHS was focused not on developing rental housing but on rehabilitating owner-occupied housing and expanding home ownership within its target area. Three different programs were established to meet these goals.

- Home-improvement loan program, providing low-interest loans to eligible homeowners in French Hill to rehabilitate their homes;
- Home-ownership program, providing homebuyer counseling services and down-payment assistance to first-time homebuyers; and
- Purchase, rehab and resell program, in which problem properties were acquired by FHNHS and resold to qualified homebuyers.

An in-house revolving loan fund, with an initial capitalization of $40,000 from the Neighborhood Reinvestment Corporation, was established to support all three programs.

FHNHS, like Nashua's other nonprofit housing agency, started out slowly. Not until 1993 did it have its three-person staff in place and its first two programs up and running. During the next four years, FHNHS helped a dozen families buy homes in the French Hill neighborhood by providing down-payment assistance; another two dozen homeowners received home-improvement loans. FHNHS's most productive program, however, was its purchase, rehab and resale program, which began in 1994. Between 1994 and 1997, 112 problem properties were placed in the hands of owner-occupants with FHNHS's help.

Although both organizations were well-established by the mid-1990s and both were having an impact on improving conditions in their target neighborhoods, these were small-scale operations. Their capacity was limited. Their productivity was modest. Yet, at the time, this was not unusual in New Hampshire. Most of the state's nonprofit housing developers had only a few staff members. (See Appendix K.) Most were "key-person operations," where the loss of a single individual could threaten the organization's survival. Most of the state's nonprofit developers, moreover, had produced fewer than a hundred units of affordable housing. In Nashua, and elsewhere around the state, these tended to be small-scale, in-fill projects that were large enough to put an organization at financial risk if unsuccessful, but too small to provide a significant financial return if the project succeeded.

What was unusual about FHNHS and GNHDF, when compared with the rest of the state's nonprofit housing organizations, however, was the fact that both existed, side-by-side, in the same city. A unique characteristic – and strength – of New Hampshire's nonprofit housing delivery system by the mid-1990s was the geographic labor division that existed among the state's dozen nonprofits. There was neither functional nor territorial overlap among multiple nonprofits competing for the same projects, constituents and funds – except in Nashua. Only in Nashua did two nonprofit housing development organizations ply their trade in neighborhoods less than two miles apart. Only there did two nonprofits directly compete for public and private dollars to support their projects and operations. Only there did competition result, on occasion, in conflict.

By 1997, relations between the executive directors of FHNHS and GNHDF were quite strained. Tensions were growing within the two nonprofits as well. GNHDF had dozens of new units in development, taxing the capacity of what was essentially a one-person staff. At FHNHS, by contrast, productivity was beginning to fall. A three-person staff was putting fewer units into production than their one-person competitor across town.

None of this escaped the attention of the organizations' colleagues and funders, who grew increasingly concerned about GNHDF's capacity, FHNHS's productivity and an interorganizational rivalry that was taking on the appearance of a personal feud. Among the tight circle of housing professionals engaged in funding and producing affordable housing in New Hampshire, there were confidential discussions about the duplication of services in Nashua and a quiet, growing worry that two organizations could simply not be sustained over the long haul.

These concerns prompted a key funder for both organizations to consider whether the time had come, by 1997, to stop supporting two organizations in Nashua. The Housing Futures Fund (HFF) had been established three years earlier under the auspices of the New Hampshire Charitable Foundation to provide operating support for the state's fledgling network of nonprofit housing organizations. FHNHS and GNHDF were two of the 12 organizations that regularly received such support. HFF's advisory committee had abided by a hands-off policy, electing not to interfere with the internal operations of its grantees, as long as money was being well spent and affordable housing was being produced. Nevertheless, when FHNHS and GNHDF submitted their 1997 grant requests, several of the committee's members questioned the desirability of continuing to support two nonprofit housing development organizations in Nashua, when every other region had one.

Nike Speltz, a foundation official who staffed the HFF, was asked to pay a visit to Nashua and to assess whether it still made sense to support both FHNHS and GNHDF. Speltz asked Mike LaFontaine to join her in this on-site assessment. He staffed the New Hampshire Affordable Housing Network, which had been established about the same time as, and received most of its funding from, the HFF.

Since much of LaFontaine's work had involved evaluating members' training needs and, in several cases, helping ailing members to recover or to merge with stronger partners, he was a logical choice. Moreover, all of the state's nonprofit housing organizations (including those in Nashua) regarded both of them as even-handed allies who would not favor one organization over the other, nor attempt to substitute their own priorities for those of the network's members.

Speltz and LaFontaine visited FHNHS and GNHDF in mid-1997. After looking closely at each organization and at the political environment in which they worked, they reported back to the HFF advisory committee that the status quo should be maintained, at least for the present. In their opinion, having two nonprofit housing organizations in Nashua, the state's second-largest city, was not unreasonable. They operated in separate neighborhoods. They did different kinds of development, for the most part. They both had their own political constituencies, inside and outside of municipal government, who supported their activities. Both were achieving a modest-but-acceptable level of housing production. It was too bad that FHNHS's productivity was not higher; it was regrettable that GNHDF's staff capacity was not greater; and it was downright troubling that ongoing tensions between the two organizations occasionally bubbled into public view. But neither Speltz nor LaFontaine were prepared to recommend that HFF funding be used to nudge FHNHS and GNHDF closer together. Until something changed, the time was not ripe for preaching cooperation, let alone proposing a merger between the two organizations. The advisory committee accepted this wait-and-see advice and released the annual operating funds for FHNHS and GNHDF that had been put on hold.

Rather soon, something did change. During the year that followed, Neighborhood Reinvestment began to raise questions about FHNHS's falling productivity, and FHNHS's own board of directors began to raise questions about the director's performance. In particular, the board's newly elected president, Debbie Miller, voiced her concern that the organization did not seem to measure up to other members of the NeighborWorks® network, a shortcoming she had noticed while attending out-of-state training programs.

In the fall of 1998, the director for FHNHS finally resigned. He had been regarded by many outside observers as having been not only the principal reason for the organization's poor productivity but also the principal antagonist in the strained relations with GNHDF. Consequently, his departure prompted many people to begin wondering whether it might now be possible to heal the rift between the two organizations. Others went even further, speculating whether the time might have finally arrived to begin considering a FHNHS/GNHDF merger. Nobody outside of the two organizations wanted to speak prematurely or to act precipitously, however, in pushing this possibility. Nobody wanted to squander what seemed to be a golden opportunity for cooperation or consolidation by antagonizing the staff or boards of two very independent organizations.

For a short while after the director's departure, therefore, everybody stood respectfully on the sidelines, holding their breath, hoping that someone might take the lead in bringing these organizations together. They did not have long to wait. ■

Assessing the Potential for Collaboration

It was Debbie Miller, the new president of the FHNHS board, who took the first tentative step. A couple of months after the departure of her organization's director, she arranged a meeting with Bridgett Beldon-Jette, GNHDF's director, to ask about the chances of FHNHS and GNHDF working more closely together – perhaps even merging.

Encouraged by Beldon-Jette's favorable response, she then approached Nike Speltz and Mike LaFontaine to request their assistance in convening a meeting to discuss this possibility. She understood that a neutral party would be needed to host such a meeting, so she turned to two people who she believed both organizations knew and trusted.

They moved quickly, gathering together a small group of people from FHNHS and GNHDF in February 1999. The expectations for this meeting were modest, at least in the minds of Speltz and LaFontaine. They hoped merely to begin a dialogue that might reduce the tensions between the two organizations and engender a desire to explore some sort of future collaboration. They discovered, however, somewhat to their surprise, that none of the individuals invited to this first meeting had any antagonism toward the organization that had long been competing, and fighting, with their own. The past conflict had occurred at the level of the executive directors. Very little had filtered through to either board.

As a result, the board members who attended this first meeting arrived with no scars from earlier battles. They carried no emotional baggage predisposing them to regard their counterparts from the other board with suspicion or disfavor. Even more surprising, they arrived at this meeting predisposed toward collaboration. To say that they had already "merged in their minds," as one participant later claimed, is probably an exaggeration. Yet it was obvious to all attendees that merger was more than merely one option among many for drawing the organizations closer together. It was the preferred option of most of the people who were there.

It was decided that another meeting should be held to discuss this possibility. A conscious effort was made to broaden participation, bringing key people from each organization into the discussion: three members of the GNHDF board were invited, along with GNHDF's executive director. Representing FHNHS were Debbie Miller and three other board members. Also invited were three representatives from the Neighborhood Reinvestment Corporation: LaRayne Hebert, field representative for the New Hampshire affiliates (including FHNHS); Nelson Merced, the newly named director for Neighborhood Reinvestment's district office in Boston; and Ken Wade, the soon-to-leave district director. LaFontaine and Speltz rounded out the list of attendees.

This meeting was held on March 16, 1999. It was assumed, from the start, that a merger of FHNHS and GNHDF was worth pursuing. That is not to say that anyone knew what form a merger of these two organizations might take, nor that everyone was entirely convinced that the interests of all parties could actually be met through a merger. Indeed, at a key point during the discussion, a senior member of the FHNHS board questioned the assumption that consolidating the functions of the two organizations must necessarily entail eliminating the distinctions between them. She asked, "Couldn't some way be found to preserve the identities of the two organizations?"

Her question was answered with two others. What functions were distinct to each organization, and what aspects of each organization's identity should be preserved? The representatives from GNHDF described their primary function as developing affordable rental housing. What was unique about their organizational identity, they stressed, was the geographic commitment to Nashua's Tree Streets neighborhood and the programmatic commitment to the permanent affordability of any housing they developed.

FHNHS, for its part, stressed its commitment to home ownership for low-income people and the active participation of residents from its target neighborhood, French Hill. They extolled the advantages, as well, of being a NeighborWorks® affiliate. This raised another question: Would Neighborhood Reinvestment Corporation support a merger of FHNHS and GNHDF and, if one could be accomplished, would the new organization be granted a NeighborWorks® charter?

Neighborhood Reinvestment representatives made a presentation describing the NeighborWorks® network and the membership requirements. They noted that several nonprofit mergers had occurred in New England in recent years, some of them involving NeighborWorks® network members. The most recent was Manchester Neighborhood Housing Services in nearby Manchester, New Hampshire.

Neighborhood Reinvestment representatives stated that they would support any efforts to merge FHNHS and GNHDF, including paying for someone to help facilitate discussion among the parties.

The Corporation's district director, Ken Wade, mentioned the name of John Davis, a consultant who had just completed the merger of two nonprofits in central Vermont, one of them a Neighborhood Housing Services organization similar to FHNHS.

The Corporation's representatives were quick to caution, however, that there was no guarantee that the organization resulting from the merger of FHNHS and GNHDF would meet the guidelines for NeighborWorks® affiliation. There was no precedent, moreover, for a charter being transferred. Just because FHNHS was a NeighborWorks® network member did not guarantee that a postmerger successor would be one.

Despite these words of warning, though, the representatives were quite encouraging. They conveyed support for a possible merger, described the standards a postmerger organization would have to meet to qualify for membership in the NeighborWorks® network, and then stepped respectfully into the background. They made it clear – by their words and, later, by their actions – that Neighborhood Reinvestment would not attempt to dictate either the pace of the merger process or the form and content of whatever organizational products might emerge from it.

One final issue was raised before the meeting adjourned. The director of the Nashua Housing Authority, who was attending in his role as an ex-officio member of the GNHDF board, suggested there might be an opportunity here to expand the geographic area served by Nashua's nonprofits. He warned that the pool of eligible, creditworthy households was eventually going to become shallow and that the number of affordable, buildable sites in French Hill and the Tree Streets neighborhoods were going to become more scarce. A merger of FHNHS and GNHDF, in his opinion, presented a perfect opportunity to extend the range of nonprofit housing activity to include not only the neighborhoods surrounding French Hill and the Tree Streets, but other towns and communities surrounding Nashua.

After an hour-and-a-half, the meeting ended with agreement that this exploratory discussion should continue. Another meeting of the same ad hoc committee was scheduled for 10 days later. LaFontaine volunteered to prepare an agenda to clarify issues that would need to be resolved for a merger of FHNHS/GNHDF to proceed. He also volunteered to act as the meeting's facilitator.

LaFontaine's preparation for the upcoming meeting was extensive. He had conversations with Debbie Miller and Bridgette Belton-Jette. He met with Nike Speltz at the New Hampshire Charitable Foundation. He phoned LaRayne Hebert at Neighborhood Reinvestment. He prepared a draft agenda and sent a copy to John Davis, the Vermont consultant who Ken Wade had mentioned.

Two years before, LaFontaine and Davis had worked together on a strategic assessment of New Hampshire's nonprofit affordable housing network, an assessment that had included both FHNHS and GNHDF. Since Davis was familiar with the players in Nashua and had recently completed a couple of nonprofit mergers in other states, LaFontaine was interested in having his former colleague look over his proposed plan for structuring the exploratory committee's next meeting. They spoke by phone the day before, with Davis assuring LaFontaine that his proposed agenda looked fine.

The meeting on March 26 opened with a discussion of pros, cons, concerns and hopeful signs – and ended with these results.

PROS

- More effective pursuit of mission
- Use resources more efficiently
- Each brings skills and experiences that the other values or lacks

- Strengths of each protect the other's vulnerabilities
- United political front to city government
- Strong, positive message to funders
- Joint energies (Each organization can draw strength from the other.)

CONS

- Initial loss of productivity (?)
- Ongoing investment of energy into relationship
- Failure will cost lost time and energy

CONCERNS

- Potential loss of identity
- Governance (board composition and decision-making)
- Will the expansion to surrounding communities dilute organizational effectiveness?

HOPEFUL SIGNS

- Acting from strength and vision, not weakness
- Missions and technical strengths complement each other
- Each already plans to expand into areas the other brings into the relationship
- Neighborhood Reinvestment resources and the foundation's property inventory establishes new entity as serious player
- Alternative of separate growth, competition poses even greater risk to $$
- Technical barriers to merger are small: assets, systems, complementary programs and staff
- Mutual respect

THINGS WE MUST WORK ON

- Who do we want to serve (mission)?
- How do we want to make decisions (board composition; decision-making process)?
- What guidelines will we use for allocating resources (program priorities)?
- What will we call ourselves?
- What interim arrangements should we make to accommodate something less than a complete success?

Several items on this list are noteworthy. First of all, the underlying assumption of this discussion was that the merger of FHNHS and GNHDF was the ultimate goal. Other forms of collaboration were not even on the table. Second, merger was not perceived as purely a defensive move, designed to protect organizational funding or to shore up weaknesses in the two organizations. Merger was also being discussed, even at this early stage, as an opportunity to expand programming and geography. Third, governance loomed large in the minds of the committee's members as they looked ahead toward a merged organization. What would be the composition of the new board of directors? How would key decisions be made regarding resource allocation, program priorities and the like? Loss of control and loss of identity were the committee's paramount concerns.

Also to be found in this list is a prudent assessment of the cost of merger, acknowledging that short-term productivity might be traded for long-term effectiveness and efficiency. Just as notable is the mention of interim arrangements, an acknowledgment that the merger of FHNHS and GNHDF might prove more difficult and take more time than anticipated. Something less than a consummated merger but something more than the current separation of the two organizations might be needed as a temporary, transitional step toward eventual consolidation.

Just as notable is what was missing from their list of concerns. Focused resolutely on accentuating the positive, the committee made no mention of weaknesses existing in either organization that might delay or jeopardize the contemplated merger. Most striking is the absence of such potentially divisive issues as staffing and locating the merged organization.

Having completed this exercise, the committee turned its attention toward the mission of the merged organization. It believed that reaching consensus on a mission statement would provide a good foundation for the process of blending the two organizations. Beth Raymond, one of the participants and a GNHDF board member, had recently endured a lengthy process of merging two social service organizations. She counseled her colleagues that "the mission statement is the most important element in the process; if that mission statement can be determined, then everything else will fall into place."

LaFontaine divided the committee into two equal groups of six members. Each group was asked to spend 20 minutes brainstorming about the elements that the mission statement of a merged organization should contain. When the two groups reconvened, their lists were compared.

Group One had listed the following items:
1. Partnership
2. Neighborhood revitalization
3. Quality and affordability
4. Pride
5. Better use of resources (money, people, expertise, efficiency and advocacy)
6. Strong commitment to both neighborhoods (Tree Streets and French Hill)
7. Community organizing
8. Family stability
9. Self-sufficiency

The list generated by Group Two looked similar but included two additional items. This group believed that any new mission statement should include a commitment to extending the organization's geographic base beyond Nashua, as well as a commitment to advocating for affordable housing. The whole committee agreed that these elements should be included in the final mission statement. The committee then adjourned, with the participants agreeing to meet again in a couple of weeks.

The day before the next meeting, LaRayne Hebert from Neighborhood Reinvestment arranged a conference call that included Debbie Miller (FHNHS president), Bridgett Belton-Jette (GNHDF director), Mike LaFontaine, John Davis and herself. The purpose was to outline the next steps in the merger process and to discuss the resources needed to move it forward.

Hebert reported that Neighborhood Reinvestment and the New Hampshire Charitable Foundation were prepared to split the cost of bringing Davis into the merger process to guide the negotiations between FHNHS and GNHDF. Assuming that Davis was acceptable to the exploratory committee and that the organizations' boards agreed to proceed with merger talks, Hebert suggested the next phases in the process: design a working model of the new organization and perform a due-diligence review of the financial and programmatic operations of both organizations. Upon completion of these tasks, hopefully capped by an affirmative vote of both boards to merge, she envisioned a six-month to 12-month transition period of gradually combining the operations of the two organizations.

Although Davis might be called upon to facilitate this final phase of the merger, Hebert suggested that a consultant closer to hand might be better at that point. With funding from the Corporation, FHNHS had been ready to hire Carolyn Benthien, a New Hampshire organizational development consultant (former head of United Way in Manchester), to assist with its strategic planning. When the possibility of a merger with GNHDF arose, this consulting contract had been put on hold. Hebert now sketched out a plan for completing the merger that included Davis as the phase-two facilitator and Benthien as the phase-three facilitator.

Davis chimed in to say that he agreed with Hebert's assessment. He expressed an interest in participating in the negotiation phase of the merger process, if invited to do so. Once the terms of the merger were settled, however, he believed that it would make more sense for someone who was physically closer to Nashua to serve as facilitator, coach and day-to-day troubleshooter during the period of blending together the staffs and operations of FHNHS and GNHDF.

The other participants on the conference call agreed that this two-step plan, building upon the exploratory talks scheduled to resume the following day, was a reasonable way to proceed. They also liked the idea of having different facilitators for the next two phases.

GNHDF's executive director, however, voiced her concern that hers was essentially a one-person operation and that she was already overwhelmed by projects that were moving rapidly through the organization's development pipeline. She was happy to participate in discussions about a possible merger and, having met Davis two years before, was receptive to his involvement. But she declared that she did not have enough slack in her schedule to pull files, generate reports or deal with any sort of due-diligence review of her operations.

She was offered assurances by the other participants in the conference call that Davis' role would extend beyond facilitation to include preparation of any comparisons, budgets or reports that the merger committee might need to do its work. Any due-diligence review of her organization and operations, moreover, would be done after the building season was over, at a time when the pressures on her time were less. More importantly, due diligence would not be done until after the decision was made to make the proposed merger a reality.

The next day, the committee met under LaFontaine's guidance for the last time. They presented the plan discussed during the conference call to move forward with the merger to Debbie Miller and LaRayne Hebert. There was general agreement that the plan looked good and should be presented to both boards. The committee also agreed that, on the basis of Neighborhood Reinvestment's recommendation and LaFontaine's endorsement, the consultant from Vermont should be asked to facilitate the next phase of the merger talks.

Committee members had planned to discuss issues of governance and program congruence, but little time remained after hashing out the next steps in the merger process. Nevertheless, they did spend a few minutes reviewing these topics. No in-depth discussion or preliminary decision was possible, but LaFontaine believed that even a quick-brush consideration was worthwhile. Anticipating the negotiations to come, he wanted to see what controversies or conflicts might lurk beneath the surface. What he and the committee discovered, on the topic of governance, was easy acceptance of the notion of a single board for a consolidated organization, but a diversity of opinion about the composition and selection of that consolidated board.

By contrast, there was unanimity on the topic of the fit between the programs of FHNHS and those of GNHDF. It seemed obvious to members of the committee that the programs of both organizations were worth retaining and should just be blended together in a consolidated organization. This postmerger entity would carry out the same home-ownership programs that had long been administered by FHNHS and develop the same kinds of the rental housing projects that had long been undertaken by GNHDF. No problem was apparent in combining these programmatic activities.

One final task needed to be completed to conclude this exploratory phase. John Davis, the facilitator of the next phase of the process, insisted that the boards of both organizations adopt a formal resolution, embracing the notion of a possible FHNHS/GNHDF merger. More importantly, he wanted an explicit delegation of authority from both boards, allowing their representatives to negotiate the terms of such a merger. Jointly drafted by LaFontaine and Davis during the middle of May, a resolution was presented to both boards in June. It read as follows.

RESOLVED that the board of ______ votes to approve the comprehensive and systematic exploration of merger with ____, with the goal of effecting a merger with _____ in the event that the results of this review confirm the desirability of such a merger to the satisfaction of the Board; and

That the Chair of the Board and the Executive Director are authorized to take such actions as may be reasonably necessary to conduct such exploration; and

That if it appears that merger should be formally considered, the executive director is charged with responsibility for drafting, together with his/her counterpart at ___, a Memorandum of Understanding for final review and decision by the board.

The resolution was approved after much discussion but little dissent by each board. Negotiations could now begin. ■

Planning the Merger

The first meeting of the newly constituted FHNHS/GNHDF merger committee occurred on May 28, 1999. This nine-person committee included six representatives from the organizations' boards (three from FHNHS and three from GNHDF), a local attorney who was a member of both boards, GNHDF executive director, and the FHNHS's interim director, who was hired with Neighborhood Reinvestment's assistance soon after the original executive director's departure. Two other individuals participated in this and subsequent meetings as nonvoting resource people, the Affordable Housing Network's Mike LaFontaine and Neighborhood Reinvestment Corporation's LaRayne Hebert.

The outside consultant who had been hired to facilitate this second phase of the merger process, John Davis, was also in attendance. Before this point, few members of the merger committee had ever met Davis face-to-face, so introductions were in order. This was an opportunity, as well, for new committee members to be introduced to each other and for every member to voice his or her expectations (and reservations) about the process about to begin. Going around the table, each person spoke to the desirability of the two organizations becoming one, although several seemed to assume that their organization would ultimately be the sole survivor, absorbing the assets and the staff of the other. One held out a lingering hope that collaboration might somehow be achieved without either organization losing its separate corporate identity.

Davis then proposed that the committee's first tasks should be to clarify his role in the upcoming process and to decide the committee's own role and rules. He offered to play as active or passive a role as the committee might prefer. At one end of the continuum of possibilities, his involvement might be limited merely to facilitating the committee's forthcoming meetings. At the other end, he might play a more directive role, not only facilitating meetings but designing the overall process, setting each meeting's agenda, moving the agenda, preparing comparisons and budgets as an aid to decision-making, and summarizing the committee's decisions.

The advantages and disadvantages of these two extremes were considered, along with a few alternatives in between. In the end, the committee decided that Davis should play as active, directive a role as possible, provided that the New Hampshire Charitable Foundation and Neighborhood Reinvestment Corporation were willing to pay for his services. Some concern was expressed, however, about his ability to facilitate meetings while recording the committee's discussions and decisions. LaFontaine stepped forward to suggest that he might play the latter role. He proposed serving as the committee's scribe with the understanding that Hebert would fill in for him whenever he was absent. The rough notes that were taken during each meeting would be passed along to Davis for refinement and distribution. His offer was quickly accepted. The merger committee was now ready to begin.

Committee Role and Rules

Turning to their own role in the merger process, the committee made several key decisions regarding who they were and how they would operate in the months ahead. First, members clarified for themselves that their collective role was to be advisory only. Ultimate authority for deciding whether to move toward merger would continue to reside with their respective boards. They insisted, in fact, that the outcomes of the committee's deliberations, whenever consensus was reached, should be characterized as a recommendation, not a decision. Their recommendations would be submitted to each board for consideration. Only after a recommendation was reviewed and approved by both boards could it be characterized as a decision.

Second, the committee set the basic parameters for its own composition and operation. Wishing to ensure continuity, progress and confidentiality, they limited the committee's membership to those individuals who were already in the room, while securing a commitment from all who were there to see the process through to the very end. They did not want people coming and going throughout their process, making it necessary to update newcomers and to revisit issues again and again. At the same time, they anticipated that other persons might be needed when specific topics came up for discussion and might be invited to participate in the committee's discussions. Members of the committee agreed, however, that the committee as a whole would discuss and approve such invitations before they were extended.

The committee also agreed that consensus would guide their decision-making (or, more accurately, their recommendations). This rigorous decision rule was made less daunting by the committee's understanding that individuals would not stand in the way of recommendations that seemed to represent the "sense of the meeting." Even if someone could not personally endorse every detail of a recommendation, he or she would be willing to support it, and send it on to both boards for discussion and decision.

Finally, the committee tackled the difficult issue of confidentiality. Members wanted the time and space to reach their own conclusions about making and managing a merger of FHNHS and GNHDF. They recognized they would need a degree of privacy to test new ideas and to test each other, feeling their way toward consensus. They also recognized that many outside parties were going to be very interested in what the committee was doing. This would include, for example, FHNHS and GNHDF board members who had not been appointed to the merger committee, staff members other than the executive directors, public and private funders for the two organizations, members of FHNHS, and members of the general public.

Attempting to balance their own desire for privacy with the demand of other parties to be appraised of the progress being made, the committee decided that public information about the possible merger would be limited solely to an acknowledgment that merger talks were underway. Reports to each board would consist of lists of topics being discussed and the schedule for considering them. The recommendations adopted by the committee would be presented to each board, in a complete and uniform format, only after the committee finished discussing all of the issues before it. With these procedural questions behind them, the committee's members turned their attention to defining the scope of work before them.

Tasks and Timeline

Acting immediately on the committee's preference for a proactive, directive facilitator, Davis laid out a tentative plan for negotiating the terms of a possible FHNHS/GNHDF merger. Based on his previous experience with similar mergers, Davis had drafted a "Proposed Sequence of Events," describing the tasks that the merger committee would need to perform, the tasks that others (including Davis) would need to perform, and the order in which these tasks should be tackled. (See Appendix B: Proposed Sequence of Events.)

He proposed a series of meetings in which the committee would attempt to reach consensus, first, on the purpose and programs of a consolidated organization; then, on the structure of the organization; and, finally, on various operational issues such as staffing, locating and funding the organization. Davis asked the committee's members to commit to a minimum of five meetings, while warning that more would probably be required. After considerable discussion, the committee adopted this blueprint for their future deliberations. The committee's members then pulled out their calendars and promptly scheduled the next five meetings.

Mission

Earlier discussions of the mission and purposes of a merged FHNHS/GNHDF, occurring during the exploratory phase, allowed a quick resolution of this issue when the committee gathered for its second meeting on June 18. Resolving this issue was also made easy by the fact that the present missions of the two organizations were so similar. (See Appendix C: Comparison of Purposes and Programs.) Both were committed to a dual mission of providing affordable housing and promoting neighborhood revitalization. Both endorsed the concept of working in partnership with government and business to achieve these goals.

Their missions diverged only in three significant respects. The FHNHS service area was confined to a single neighborhood, while GNHDF was open to serving Nashua and surrounding communities, despite its recent emphasis on the Tree Streets neighborhood. Secondly, FHNHS directed its housing development efforts toward home ownership and housing rehabilitation, while GNHDF focused on rental housing and the new construction. (Neither of these priorities was actually spelled out in the articles or bylaws of either organization. It was simply understood by everyone that this was what each organization did.) Third, GNHDF was committed to fulfilling the housing portion of its corporate mission through the development of permanently affordable housing. FHNHS had never made a comparable commitment, either in its mission or its programs, having made a conscious choice not to limit whatever equity gains homeowners might realize upon resale of their homes.

To bridge some of the distance between the two mission statements, three words were added to GNHDF's long-time mission statement. The committee proposed that the mission of the merged organization should read as follows (their added words are highlighted).

"The mission of __________________ is to work in cooperation with other public and private enterprises to develop and preserve affordable housing and promote the social welfare of persons in Nashua, New Hampshire, and surrounding communities in order to accomplish three goals:

- Assist very low, low and moderate-income families and individuals in achieving economic self-sufficiency and family stability through permanently affordable rental housing and home ownership.
- Empower residents to become involved in the solution to their housing and neighborhood needs.
- Revitalize overcrowded, substandard and unsafe housing and promote neighborhood improvement and stability."

In recommending this mission statement, the committee reaffirmed its belief that the merged organization should do both affordable housing development and neighborhood revitalization, while making explicit a commitment to developing both rental housing and owner-occupied housing.

By contrast, the committee had no desire to make explicit its position on the potentially divisive issue of permanent affordability. It finessed this issue by placing the modifying phrase "permanently affordable" immediately before "rental housing." Such an arrangement of phrases allows one to construe the commitment to permanent affordability as applying either to rental housing alone or to all of the housing to be developed by the merged organization, rental and home ownership alike. At this early stage in its deliberations, the committee found refuge in such ambiguity, leaving a more focused discussion of permanent affordability until later.

Service Area

During its discussion of mission, the committee touched on the question of what area the merged organization should serve. They quickly and easily agreed that Nashua and its surrounding communities should be the service area named in the organization's mission statement, but nobody was too clear about what this actually meant. When the discussion finally got around to defining the service area more exactly, during their second and third meetings, the committee members discovered they had very different ideas about how extensive this area should be and how intensively the organization's services should be targeted.

To make progress on topic, the committee divided the question and distinguished two different geographic targets. The committee's facilitator characterized these as an organization's "zone of opportunity" versus its "zone of priority." Focusing on the first, there was quick consensus among the committee's members that the city of Nashua should be the center of the service area, but no agreement on how far afield to go in embracing Nashua's "surrounding communities." Some members were reluctant to name these communities with any specificity or to define an outer boundary for the organization's activities at all.

Between meetings two and three, one of GNHDF's representatives prepared a map of southeast New Hampshire, showing the towns surrounding Nashua. This helped the committee's members to visualize how large an area might be both operationally practical and politically expedient. They finally recommended a service area that would include the surrounding communities of Brookline, Milford, Amherst, Hollis, Merrimack, Litchfield and Hudson – an area stretching beyond Nashua by approximately a dozen miles. These particular communities were chosen on the basis of three criteria: their need for affordable housing; the availability of reasonably priced development sites; and the likelihood of acceptance and support of affordable housing development by town officials.

While it was envisioned that the merged organization would offer homebuyer services and pursue op-portunities for housing development throughout the Greater Nashua region, the neighborhood revitalization component of the mission made it necessary to designate priority zones within this regional service area. The committee recommended targeting two areas for neighborhood revitalization: the French Hill neighborhood, which FHNHS had prioritized since its inception; and the Tree Streets neighborhood, which GNHDF had prioritized for five years. In future years, the committee went on to say, new target area(s) might be added, depending upon the availability of additional resources; the impact on existing revitalization commitments; the degree of need in the proposed area; and the likelihood of substantial, positive impact. For the immediate future, however, the committee believed that it was important for the merged organization to keep faith with those neighborhoods in which FHNHS and GNHDF had long been working. Only the French Hill and Tree Streets neighborhoods would be proposed as the areas in which the merged organization should focus its activities.

Beneficiaries

The committee acknowledged the importance of reassuring the residents of these two neighborhoods that they would not be abandoned as a result of the merger. The committee also acknowledged the importance of reassuring their primary funders, public and private, that the merger would not result in a reduction in services for the populations presently served by FHNHS and GNHDF.

This presented a problem for the merger committee because a wide discrepancy presently existed between the upper income limits for the beneficiaries of FHNHS and those of GNHDF. For rental housing, FHNHS had an upper limit of 80 percent of median; GNHDF had an upper limit of only 60 percent of median. For owner-occupied housing (which GNHDF did not do), FHNHS had an upper limit of 140 percent of median for down-payment loans and rehabilitation loans and an 80 percent limit for homebuyer purchases of units developed by FHNHS. Representatives for GNHDF, in reviewing the higher limits allowed by FHNHS, worried that their organization's historic preference for serving very low-income households might get diluted or ignored should the postmerger organization adopt FHNHS's guidelines. Representatives for FHNHS worried that their own priority for promoting and assisting owner-occupied housing might be rendered close to impossible should the postmerger organization focus exclusively on serving households below 60 percent of median (households too poor to afford home ownership).

Looking for a compromise on this issue, the committee endorsed FHNHS's upper income limit of 80 percent for the occupancy of rental units developed by the nonprofit but declared that the merged organization's priority should be to target "the lowest possible income level supportable by the project." Similarly, FHNHS's upper income limits for owner-occupied housing were endorsed, again with the condition that each and every program should be targeted as low as possible, contingent upon available funding. (See Appendix D: Recommended Beneficiaries for the Merged Organization.)

Programs

After reviewing the full array of products and services presently offered by FHNHS and GNHDF, the committee recommended keeping them all. The highest priority, in the committee's mind, was to equalize services between the two target neighborhoods. Consequently, the committee recommended that the merged organization move as quickly as possible to provide French Hill residents with all of the products and services that GNHDF had long offered in the Tree Streets neighborhood. Likewise, the merged organization should move as quickly as possible to provide in the Tree Streets neighborhood all of the products and services that FHNHS had long offered in French Hill.

The committee then brainstormed a list of projects and programs that might be added to the activities of a merged organization, including the following possibilities.

- Support services for residents of housing developed by the nonprofit, coordinating services available from other agencies;
- Community organizing in target neighborhoods (i.e., French Hill and the Tree Streets);

- Expanded housing-development capacity, either internal to the merged organization (i.e., internally staffed) or employing outside consultants (contracted as needed);
- Acquisition of “expiring-use properties” (i.e., subsidized housing that would otherwise be lost to the market);
- Enhanced advocacy for affordable housing, including the need for an expanded Spanish language capability within the organization's staff and within its written materials; and
- Expanded capacity to do fundraising for projects and operations.

Although clearly a “wish list” that would heavily depend on finding new funding and adding new staff, the time the committee spent generating this list was hardly wasted. Not only was this discussion a welcome relief from more pedestrian, picayune tasks like defining service areas, beneficiaries and the like, it was an energy boost for the committee to “think big.” They got excited about how much more a merged organization might accomplish than either FHNHS or GNHDF had heretofore been able to do.

Permanent Affordability

By the end of their third meeting, members of the merger committee were ready to confront the issue they had glossed over during their earlier discussion of the mission of the merged organization: whether all of the housing developed in the future should be permanently affordable. GNHDF, a developer of rental housing, had institutionalized a commitment to permanent affordability by inserting it into the organization’s bylaws. FHNHS, primarily a developer of owner-occupied housing, had never embraced permanent affordability but had imposed affordability controls when required to do so by outside funders. The ensuing debate weighed a policy preference for preserving and recycling scarce subsidies against a programmatic preference for retaining flexibility.

After a spirited discussion, the committee recommended the following affordability policy for the merged organization.

- All rental housing under the organization's ownership or control would remain permanently affordable.
- Owner-occupied housing, either assisted or developed by the merged organization, would be encumbered by varying degrees of subsidy retention or subsidy recapture, as determined by the requirements of any outside funders providing the subsidy.
- In the absence of an outside funder’s retention or recapture conditions, the merged organization would seek to retain affordability for successive generations of homeowners. The rule of thumb used by the merged organization would be as follows: the larger the financial subsidy put into making a home affordable, the stronger would be the merged organization's interest in retaining affordability over time. This would be decided on a case-by-case and a project-by-project basis, however, taking into consideration what might be best for the target population as a whole, for the current homeowner, and for the neighborhood in which the housing is located.

Board of Directors

Not unexpectedly, more time was spent debating the composition and selection of the merged organization’s board of directors than was devoted to any other topic during phase two. This debate consumed the better part of the fourth and fifth meetings.

Committee members reached ready agreement on several general principles, which later made it easier to negotiate the more difficult details of how the new organization’s board should be structured. They agreed on the following.

- Residents should be represented on the new board;
- Residents from the French Hill and Tree Streets neighborhoods, in particular, should be represented on the new board;
- There should be a mix of resident representatives and nonresident representatives; and
- The merged organization’s board should conform to Neighborhood Reinvestment Corporation’s minimum requirement of 51 percent resident representation to allow NeighborWorks® affiliation by the new entity.

At this point in the committee’s deliberations, Neighborhood Reinvestment’s representative, who had remained respectfully in the background during the earlier discussions, was called upon to play a more active role. The committee wanted her to clarify what the Corporation would actually require in the way of resident representation.

Hebert noted that the definition of “resident” requires either that (a) a person, regardless of income, lives (or owns a business) within the organization's target area or (b) lives within the organization's service area and is a direct beneficiary of one or more of the programs offered by the organization. A beneficiary who uses one or more of these programs and later moves out of the service area would cease to be eligible for the board.

No one believed this standard would be hard to meet, given the committee's commitment to two target areas (the French Hill and the Tree Streets neighborhoods) and to a broader service area. The committee reaffirmed, therefore, that the new board should have majority representation from residents. Further, they recommended that there be equal representation from the two target neighborhoods and at least one resident seat reserved for someone living outside of either neighborhood.

Agreement on the nonresident portion of the new board was more difficult to reach. Here is where the different structures of FHNHS and GNHDF and the different experiences of the representatives from the two organizations came to the fore. (See Appendix E: Comparison of Organizational Structures.) The representatives from FHNHS were used to residents being in charge, accompanied by minimal representation from banking and government (as per the Corporation's requirements). The representatives from GNHDF were accustomed to a board composed entirely of individuals from the business sector, government and nonprofit organizations with little (or no) resident representation.

Because they came from such different experiences, committee members had very different ideas about the number and kind of business representatives that should be added to the board and whether any seats should be reserved for representatives from nonprofit or religious organizations (which were heavily represented on the GNHDF board). In the case of government representation, there was considerable debate over whether seats should be reserved for elected or nonelected public officials and whether these officials should come from the municipal or state level. In the end, the committee finally agreed on the following.

- Seats should be reserved for nonelected government representatives, serving at either the municipal or state level. The committee noted the desirability of having the city of Nashua represented on the board of directors and the prudence of consulting with Nashua's mayor before any seat might be offered to a city official. However, members decided not to formalize these preferences or to write them into the bylaws of the new organization.
- Seats should be reserved for business representatives, with at least one of these seats filled by someone from a private financial institution and at least one of these seats filled by an attorney.
- Seats designated for government and business interests should not be more specifically identified. That is, no particular governmental entity, department, or office or any particular business entity, industry or association should be entitled to representation.
- The nonprofit sector (e.g., social service agencies, other nonprofit housing providers, religious institutions, etc.) should not be specifically represented on the board of directors, unlike the representation already recommended for the public sector and the business sector.
- Nonresident representatives (government and business) should be nominated by the nominating committee and approved by the board of directors of the merged organization. No outside agency or institution should be given the power to name representatives to the board.

Drawing upon the consensus they had reached regarding resident and nonresident representation, committee members were ready at last to begin assigning specific numbers to the categories of seats they were intent on reserving for particular interests. With large pieces of newsprint taped to the walls and Davis alternately jotting down numbers with multicolored markers and then crossing them out as committee members voiced their preferences and changed their minds, they inched their way toward agreement. They settled on a 17-member board of directors for the merged organization, consisting of the following representatives.

- Four seats representing the French Hill target area;
- Four seats representing the Tree Streets target area;
- One seat representing the greater Nashua service area (reserved for a beneficiary of programs provided by the new entity and living within the service area but living outside of the French Hill and the Tree Streets neighborhoods;

- One seat representing government (reserved for a nonelected public official at the state or local level);
- Three seats representing business (at least one of these seats reserved for someone from a private financial institution and at least one reserved for an attorney);
- Four seats for at-large representatives (may be used, in part, to expand the new organization's fund-raising capacity, to ensure representation by key constituencies and to add geographic representation from areas outside the city of Nashua, if the new organization finds itself becoming actively engaged in surrounding communities).

The merger committee concluded its discussion of board composition by recommending that the bylaws of the merged organization allow the flexibility to have a board somewhat smaller (or larger) than 17 members, as long as the ratios of representation among the six categories remain similar to those proposed. The committee also recommended reserving a nonvoting, ex-officio seat for a representative of the Nashua Housing Authority (NHA). They suggested naming this ex officio NHA seat in the bylaws of the merged organization. The bylaws should also allow for the addition of "such other 'ex officio' non-voting board members as the board may designate from time to time."

Membership

Having decided how the board should be structured, the merger committee looked next at the question of how directors should be nominated and selected, especially those residents representing each of the two designated target areas. This was a lengthy discussion, revolving around the question of whether the new organization should have a voting membership with the power to elect a portion of the board.

The positions taken by the various participants in this debate were unexpected. Members of the committee from GNHDF, an organization with a self-perpetuating board and no membership, were open to the idea of building a membership base for the merged organization and allowing that membership to elect all of the resident representatives. Members of the committee from FHNHS, an organization that had always had a voting membership, were opposed to the idea and greeted any suggestion that a voting membership might benefit the merged organization with skepticism.

Their skepticism was twofold: recent experience with members who were sometimes complacent and sometimes contentious and personal frustration at the lack of involvement by board members other than themselves in sustaining an organization without a permanent director. When the GNHDF representatives heard the argument that members were nothing but toil and trouble, they were easily persuaded not to "inflict" a voting membership on the new organization.

Davis and Hebert stepped momentarily out of their assigned roles to urge the committee to look beyond the parochial example of FHNHS and consider whether a membership might someday have advantages for the merged organization, especially with regard to community accountability, board recruitment and fundraising. However, the committee could not be budged from its conviction that members would merely get in the way.

They decided, therefore, that the new organization should not have a voting membership – or, for that matter, a membership of any kind – although the door was left slightly ajar in recommending that the bylaws should "allow the board of directors to establish a membership at some future date." Without a voting membership, the board of the merged organization would be self-perpetuating.

Candidates for board seats would be identified by a board-appointed nominating committee and approved by the board as a whole. In considering the nominating committee's role, the merger committee stated a clear preference for allowing the new organization's nominating process to determine the precise mix of interests, communities, skills and board representatives and to keep the bylaw language as general and flexible as possible with regard to filling particular seats.

The merger committee expected the nominating committee to consult with neighborhood associations, homeowner associations, tenant associations and other organized interests within the target areas and within the larger service area in nominating persons to the board. However, it was the opinion of the committee that "the value of diverse and comprehensive representation should be subordinated to the importance of having capable and contributing board members who are committed to the organization's housing mission."

Board Operations (Term of Office, Quorum, Proxy Voting)

Once the composition and selection of the board of directors was out of the way, it was not difficult reaching agreement on the term to be served and on the requirement for a quorum on the new board. The merger committee's recommendation was that directors should serve an initial term of three years with the possibility of reappointment for a second three-year term. They should be limited to two consecutive terms (whether full or partial). A director should then be required to leave the board for a minimum of one year. After a year off the board, he or she could return for another two terms, if reappointed.

A quorum, said the committee, should consist of a simple majority of the board seats presently filled. There should be no requirement for specific categories of representatives to be present for a quorum to exist.

Resolving the issue of whether to allow proxy voting on the board of directors proved more difficult, principally because the existing policies of the two organizations were so different. FHNHS did not allow proxy or absentee voting. GNHDF made frequent use of both. Members of the committee eventually agreed that, if proxies were allowed, there should be a limit on the number of times a member could be absent and the number of times a member could exercise his/her proxy in any given year. The committee also agreed that any proxy voting should be accompanied by strict requirements for notifying all board members of issues to be discussed and votes to be taken in upcoming meetings.

Several members of the committee, however, remained adamantly opposed to allowing any proxies whatsoever. Arrayed on the other side were those members who sided with GNHDF's executive director, who noted that speed and flexibility in a board's decision-making could sometimes make the difference between a project going forward or a project getting stalled (or killed). After considering various alternatives to proxy voting, including the delegation of development decision-making power to an executive committee or limiting the use of absentee voting, the merger committee finally decided that proxies would not be allowed. They recommended, instead, allowing absentee voting, under the following conditions. "When a rapid decision of the board is needed to expedite housing development, but a quorum of the board cannot be assembled, then board members should be allowed to vote by signing and dating a board resolution sent to them by fax or courier. Once these signed resolutions are returned to the merged organization, the board's secretary should tally the vote and document the result in corporate minutes distributed to every member of the board."

This compromise protected the principle of one-director-one-vote, avoiding the delegation of power to a small subset of the board and satisfying those members of the merger committee who feared diluting the authority and independence of individual directors. At the same time, it satisfied the committee's more production-minded members, and GNHDF's executive director, who wanted a way to expedite decision-making when a project was at stake. Both sides went away happy.

Standing Committees

The committee recommended that the merged organization should have half-a-dozen standing committees. Considerable thought was given to what each should do, resulting in the following proposal.

Executive Committee. This committee, made up of the merged organization's officers, should have general responsibility for overseeing all of the activities and operations. It should serve as the executive director's principal support and sounding board. It should meet before every regularly scheduled meeting of the full board to set the agenda and to narrow the range of issues and options to be discussed. On a case-by-case basis, the full board might empower it to take rapid action in approving key aspects of a development project that is underway or about to get underway.

Nominating Committee. In addition to nominating new members for the board of directors, this com-mittee should also be responsible for board training and board development.

Revolving Loan Committee. Required by Neighborhood Reinvestment for all NeighborWorks® affiliates, this standing committee should be responsible for reviewing loan applications and underwriting loans from the merged organization's revolving loan fund (RLF) (inherited from FHNHS).

Finance Committee. Responsibilities of this standing committee should include budget preparation, budget oversight and oversight of all financial operations, including bookkeeping, audits, grantee compliance, and contract management and reporting.

Asset Development and Management Committee. This standing committee should oversee property acquisitions, project construction and rehabilitation, property management, and capital-needs planning.

Resource-Development Committee. This standing committee should be responsible for fundraising, public relations and marketing of both the organization and its services.

Staffing Plan

After two months together, meeting five different times, the merger committee had developed considerable skill in deciding complicated structural and operational issues. Just as importantly, they had developed considerable trust in one another. They were as ready as they would ever be to tackle the most difficult issues: staffing, location and money.

Discussion of the staffing plan for the merged organization occurred during the sixth and seventh meetings, both of which where held in August. Even in New England, August can be hot and humid. This was hardly an auspicious time for the cool and careful consideration of how best to staff FHNHS and GNHDF during the transition period between deciding on the merger and completing the merger and how best to staff the merged organization itself.

The committee began cautiously, discussing what sort of staff the organization might need to fulfill its mission and to administer its programs. HOW these positions might be filled and WHO among the present staff of FHNHS and GNHDF might be qualified to fill them were questions that were left for later. The committee recommended six positions for the new organization: executive director, administrative assistant/bookkeeper, housing development specialist, housing rehab specialist, loan officer/homebuyer counselor, and neighborhood organizer. Members of the committee expressed a strong preference for filling this last position with someone fluent in both English and Spanish. They then turned their attention to the ticklish question of how existing staff should be treated in filling these positions. No staff was present for this discussion. GNHDF's executive director, who had participated in the committee's previous discussions, was asked not to attend the seventh meeting (held on August 27). The interim director for FHNHS, who had attended the committee's early meetings in June and July, was gone by the middle of August, released by the FHNHS board. The merger committee was free, therefore, to discuss candidly the strengths and weaknesses of the existing staff. They were free to consider objectively the best way to balance treating old staff fairly while adding new staff who might be more skilled than individuals presently employed by either FHNHS or GNHDF.

Organizational loyalties clouded this discussion from the very beginning. Representatives from FHNHS believed in the competency of their own staff and wanted to retain them. Representatives from GNHDF's board, knowing nothing about these individuals but wishing to be respectful of their FHNHS counterparts on the committee, did not challenge the assertion that the present staff of FHNHS were qualified to assume similar positions in the merged organization. Likewise, representatives from the FHNHS board were loathe to challenge the belief of GNHDF's representatives that their own staff (i.e., the individual who served as executive director) was the capable and reasonable choice to assume the same position in the merged organization.

No one was willing to argue that some staff should stay and some should go without an external assessment of organizational capacity and internal evaluations of staff. This had not been done for many years at FHNHS and had never been done at GNHDF. So, the committee members merely followed the path of least resistance in proposing the following plan for staffing the merged organization.

"Existing GNHDF and FHNHS staff will be offered their current positions within the post-merger organization. They will also be given the first shot at any new positions – i.e., if they express an interest in an available position, their qualifications will be reviewed and a decision will be made whether to offer them the job before such a position is advertised outside of the post-merger organization. (Only if an existing staff person is not offered the job will a new position be advertised externally.) Staff carried over into the post-merger organization will not have a probationary period. Their performance, however, and the performance of the post-merger organization itself will be evaluated at the new organization's one-year anniversary."

In light of this recommendation (modified slightly during the implementation phase), the merger committee decided that it was unnecessary to establish a transition plan for staffing the new organization. Assuming that existing staff wanted to continue doing the same jobs after the merger that they were already doing in their separate organizations, the committee concluded that no staffing changes (or additions) would be needed during the implementation phase of the merger process. The committee did note, however, that "staff from GNHDF and FHNHS may begin holding joint staff meetings as early as November, prior to the actual incorporation/creation of the post-merger organization."

No instructions were forthcoming from the committee, however, about telling staff from the two organizations that joint meetings should happen, and nobody stepped forward to ensure that they did happen. Staff from the two organizations, as it turned out, did not actually begin meeting together until long after the merger was legally consummated on July 1, 2000.

Location

Where to locate the offices of the merged organization was a decision that proved relatively easy, even though everyone had been expecting the worst. This is why, in fact, it had been left until the end of the planning process. The committee avoided controversy, however, by coming up with an expedient compromise.

Neither organization was asked to relinquish its present location. Instead, the committee declared that a "continuing presence should be maintained in both target neighborhoods. Program staff should operate out of both the present GNHDF office and the present FHNHS office. Both offices should be open and staffed every weekday." By reaffirming their commitment to both of the target neighborhoods, the committee decided quickly and easily where the corporate headquarters should be, basing their decision less on the political acceptability of a specific location and more on the availability and suitability of specific space.

FHNHS occupied newly constructed office space that it owned. GNHDF occupied an old school building that it leased from the city of Nashua at no charge and shared with the police department. It was an easy choice to recommend making the present FHNHS office as the administrative headquarters for the postmerger organization.

Budget

Using approved fiscal year (FY) 2000 operating budgets and updated information for GNHDF and FHNHS, provided by staff from the two organizations, John Davis presented two scenarios for a combined, postmerger operating budget. (See Appendix F: Annual Operating Budgets.) Scenario #1 assumed a staffing level of four. Scenario #2 assumed a staffing level of six (adding a rehab coordinator and community organizer). Both scenarios assumed that FHNHS's employee-benefit package, which was far more generous than the GNHDF's package, would be applied to all of the staff positions in the postmerger organization.

The bad news in the combined budget was that anticipated revenues would not be enough to cover the more ambitious staffing level the merger committee desired. The good news was that there was probably enough money comfortably on hand or in the pipeline to consummate the merger and to operate the merged organization _ as long as funders did not impose what Davis described ironically as a "merger penalty."

It was understood, however, that this combined budget, as healthy and encouraging as it seemed, was vulnerable on any number of fronts. It might also be substantially revised later on. In particular, it was anticipated that the Neighborhood Reinvestment review team's due-diligence look at both organizations in October might result in discoveries that necessitated major changes in this combined budget. Even so, the budget seemed to pose no significant obstacle to merger.

Legal Advice on Corporate Structure

The discussion of money and assets led to a discussion of the kind of corporate structure best suited to handle these and to effect the merger. It was clear that the time had come (or was, perhaps, long overdue) to retain the services of an attorney who could advise both boards on issues related to completing the merger, transferring assets and establishing the postmerger organization. J.L. Sweeney, an attorney serving on the merger committee who sat on the boards of both FHNHS and GNHDF, was asked for his opinion on the best corporate structure for the merger that was being contemplated. Sweeney's advice was as follows.

1. It is clear that the most expensive course of action in terms of complexity, time and legal costs would be to transfer the tax credit projects and other real-estate assets owned by GNHDF to some other corporate entity. It would be difficult, and costly, to transfer these assets.
2. It is equally clear that, except for the capital in its RLF (the future disposition of which would be governed by a pre-existing capital grants agreement between FHNHS and Neighborhood Reinvestment), FHNHS possesses very few real-estate assets. Two buildings are the extent of its holdings. What FHNHS does own, moreover, is encumbered with few of the financial, regulatory and legal strings that entangle the assets owned by GNHDF. It would be easy, and inexpensive, to transfer these assets.
3. Therefore, it would not be cost-effective to create a new corporation to which the assets of both organizations would be transferred. It would be more reasonable to amend the articles and bylaws of GNHDF (restructuring its mission, board and service area to accommodate the committee's many recommendations) and to transfer the assets of FHNHS to the corporate shell of GNHDF.

The committee agreed that Sweeney's proposal would be presented to both boards as a tentative recommendation with the following understanding. The proposed structure could be replaced or modified before the merger was consummated because of the following reasons.

- Findings emerged from the due-diligence review of both organizations;
- Requirements imposed by Neighborhood Reinvestment on the transfer of loan capital or the transfer of FHNHS's NeighborWorks® charter; or
- Recommendations from another attorney.

The factors to be considered in determining which mechanism to use in establishing a postmerger corporation and in transferring assets would include the following.

- The comfort and acceptance of both organizations with the final proposal;
- The desire of both organizations to minimize the time and cost of transferring assets (particularly GNHDF's tax credit projects); and
- The legal requirements (including those of Neighborhood Reinvestment) for accomplishing any such transfer.

In the meantime, Sweeney agreed to consult with a legal colleague who was said to be knowledgeable about corporate mergers and to ask for a legal read of the proposal that he had put on the table. Regardless of any free advice provided by Sweeney's colleague, however, it was understood that there would be legal costs associated with the merger. Eventually, the two organizations were going to need to hire an attorney to structure the new corporation and to prepare documents for the transfer of assets. Since Neighborhood Reinvestment's policy was neither to provide such legal assistance nor to pay for it, GNHDF and FHNHS should expect to cover this merger cost.

Naming the Postmerger Organization

The merger committee decided not to tackle this question, preferring to allow and to encourage wider participation from board members and neighborhood residents in choosing a name and logo for the postmerger organization. Committee members did declare, however, that the process to be used in making this decision should be as inclusive, participatory and celebratory as possible.

Tasks and Timeline for Completing the Merger

At the committee's final meeting, on September 10, John Davis handed out a draft timeline entitled "GNHDF/FHNHS Merger: What's Next?" (See

Appendix G.) After reviewing this document, the committee recommended accelerating the timeline proposed. They agreed with Davis' assessment that the legal consolidation of assets, organizations and staffs would take time and would likely not be completed until later in the coming year. But they wanted the two staffs to begin meeting and the two organizations to begin functioning in a consolidated fashion much sooner, preferably by November.

It was agreed that both boards would be asked to approve (or revise) the committee's recommendations at their October meetings, as well as to appoint representatives to a "merger steering committee" that would be empowered to "take all actions necessary" to complete the merger. Davis was asked to draft such a resolution, in consultation with Sweeney.

The committee then discussed what sort of consultant services might be needed during the upcoming transition period, expected to extend from October 1999 through January 2000. FHNHS offered the services of a local organizational development specialist, Carolyn Benthien, who might work with the steering committee and the staffs of both organizations in finalizing the details of the postmerger organization. FHNHS had been planning to hire Benthien (with Neighborhood Reinvestment funding) before the start of merger talks with GNHDF. Once those talks began, a decision was made to wait until later, anticipating that she might be needed to help implement the merger plan.

The committee agreed that the time had now arrived to employ her services. Neighborhood Reinvestment was still willing to pay for her time, and Davis concurred that a close-by consultant would be preferable during the next phase of the merger. Her credibility and contacts among local funders, moreover, led the committee to hope that she might assist the new organization in crafting a plan for informing public officials, private donors and the public of the planned merger and for soliciting financial support from them. The committee easily decided to recommend that Benthien be hired to assist with implementation, assuming that both boards agreed in October to proceed with the merger. Davis would still be available, courtesy of Neighborhood Reinvestment, to draft merger documents and to provide support for the merger, if needed, but he would relinquish the facilitator's role to Benthien. Finally, because it was now apparent to all that the merger was likely to proceed, the committee believed that the time had come for a due-diligence review of the participating organizations. LaRayne Hebert was asked whether Neighborhood Reinvestment's program-review team might be available to scrutinize the operations of both FHNHS and GNHDF, even though the latter was not a network affiliate. Hearing from her that the Corporation had always expected that a review of both organizations would be necessary and that its team of experts was standing by, the committee gave Hebert the go-ahead to bring them in. This was the merger committee's final decision. Its work was done. ■

Completing the Merger

Two weeks after the merger committee's final meeting, John Davis prepared and distributed to both boards a packet containing a detailed summary of the committee's recommendations (Appendix H), a revised timeline for completing the merger (Appendix I) and a postmerger annual operating budget (Appendix F). Davis and J.L Sweeney also drafted a resolution for the boards to consider at their upcoming meetings. The FHNHS version of this resolution read as follows.

WHEREAS the boards of French Hill Neighborhood Housing Services (FHNHS) and the Greater Nashua Housing and Development Foundation (GNHDF) separately decided in May 1999 to establish a "Merger Committee" and assigned staff members and board members from their respective organizations to serve on this committee; and

WHEREAS the Merger Committee was authorized by the boards of FHNHS and GNHDF to engage in a "systematic exploration" of a possible merger of FHNHS and GNHDF and to make recommendations to both boards as to how such a merger might be structured and completed; and

WHEREAS the Merger Committee convened on eight occasions between May 28 and September 10 and systematically explored the options and opportunities for merging FHNHS and GNHDF; and

WHEREAS the Merger Committee reached consensus on recommendations regarding the purpose and programs, organizational structures, and operations of a corporate merger of FHNHS and GNHDF; and

WHEREAS the Merger Committee has completed its work and conveyed its recommendations to the boards of FHNHS and GNHDF;

NOW, THEREFORE, BE IT RESOLVED that the FHNHS Board of Directors, having reviewed the recommendations of the Merger Committee, does hereby endorse the proposed merger of FHNHS and GNHDF in accordance with the Merger Committee's recommendations. Notwithstanding this endorsement, it is understood that some of these recommendations may be modified during the months ahead as a result of rulings or recommendations from the Neighborhood Reinvestment Corporation, the Merger Steering Committee, or attorneys and consultants hired to expedite the merger. It is also understood that the final terms of conditions of the proposed merger of FHNHS and GNHDF will be reviewed and approved by the FHNHS board and the GNHDF board before assets from either corporation are transferred to another corporate entity.

BE IT FURTHER RESOLVED that J.L. Sweeney, who presently serves on the boards of both FHNHS and GNHDF, shall be appointed to serve on a newly constituted "Merger Steering Committee," along with the following five persons who shall represent the interests of FHNHS on this committee:
Debra B. Miller/ Robert Keating/ Pauline Francey
David Darling/ Pauline Ikawa

BE IT FURTHER RESOLVED that the Merger Steering Committee is hereby granted the authority to take all actions necessary to prepare for the merger of FHNHS and GNHDF and to manage the affairs of both organizations during the period prior to the merger of FHNHS and GNHDF, including but not limited to:

- *the hiring of an attorney and other consultants to expedite the merger of FHNHS and GNHDF;*
- *negotiation of the final terms and conditions for a merger of FHNHS and GNHDF;*
- *review and approval of bylaws for a new nonprofit corporation or review and approval of bylaw amendments for an existing nonprofit corporation, which corporation shall eventually inherit the programs and assets of both FHNHS and GNHDF; and*
- *support and supervision of the FHNHS staff and the GNHDF staff until such time as new (or amended) bylaws have been recorded with the State of New Hampshire and a board of directors for this new (or restructured) corporation has been seated.*

The FHNHS board approved this resolution on September 23, 1999. The GNHDF board soon followed suit, approving a resolution identical in form to the one above on October 5, naming the following persons as their representatives to the merger steering committee: Beth Raymond, Roger Duhamel, Angie Kopka, Michael Fox and Bertha Perkins. In the case of GNHDF, this was the final approval that would be needed to proceed with the merger. The board's decision would not have to be ratified by a membership, since GNHDF did not have one. And no conveyance of GNHDF property or other assets was contemplated. From GNHDF's side, the way was now completely clear to merge with FHNHS.

FHNHS still had a couple of hurdles to cross. FHNHS was a membership organization. Its members would have to approve any plan to merge with GNHDF. On October 28, FHNHS held its annual membership meeting, where the plan to merge with GNHDF was presented. After considerable discussion, the members approved a resolution similar to the one that had been approved by the FHNHS board of directors a month earlier. This resolution endorsed the proposed merger of FHNHS and GNHDF, in accordance with the merger committee's recommendations. It also endorsed "the decisions of the FHNHS board, made on September 23, 1999, including:

- establishing the Merger Steering Committee;
- appointing Debra B. Miller, Robert Keating, Pauline Francey, David Darling, and Pauline Ikawa to that committee, joining J.L. Sweeney and five representatives from GNHDF; and
- granting that committee the authority to prepare for the merger of FHNHS and GNHDF and to manage the affairs of both organizations during the period prior to the merger of FHNHS and GNHDF."

A more significant hurdle for FHNHS was the transfer of assets. Under the plan proposed by the merger committee, any assets owned by FHNHS would be conveyed to GNHDF, restructured and renamed according to the committee's recommendations. The most valuable of these assets was a revolving loan fund (RLF) that had been capitalized in full by the Neighborhood Reinvestment Corporation. The contents of this RLF could not be conveyed without Neighborhood Reinvestment's approval. The Corporation's approval would be needed for another conveyance, as well.

One of the prizes of a FHNHS and GNHDF merger, coveted by all who had participated in the protracted process of exploring and negotiating the consolidation, was the chance to win a NeighborWorks® charter for the blended organization. By the end of phase two, it was still an open question whether Neighborhood Reinvestment would be willing to convey FHNHS's existing membership in the NeighborWorks® network to the postmerger organization, which would inherit FHNHS's other assets, or whether a whole new review and chartering process would be required.

More fundamentally, there were a number of questions about the soundness of the organizational inheritance that the new organization was slated to receive from both FHNHS and GNHDF. Were there problems lurking in the property portfolio of GNHDF or the loan portfolio of FHNHS? Were the financial, reporting and management systems of the organizations equal to the standards required by Neighborhood Reinvestment for NeighborWorks® affiliation? Were the personnel inherited from FHNHS and GNHDF capable of achieving the higher levels of productivity, efficiency and sustainability that the merger's leaders and funders hoped would result from this merger?

Finding answers to these questions was going to be the responsibility of the steering committee that had been appointed to implement the merger and of the Neighborhood Reinvestment program review team that was headed to Nashua to examine the operations of both organizations. This two-person team visited FHNHS and GNHDF during the middle of October, after both boards had voted to proceed with the merger. Their report would not be finished and widely distributed, however, for a couple of months.

Not wishing to delay the merger's implementation, which both organizations were now eager to complete, the leaders of the newly established steering committee decided not to wait for this report before beginning their own work. They met for the first time on November 2, 1999.

Nine of the eleven representatives appointed by the two boards to the steering committee were present.

Eight of them had served on the merger committee. There was one new member present, representing FHNHS. (GNHDF had appointed two new members to its team, but they were absent from this first meeting and never appeared at any that followed.) At the head of the table was the new facilitator, Carolyn Benthien, who was hired with funds provided by Neighborhood Reinvestment to FHNHS to help implement the plan that had come out of phase two of the merger process. The Corporation's representative, LaRayne Hebert, who had participated in the previous phases of the merger process, was also present and would attend all of the steering committee's meetings. Davis, whose work was now done, except for drafting amendments to the GNHDF bylaws, was not in attendance, nor was Mike LaFontaine.

For the first time, no staff members were present to participate in the committee's deliberations. It had been decided that the steering committee should be given the authority to monitor and to supervise the operations of both organizations during the transition period. This committee should function like the board of directors of a consolidated organization, even though the merger had not yet been completed. It was more appropriate, therefore, for the steering committee to convene without staff in attendance, especially since personnel issues were likely to be a high priority on the agenda.

The implementation phase of the Nashua merger began the same way as the negotiation phase had begun. Benthien handed out a task and timeline matrix, sequencing the work that needed to be done to complete the merger (Appendix I). Right away, she ran into resistance from a couple of committee members who had already braved (and barely tolerated) months of meetings and negotiations. It was their opinion 90 percent of the issues that separated the two organizations had been settled in phase two; consequently, they wondered why Benthien wanted to belabor questions they believed had already been answered. From their perspectives, the deal was done; everybody had voted to merge, "so let's merge." The staff could work out any personnel issues or financial issues that remained. More "processing" of the terms and conditions of the merger was simply a waste of time.

These dissenting voices, as it turned out, did not represent the opinion of the majority. Other members of the committee accepted the facilitator's argument, which the Neighborhood Reinvestment representative supported, that it was the steering committee's responsibility to make detailed decisions about personnel policies, job descriptions, and roles and responsibilities of the new board during the pre-merger period. Resolving these issues, along with naming the new organization and deciding whether a simple transfer of assets from FHNHS to GNHDF was legally the best way to complete the merger, were adopted as the committee's priorities. Still, it took another meeting or two before the dissenters were fully convinced that more process was actually needed before the merger could happen.

It was anticipated, at this first meeting in November, that the steering committee's work would take 60 to 90 days. The committee's expectation was that assets would be transferred, a new board would be seated, and the staffs of FHNHS and GNHDF would be combined by the end of February 2000, the one-year anniversary of the first exploratory meeting discussing a possible merger. This expectation was consistent with the timeline distributed by Benthien and the timeline that the merger committee had adopted during phase two.

It turned out to take much longer. The merger was not legally consummated until July 1, 2001. The separate staffs of the two organizations did not physically relocate and begin fully to function as a single, unified staff until November.

Why the delay? By the spring of 2000, the committee dissenters were not the only people raising this vexing question; so too were a number of interested observers outside of the two organizations. Three obstacles appeared during the implementation phase to slow things down.

First of all, a definitive legal decision on the best way to merge the two organizations was put off again and again. Not until January was an attorney retained. Not until April did the steering committee receive an attorney's opinion about, at long last, the tentative decision made back in September by the merger committee not to create a new corporation. Instead, they had decided that the preferred way to go, legally and financially, was to revise GNHDF's bylaws and transfer FHNHS's assets to GNHDF.

Another obstacle to quick implementation was the committee's discovery that job descriptions, personnel policies and performance evaluations were woefully inadequate in both organizations. Although the initial reaction of some committee members was, once again, that it was unnecessary to delve into these matters at this particular time, the majority believed these organizational flaws had to be addressed before the merger's completion. The existing employees of FHNHS weighed in on this issue as well, insisting that they wanted to be evaluated, with a written report placed in their personnel files, before the staffs of the two organizations were merged.

Another delay in completing the merger resulted from the compromise that was struck during phase two regarding the location of the new organization's offices. The merger committee had recommended, and the boards of the two organizations had agreed, that the offices owned and occupied by FHNHS would become the corporate headquarters of the merged organization, and a satellite office would be retained at the former site of GNHDF's office.

The merger committee had also suggested that the staffs of the two organizations should begin meeting and working together during the implementation phase, long before the merger was actually completed. Indeed, in the "what's next" timeline for the merger, the committee had hoped that the two staffs might begin functioning as one in November. This did not occur for another year.

The executive director for GNHDF, backed by members of the organization's board, refused to relocate to the French Hill neighborhood or even to consolidate staffing functions until someone could be hired to staff the satellite office. This was, for her and for her board, a matter of keeping faith with GNHDF's original constituents in the Tree Streets neighborhood. Holding out for additional help was prompted, as well, by the fact that GNHDF had live projects in the development pipeline, which a one-person staff was trying to move forward amidst the clutter, confusion and uncertainty of a merger.

Faced with these realities, the steering committee was forced to divert attention away from other merger matters and to concentrate immediately on drafting a job description for a community organizer and overseeing the process of hiring this new employee, who would work out of GNHDF's former offices. This slowed the pace of the merger's implementation.

Despite these unforeseen delays, the steering committee continued to meet, acting as the de facto board for both organizations, while gamely chipping away at a mountain of merger minutiae. By the start of the new year, job descriptions had been reviewed and revised for the executive director, the asset manager and the rehab specialist. Revised job descriptions were in the process of being drafted for the loan officer and administrative assistant. A job description detailing the roles and responsibilities of board members had been developed. A first draft of revised personnel policies had been distributed for the committee's review. And, after much discussion, a name had been selected for the new organization:

Neighborhood Housing Services of Greater Nashua (NHSGN).

The merger committee also had in hand, for consideration at its meeting on January 6, 2000, the written report from Neighborhood Reinvestment's program review team, which had examined the finances, systems, and policies and procedures of both FHNHS and GNHDF. This report revealed several areas of concern.

- Weaknesses in financial management and reporting for both organizations;
- Incompatibilities between FHNHS's accrual-based system and GNHDF's cash-based system;
- The need for a detailed understanding of all contractual agreements and obligations for both organizations; and
- The need for improved personnel policies (a deficiency which the steering committee did not begin tackling until after the program review team had come and gone).

Although members of the steering committee had previously been reluctant to divide themselves into separate committees, the sheer magnitude and complexity of the merger tasks that remained, given new clarity and urgency by the report of Neighborhood Reinvestment's program review team, prompted them to create five different work groups. One group would focus on issues of financial consolidation, fiscal policy congruence and management alignment. LaRayne Hebert offered the services of a Neighborhood Reinvestment financial consultant to assist this group. This consultant, Jim Word, visited Nashua on January 12 and later provided specific recommendations for improving and integrating the financial management systems and the computer systems of the two organizations.

The second work group focused on preparing a summary of contracts and commitments that were outstanding for each organization. The remaining three groups focused, respectively, on personnel policies and job descriptions, governance of the new organization, and the legal documents that would be needed to effect the transfer of assets once the question of corporate structure was settled.

The steering committee met one more time in January to review final drafts of the job descriptions and personnel policies and to approve salary ranges for each position. The personnel committee was given the authority to present these job descriptions and salary ranges to the existing staff of FHNHS and GNHDF and to ask who might be interested in staying with Neighborhood Housing Services of Greater Nashua, once the merger was completed.

The committee then adjourned, agreeing that the separate work groups would continue to labor away on their respective assignments. The whole committee would not meet again until there was a legal opinion on the question of the best way to structure the postmerger corporation and to arrange for the transfer of assets. Two months passed before that opinion arrived.

The steering committee reconvened on April 3. At long last, an attorney's opinion letter was in hand, accompanied by the documents needed to complete the merger. The work group assigned to deal with legal issues reported that the structure recommended long ago by the merger committee was not only acceptable but preferable. The changes in GNHDF's bylaws that Davis had drafted at the conclusion of phase two, incorporating the merger committee's recommendations for the postmerger organization, could be dusted off, given a quick review by the committee's attorney and adopted by GNHDF's existing board of directors. FHNHS's assets and obligations could then be transferred to GNHDF, restructured and renamed Neighborhood Housing Services of Greater Nashua.

The other work groups had not been idle since the steering committee's last meeting. Members of the personnel work group had met individually with existing staff at FHNHS, completed performance evaluations for each person and determined that all staff members wished to retain their former positions in the postmerger organization. This included GNHDF's executive director who, after considering whether to narrow her role in the new organization to that of housing developer, decided that she would prefer being the executive director.

The only sticking point was that FHNHS's staff members were worried about losing the sick leave and vacation time they had accrued under a policy that was more generous than the personnel policies that the postmerger organization would allow. The steering committee removed this problem by adopting a motion protecting the accrued leave and vacation time of existing employees. The committee affirmed that all existing employees of FHNHS and GNHDF would be employed in a similar capacity after the merger.

The financial-consolidation work group shared with the other steering committee members the recommendations from the Neighborhood Reinvestment consultant for merging the financial management systems of the two organizations. It was agreed that staff should develop a plan for addressing these recommendations and should arrange for a premerger audit of both organizations. The financial consolidation work group also presented an annual operating budget for the new organization (Appendix F), which was reviewed and approved by the entire committee.

The only task that remained for the steering committee was to decide who should serve on the new board, filling the categories agreed upon during phase two. The governance work group reported that all members currently serving on the boards of FHNHS and GNHDF would be willing to serve on the board of the new organization. Since there had been attrition on both boards during the long period of negotiating and implementing the merger, every director that remained could be invited to serve on the new board. It was agreed that such an invitation should be extended and that all tasks assigned to the work groups should be completed by the end of April. The hope was that the first official meeting of the new board could be held in May.

This time, the committee's deadline was met. On May 30, 2000, individuals who were to serve as the board of directors of NHSGN convened for the first time. Four of the thirteen directors for this new board had previously served on the board of GNHDF. Five had previously served on the board of FHNHS. One had previously served on the boards of both organizations. Three had served on neither board. For the first time since the merger's implementation phase had begun, a member of the staff was also present: Bridgett Beldon Jette, GNHDF's executive director, who had agreed to become executive director of the postmerger organization.

More significantly, for the first time since the merger process had begun in February 1999, there were no outsiders in attendance: no private consultants, no one from the New Hampshire Affordable Housing Network, no one from the New Hampshire Charitable Foundation, and no one from the Neighborhood Reinvestment Corporation. Alone at last, the board and staff of NHSGN were ready to run the organization that had emerged out of an arduous process of merging two nonprofit housing development organizations.

The first order of business was the board's own organization. Debbie Miller was named the first president of NHSGN. She had served as president of FHNHS and was its de facto executive director amidst the turbulent comings and goings of a founding executive director and an interim director, and she had set the merger process in motion more than a year before. Roger Duhamel, who had served as GNHDF's president, was named vice president of the newly merged organization.

Members of the board then reviewed the boundaries and bylaws for NHSGN. They agreed that both should take essentially the same form that had been previously recommended by the merger committee, although the boundaries of both target neighborhoods (French Hill and the Tree Streets) should be slightly expanded. Final ratification of the new organization's boundaries and bylaws was scheduled for the board's next meeting. This was to be an all-day retreat, combining strategic planning with adoption of the bylaws and of a conflict-of-interest policy. The board decided that Carolyn Benthien should be invited to facilitate this planning session and that all members of the board and the staff for the new organization should be included. The date set for this retreat was June 24.

The retreat was the final chapter in the process of merging French Hill Neighborhood Housing Services and the Greater Nashua Housing and Development Foundation. Appropriately, it was also the first chapter in the process of launching Neighborhood Housing Services of Greater Nashua. Bylaws were formally adopted. New directors were formally seated. New officers, named in the previous meeting, were formally elected. And a strategic plan for the new organization (Appendix J) was carefully outlined.

Another outcome was just as important in laying a foundation for the future. As the day progressed, there was a subtle but dramatic shift in the language and perceptions of the meeting's participants. Boundaries that had distinguished and divided FHNHS and GNHDF began to blur. For the first time, staff and board began using "we," taking possession of the organization for which they now had joint responsibility. By the day's end, the merger of FHNHS and GNHDF was finally, officially complete. ■

Learning from the Merger Process

A suggestion was made in the opening pages of this narrative that nonprofit mergers like the one completed in Nashua may be too recent and too few to say for certain what the ingredients may be for their success. A warning was also sounded about leaping too quickly to apply the lessons from one collaboration to another, uncritically assuming that what worked especially well in one situation will work equally well somewhere else. Both cautions are worth repeating. It is always risky to suggest that a single edifice, no matter how carefully constructed, should serve as a blueprint for similar projects on similar sites.

While no such claim is made for the Nashua merger, a number of things that were tried in the process of combining FHNHS and GNHDF had pretty good results. It may be too soon to proclaim any of them a "best" practice for crafting collaborations or for consummating mergers, but many seem solid enough to warrant a closer look. Nashua's problem, after all, is not unusual, nor is the way it was solved. Collaboration is being proposed with increasing frequency by funders, policymakers and practitioners across the country as a preferred strategy for addressing weaknesses arising within the nonprofit housing sector, especially when multiple nonprofits share the same locale. Merger – the most extreme form collaboration can take is becoming a common occurrence. Before moving too far and too quickly down this unfamiliar path, however, it makes sense to reflect on where we've been, report on what we've seen and share what was learned along the way.

What lessons can be gleaned from the Nashua merger? What worked well in that particular New England city that might work well in exploring, negotiating and implementing similar collaborations in other communities?

First of all, it should be acknowledged that some of the things that helped Nashua's process to succeed were purely serendipitous. They were not planned or programmed. They were simply there, a constellation of golden opportunity and simple good luck that made it more likely that any intervention nudging the two organizations closer together was going to work. To admit this is to take nothing away from those who designed and facilitated this lengthy process, nor from those who participated so willingly in it. They did a fine job. There is much to be learned from their conversations and deeds.

Their performances took place, however, on a stage set by circumstances beyond their personal control, favoring precisely those outcomes these practitioners and participants were most intent on achieving. Any list of fortuitous circumstances in the Nashua case would have to include the following:

- Two organizations with complementary programs and complementary strengths;
- Two organizations with weaknesses of a size and severity not likely to jeopardize the survival of the postmerger organization;
- Two housing portfolios containing neither serious bleeders nor ticking bombs;
- The departure, at a timely moment, of the executive director of FHNHS;
- Core competency among the staff that remained;
- Leadership on the FHNHS side of the table by a capable president who – after helping to remove an executive director, hire an interim director and fire that interim director, and after playing a hands-on role in helping to manage FHNHS for nearly a year – had the confidence and determination not only to initiate the merger process but to see it through to the end;
- Leadership on the GNHDF side of the table by a board member who, after participating in a merger the year before involving the social service agency of which she was the director, had the knowledge and credibility to help steer GNHDF through a merger of its own;
- Participation on the exploratory committee, the merger committee and the steering committee by individuals who managed, nearly all of the time, to check their organizational loyalties at the door, bringing to the conversation a spirit of civility, cooperation and compromise; and
- Hands-off support from institutional funders who had the patience to wait for the right moment to intervene and, once the merger process began, the wisdom to resist the temptation to pick the participants, pressure the process or second-guess the products that slowly emerged during a year-and-a-half of meetings.

Without these serendipitous ingredients, the process of merging FHNHS and GNHDF would have gone far less smoothly and taken far more time. Yet it is also true that these favorable circumstances would never have been sufficient, entirely by themselves, to engender a merger. Someone had to make it happen, guiding the prospective partners through a process that was carefully planned and artfully executed. Luck played a part, but design won the day. In the end, the most important lessons to be learned from the Nashua merger are to be found among those pieces of the process under the conscious control of one (or more) of the practitioners who made that merger a reality.

Dividing the Process into Manageable Phases

What worked especially well in Nashua was the division of a lengthy and complex process into three distinct and manageable phases: exploration, negotiation and implementation. From first mention of the possibility of combining FHNHS and GNHDF until the final transfer of assets from one corporation to another, the process took nearly a year and a half. Only by breaking this merger marathon into shorter intervals could the interest, energy and commitment of the participants be sustained: a three-month gallop for phase one, a five-month canter for phase two and a nine-month saunter for phase three.

For each phase, there was a clear beginning and a clear end. There were different goals; there were different tasks; and, as it happened, there were different facilitators. Each phase began by mapping the road the committee would follow. Each phase ended by documenting the ground the committee had covered, while pointing out where everyone should go next. Each phase provided, in short, a sense of progress, a sense of closure and a clear view of the road ahead.

Making Use of Outside Facilitators

Having a neutral party on hand to convene, to guide and, on occasion, to referee the meetings being held to discuss a possible merger was essential. No matter how favorably disposed toward one another the participants in these discussions undoubtedly were, no matter how ready to pursue a merger, there were plenty of times when different interests, experiences or organizational histories resulted in a disagreement over what the merged organization should be or do.

At those moments, having a disinterested person at the head of the table, imposing order and pointing in a single direction was essential to finding common ground. Even when agreement seemed easy, the sheer complexity and length of the merger process made it necessary for one person to act as “clerk of the works” for the process as a whole. Someone who kept in mind the overall plan for the job, ensuring that every piece eventually got done and that every moving part actually fit together was needed.

There was a special advantage, in the Nashua case, to having three different facilitators, one for each phase of the merger process. This was probably a luxury more than a necessity, since any one of the three facilitators used in the Nashua merger could have overseen the entire process. Changing facilitators, on the other hand, helped to demarcate each phase: bringing each to a clear conclusion; starting each with a new agenda and a fresh face. The different backgrounds and styles of the three facilitators, moreover, seemed especially well-suited to the distinctive tasks of the particular phase that each was asked to oversee.

Because of his previous history and personal credibility with all parties, Mike LaFontaine was able to win quick consensus on points of commonality and to secure a ready commitment to a process aimed at merging the two organizations. Because of his previous experience designing and facilitating similar nonprofit mergers, John Davis was adept at negotiating agreement on points of divergence, resolving key issues of program and governance. Because of her expertise in board development, staff development and strategic planning, Carolyn Benthien was the perfect choice to force attention to issues of personnel and performance that had long been overlooked by both organizations – issues that could no longer be ignored if the postmerger organization was to succeed.

It should be noted, as well, that while LaRayne Hebert did not serve as a facilitator per se, she was often able to move a discussion along when it got stuck on questions of what Neighborhood Reinvestment Corporation might do or might accept. Because winning a place in the NeighborWorks® network was so important a prize of Nashua’s merger process, finding answers to such questions could easily have diverted and delayed the committees’ deliberations. This never happened, because someone with technical knowledge of Neighborhood Reinvestment's requirements was always in the room, helping the committee to navigate around any shoals that might have interrupted the flow of their conversation.

The only drawback to using sequential facilitators was the discontinuity that occurred between phases two and three. Two months went by between the last meeting of the merger committee on September 8 and the first meeting of the steering committee on November 2. More disruptive than the passage of time, however, was the lack of overlap between the second facilitator and the third. Unlike the transition from phase one to phase two, where LaFontaine had stepped down as the facilitator but continued to participate in the deliberations facilitated by Davis, neither LaFontaine nor Davis participated in the meetings of phase three. Benthien went it alone. Furthermore, unlike the extensive discussions that occurred between LaFontaine and Davis prior to Davis's assumption of responsibility for facilitating the merger committee, Benthien and Davis did not have a single conversation until after her first couple of meetings with the steering committee. In retrospect this hand-off of responsibility between Davis and Benthien could have been handled more smoothly.

Not only should they have met prior to the first meeting of the steering committee, Davis should probably have attended the first meeting of that committee. It would have made Benthien's job easier if he had been there to remind everyone of tasks undone in phase two that had been intentionally deferred to phase three. He could have shared the burden of persuading disgruntled members of the committee that much remained to be done before FHNHS and GNHDF could merge.

Compiling a Written Record

One of the key services performed by all three facilitators was ensuring the preparation and distribution of a written record of issues confronted, decisions deferred and decisions made. This allowed each committee to keep track of its progress, enabling one decision to build on another. It kept decisions from getting revisited or lost. At the end of each phase, this written record became the basis for comprehensive reports to the respective boards. After the merger, this historical record helped new members (and old members) of the consolidated organization's board to recall the choices confronted and compromises reached by their predecessors in putting the merger together.

Board Domination of the Bargaining Committee

The committees charged with overseeing each phase of the merger process were composed almost entirely of individuals drawn from the FHNHS and GNHDF boards. The only staff members involved in these discussions were the executive director from one organization and the interim director from the other, and they were involved only during phases one and two. No staff members were involved in the deliberations of the steering committee. Even when members of the staff were present, representatives from the two boards outnumbered them five-to-one. This was a conscious decision.

From day one, the merger was designed to be a board-driven process. Board members were considered (correctly) to be less protective than the two staffs of organizational turf, less entrenched in old ways of doing business and more receptive to blending the operations of the two organizations. They had less baggage to shed from previous conflicts involving FHNHS and GNHDF. They had less to lose if a merger went forward, including their jobs. They also had more leverage with their peers, which would be essential in convincing their fellow board members to support whatever merger plan emerged from the committees' deliberations.

Beyond these pragmatic considerations, board members were tapped to take the lead in exploring, negotiating and implementing the merger of FHNHS and GNHDF simply because it was their legal, fiduciary and moral responsibility to do so. Merging two nonprofit organizations, accompanied by the probable dissolution of one (or both), is board business. It should not be assigned to someone else, even to capable and trusted staff.

A Clear Delegation of Authority

Members of the merger committee and, later, the steering committee, were given clear grants of authority to pursue the merger of FHNHS and GNHDF. As each phase concluded and before another began, both boards were required to adopt formal resolutions endorsing the progress made to date, naming the individuals who would continue to bargain on their behalf, and specifying the scope of authority allowed their representatives in moving the merger forward.

This process of returning periodically to the boards to renew the committee's authority accomplished a number of objectives. It gave legitimacy to the process itself, forcing anyone who might have objected to the proposed merger to challenge the content of the recommendations, not the motives of the people making those recommendations. It bolstered the confidence and strengthened the hand of those who were negotiating the merger. At the same time, it set limits on how far they could go on their own, reassuring board members who were still hesitant about the merger that nobody was going to strike a bargain without their knowledge and without them getting a chance to revise or reject it.

Private Discussions, Comprehensive Reports

Both boards were kept informed only in a general way about the progress being made in the merger talks. Specific details and results of the committees' deliberations were withheld from the boards until the conclusion of each phase. Decisions were then presented to the boards as a single package, containing a comprehensive set of recommendations for how the merger should proceed. This arrangement protected the confidentiality of the committees' deliberations, allowing members the privacy and freedom to propose ideas, explore options, voice concerns and consider compromises that might never have surfaced had these discussions occurred in the public eye. By not reporting to the boards in a piecemeal fashion, moreover, the committees avoided the potential problem of having the interlocking pieces of the merger puzzle second-guessed and possibly rejected before it was clear how those pieces fit together. An integrated plan for merging the two organizations, when finally presented to both boards, was less likely to be unraveled.

Decision-making #1: Discussing without Deciding

During the exploratory phase of the Nashua merger, and during the early days of negotiating the merger, participants were given opportunities to explore in a freewheeling fashion the most difficult issues without any pressure to decide them. These breathless glimpses of organizational serpents likely to be lurking in the weeds revealed a few to be less dangerous than feared. Others were rendered less harmful by sheer repetition, defanged by their familiarity. By the time it became necessary to decide these issues and to make recommendations to the respective boards, reaching consensus proved relatively easy.

Decision-making #2: Saving Harder Issues for Later

Discussing without deciding major merger issues had the added advantage of helping the facilitator for phase two to anticipate which issues might be the hardest to resolve. The most difficult and potentially divisive issues were bumped from earlier meetings of the merger committee and saved until later.

For example, the question of permanent affordability arose in the committee's second meeting. The committee side-stepped this issue by adopting an ambiguous wording in its recommended mission statement, saving a more detailed discussion of permanent affordability, and arriving at a more explicit recommendation, one month later, in its fourth meeting.

Another example: The committee recognized during its discussion of service area that there was a site-specific component to neighborhood revitalization. That is, there was a need for staff to be physically present in a neighborhood for outreach and organizing to occur. They also recognized, however, that this issue might be somewhat contentious, since it required a decision about where the offices of the merged organization should be located. Sensing this, the committee wisely deferred this discussion until later. They did not return to the question of location until the very end of their process.

Decision-making #3: The Importance of Closure

Committee members, during the negotiations of phase two, were encouraged to approve recommendations they could support sending to their boards for discussion and decision, even if they did not personally endorse every detail of the recommendation. Each recommendation remained tentative until the committee's next meeting. After each meeting, a report of the recommendations tentatively adopted at that completed meeting was circulated to the committee's members.

The first order of business at the committee's next meeting was to consider formally adopting these recommendations. Any committee member could request reconsideration of any recommendation previously adopted, but that opportunity lasted for one meeting only. Then, the matter was closed, at least as far as the committee was concerned. Committee members would get another shot, of course, once the recommendations reached their respective boards, but inside the committee everyone got only one chance to revisit an issue that had already been decided. Then it disappeared from the committee's agenda.

Maintaining Continuity

At the first meeting of the merger committee, the members were asked to commit to a minimum of five meetings. They were warned that more meetings might be required. (In the end, it would take eight meetings, over a three-month period, for the merger committee to complete its phase of the work.) During that time, the composition of the committee did not change, nor did any member miss more than a single meeting. Most missed none. Between phase two and phase three, several new members who had not participated in the previous discussions of the merger committee were added to the steering committee.

The committee's core composition, however, stayed the same. Indeed, this core remained constant throughout all three phases. Such continuity allowed deliberations to proceed in a steady, linear fashion, with the results of one meeting providing the foundation for the next. There was nearly no backtracking to bring absent members up to date. There was almost no second-guessing of decisions already made.

Alternating between Big Dreams and Small Details

Amidst the detailed consideration of programs, budgets, locations and staffs, each committee was periodically encouraged by its facilitator to speculate on a larger mission, a wider territory, a bigger staff or an expanded capacity to build more housing and to serve more people than either organization had ever thought possible. The small details of making the merger were balanced by big dreams of what the new organization might be and do. Worrying the details kept the committees grounded. Exploring the possibilities kept the committees going, reigniting their interest in seeing the process through.

Keeping the Funders Informed—but Uninvolved

The principal public and private funders of the two organizations, partially by happenstance and partially by design, were not represented on any of the committees once merger talks got underway. This was a windfall.

A representative of the city of Nashua had been invited to attend the deliberations of the merger committee because he was an ad hoc member of the GNHDF board, but he was unable to attend. The staff person for the Housing Futures Fund, Nike Speltz, had also been invited, but she was out of the country for much of 1999. Other funders, including the New Hampshire Housing Finance Agency (NHHFA), United Way, and the Office of State Planning, the agency that administers Community Development Block Grants in New Hampshire, were never asked. Only Neighborhood Reinvestment, a long-time financial backer of FHNHS, had a place at the table, but its representative (LaRayne Hebert) was regarded more as a provider of essential information than a funder.

These outside organizations, all of whom had funded either FHNHS or GNHDF in the past, were kept informed of the merger talks. All were supportive of the possibility that FHNHS and GNHDF might eventually find a way to merge. But not having them in the room, while the details of this merger were being hammered out, was a very good thing. It allowed the representatives from the two organizations to speak more frankly about vulnerabilities in their own operations. It also encouraged them to explore more freely their options for creating a more expansive organization than anyone had envisioned or funded heretofore – a postmerger operation that might require more funding than the two organizations had received in the past, not less.

Keeping the Lawyers at Bay

The Nashua merger was a process that was neither driven nor dominated by lawyers. Admittedly, the long wait for a definitive opinion about the best way to structure the postmerger corporation created difficulties and delays. An attorney should have been recruited and hired much sooner. Nevertheless, it was still the right decision to let representatives from the two boards determine the merger's fundamental shape and form before an attorney was brought into the process. They were the ones who had to make, and to own, the key decisions defining the new organization's mission, governance, clients, target area and the like. They did so, and did a very good job, without a hired attorney in the room.

It was prudent as well to defer any legal review of the postmerger structure until Neighborhood Reinvestment's review team had examined the operations and assets of both organizations. Had deep-seated problems been discovered in this review, it might have changed the attorney's scope of work and the attorney's recommendation about structuring the postmerger organization. Doing due diligence before starting work on the legal aspects of a merger does not save time, but it can save money and, possibly, later aggravation, focusing that legal work where it can do the most good.

Due Diligence

Due diligence came rather late in the process of merging FHNHS and GNHDF. As phase three was beginning, a review team from Neighborhood Reinvestment visited both organizations and conducted a close examination of their finances, systems, portfolios, policies and procedures. A written report of the team's findings was made available to the steering committee and to the boards of both organizations a month later, in December 1999. It arrived in the nick of time. The weaknesses revealed in this report became, in effect, a checklist of issues that the steering committee would need to address in order to implement the merger. The strengths revealed in this report – specifically, the finding of no financial time bombs ticking away within the finances or portfolios of either organization – became the basis for the committee's decision to consummate the merger by simply transferring assets from FHNHS to GNHDF (after amending GNHDF's bylaws). Given the absence of life-threatening problems lurking beneath the surface of the two organizations, there was no need to create an entirely new corporation to receive the assets of both FHNHS and GNHDF.

Due diligence was performed soon enough in the Nashua process to make the merger possible, but should it have been done earlier in the process to have made the merger easier? One answer is that the sort of scrutiny that was done by the Neighborhood Reinvestment review team should only take place after negotiations of the merger committee are finished and after the decision to merge is made. To do so any earlier might have undermined the process of building trust and reaching consensus that was going on in phase two. Such scrutiny would probably have raised the hackles of staff, since both organizations were operating with minimal personnel throughout the merger talks.

GNHDF's executive director, in particular, had never been subjected to the standards and procedures used by a Neighborhood Reinvestment review team to evaluate her organization. She would have considered such a review to be both onerous and disruptive of her determined efforts to keep units moving through the development pipeline. It can be argued, in short, that due diligence was performed in Nashua at precisely the right time, following the negotiations of phase two and preceding implementation.

On the other hand, an argument can be made that an objective assessment of the strengths and weaknesses of both organizations might have been useful earlier in the process. It might have allowed the negotiations of phase two to consider more closely and to resolve more precisely some of the personnel issues that proved so troublesome in phase three. Had the merger committee had a clearer sense of the inadequacies to be found in the policies, procedures and systems of the parties involved in these merger talks, work might have begun long before the spring of 2000 to strengthen these organizational elements.

It might be argued, in short, that too much time was spent during the exploratory phase emphasizing the strengths and compatibilities of the two organizations, with not enough spent assessing what needed to be "fixed" in each organization to make it a worthy partner. Due diligence, in this perspective, should have been done during phase one, providing grist for the negotiations that occurred in phase two.

Regardless of whether due diligence is done during exploration or following negotiations, it is clear that it must be done thoroughly and objectively before the merger is finalized. Every merger is driven by the bountiful promise of efficiencies, enhancements and rewards lying just beyond the horizon. Every merger is contingent, however, on the successful management of anxieties, risks and costs lurking in the here and now. Assessing these risks, counting these costs and assuaging the anxiety of both the prudent and the paranoid is the necessary work of due diligence. It can be done early. It can be done late. It must be done well.

Bridging the Organizational Divide

The ultimate lesson of the Nashua merger is that differences and distances between two nonprofit organizations can be bridged, even when competition or occasional conflict has marred previous interactions. Building this bridge is not quickly or easily done, however. Nor is success assured once the process has begun.

While exploring collaboration, the process itself may reveal an inability on the part of key participants to conduct the sort of civil, self-critical conversation among equals that collaboration requires. While negotiating the terms of collaboration, the participants may discover what they believed were reconcilable organizational differences to be, in actuality, deeply entrenched incompatibilities of values, politics or priorities. While implementing a plan of collaboration, the participants may discover what they believed were curable organizational difficulties to be, in actuality, fatal flaws. Nearly always, these are deal-killing discoveries.

That none of them emerged during the Nashua merger was due, in equal measure, to the good will of those participating in the process, the good work of those conducting the process, and the good luck that blessed the process from the very beginning. All three were essential to making this nonprofit merger a reality. ■

Appendices

(Appendix B-K are listed
for information only)

Appendix A: Chronology of the Nashua Merger

Appendix B: Proposed Sequence of Events

Appendix C: Comparison of Purposes and Programs

Appendix D: Recommended Beneficiaries for the Merged Organization

Appendix E: Comparison of Organizational Structures

Appendix F: Annual Operating Budget

Appendix G: GNHDF/FHNHS Merger: What's Next?

Appendix H: Recommendations of the Merger Committee

Appendix I: Timeline for Completing the Merger

Appendix J: NHS of Greater Nashua: Strategic Plan, 2000–2003

Appendix K: Overview of New Hampshire Affordable Housing Network (1997)

Chronology of the Nashua Merger

INCUBATION

1988 Incorporation of the Greater Nashua Housing and Development Foundation (GNHDF)

1991 Incorporation of French Hill Neighborhood Housing Services (FHNHS)

1997 April

Assessment of strengths, weaknesses and opportunities for collaboration among New Hampshire's nonprofit housing organizations (including FHNHS and GNHDF), conducted by the New Hampshire Nonprofit Housing Network

June

Assessment of FHNHS/GNHDF merger possibilities by Nike Speltz and Mike LaFontaine on behalf of the New Hampshire Housing Futures Fund

1998 September

Departure of FHNHS executive director

EXPLORATION

1999 February 14

At the instigation of Debbie Miller, chair of the FHNHS board, representatives of FHNHS and GNHDF meet with Mike LaFontaine and Nike Speltz to discuss the opportunity for merger presented by departure of FHNHS's executive director.

March 16

Exploratory committee, meeting #1. Representatives of FHNHS, GNHDF, the New Hampshire Affordable Housing Network and two funders (Neighborhood Reinvestment Corporation and New Hampshire Charitable Foundation) meet to explore the possibility of an FHNHS/GNHDF merger.

March 26

Exploratory committee, meeting #2. Facilitated by Mike LaFontaine, this meeting weighed the pros and cons of a possible merger and identified components of a mission statement for the merged organization.

April 8

Conference call among the FHNHS president, GNHDF executive director, Neighborhood Reinvestment field representative, Mike LaFontaine and John Davis. Planning for phase two of the merger process, including the possibility of hiring Davis to facilitate the negotiations.

April 9

Exploratory committee, meeting #3. Exploration of various options for structuring a merged organization. Decision made to hire Davis to facilitate phase two of the merger process.

May

The boards of FHNHS and GNHDF approve formal resolutions, drafted by LaFontaine

Chronology of the Nashua Merger

NEGOTIATION

1999 May 28

Merger committee, meeting #1. Representatives of FHNHS and GNHDF, joined by Neighborhood Reinvestment's LaRayne Hebert and Mike LaFontaine, convene for the first time as the FHNHS/GNHD merger committee. Davis presents a plan and timeline for negotiating key merger issues. Topics: com mittee roles and rules, committee composition, process for decision-making, confidentiality, merger tasks and sequence of events for upcoming meetings.

June 18

Merger committee, meeting #2. Topics: mission and purposes, service area, beneficiaries and existing programs.

July 2

Merger committee, meeting #3. Topics: service area, beneficiaries, new programs, permanent affordability and board composition.

July 16

Merger committee, meeting #4. Topic: board composition.

July 30

Merger committee, meeting #5. Topics: board composition, board selection, membership, term of office for directors, board voting (quorum and proxy votes).

August 13

Merger committee, meeting #6. Topics: proxy voting, standing committees, affiliations and staffing plan.

August 27

Merger committee, meeting #7. Topics: post-merger staffing plan, transition staffing plan, tasks and timeline for completing the merger, hiring an attorney, combined budget and location of postmerger offices.

September 10

Merger committee, meeting #8. Topics: attorney and other consultants needed to complete the merger, corporate structure and postmerger transfer of assets, operating budget, location of postmerger offices, name of merged organization, approval of tasks and timeline for completing the merger. A decision was made to hire Carolyn Benthien to facilitate phase three of the merger process (implementation).

IMPLEMENTATION

September 23

FHNHS board meeting. Board approves a formal resolution endorsing the proposed merger of FHNHS and GNHDF in accordance with the merger committee's recommendations. Resolution also names five persons to a "merger steering committee" and grants the committee the authority "to take all actions necessary to prepare for the merger of FHNHS and GNHDF and to manage the affairs of both organizations during the period prior to the merger."

October 5

GNHDF board meeting. Board approves a formal resolution endorsing the proposed merger of FHNHS and GNHDF in accordance with the merger committee's recommendations. Resolution also names five persons to a "merger steering committee." and grants the committee the authority "to take all actions necessary to prepare for the merger of FHNHS and GNHDF and to manage the affairs of both organizations during the period prior to the merger."

October 13–15

On-site program review of FHNHS and GNHDF conducted by Neighborhood Reinvestment team (A. Cuozzo and J. McFate).

IMPLEMENTATION

1999 October 28

FHNHS annual meeting. Membership approves formal resolution endorsing the proposed merger of FHNHS and GNHDF and ratifying the September 23 decisions of the FHNHS board establishing the merger steering committee and granting that committee the authority to manage the affairs of both organizations.

November 5

Steering committee, meeting #1. Topics: tasks and timeline for completion of merger, and roles and responsibilities of merger committee.

November 8

A set of revisions to GNHDF's bylaws prepared by Davis and distributed to the steering committee. These revisions incorporate the merger committee's recommendations for structuring the post-merger organization.

November 29

Steering committee, meeting #2. Topics: FHNHS and GNHDF operational issues, attorney search and selection of corporate name: Neighborhood Housing Services of Greater Nashua.

December 6

Steering committee, meeting #3. Topics: FHNHS and GNHDF operational issues, proposed hiring of community organizer, and review of roles and responsibilities for executive director.

December 8

Program Review Assessment Report provided to the boards of FHNHS and GNHDF by Neighborhood Reinvestment program review team.

2000 January 6

Steering committee, meeting #4. Topics: FHNHS and GNHDF operational issues; attorney hired to provide counsel on corporate merger; approval of job descriptions for community organizer, executive director, asset manager and rehab specialist; review of board job description; discussion of report from Neighborhood Reinvestment program review team.

January 12

Neighborhood Reinvestment consultant, Jim Word, on site in Nashua to review computer systems and financial operations of both organizations and to recommend measures for integrating the two.

January 27

Steering committee, meeting #5. Topics: approval of job descriptions for office manager and loan officer, approval of personnel policies and funding request for community organizer.

April 3

Steering committee, meeting #6. Topics: review of attorney's opinion on completing the merger, review of Jim Word's report on financial consolidation, personnel and board recruitment.

May 30

Organizational board meeting for Neighborhood Housing Services of Greater Nashua (NHSGN).

June 24

Staff and board retreat. NHSGN bylaws formally adopted. A strategic plan outlined for the new organization.

July 1

Official date for completion of FHNHS/GNHDF merger.

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