TO MERGE OR NOT?

WHAT CHAMBER AND ECONOMIC DEVELOPMENT PROS HAVE TO SAY ABOUT THIS RECURRING QUESTION.

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IN THE LAST DECADE, A VARIETY OF FACTORS AND CAUSES HAVE CREATED A TREND TOWARDS MERGING CHAMBERS AND ECONOMIC DEVELOPMENT ORGANIZATIONS.

This trend is often driven by another important trend – regionalism. For example, the Four Flags Area Chamber of Commerce and the Southwestern Michigan Economic Growth Alliance merged in 2019 to form the Greater Niles Chamber of Commerce – an organization that will promote economic development in a region that spans two states. Independently, these organizations were advocating for their own economic development interests but realized **they could be far more effective as a regional organization**, especially when it comes to business attraction. "Whenever we're working with site selection consultants or working with companies about locating to new sites or buildings, they don't care about arbitrary municipal boundaries or even state lines. They care about what the work force is going to look like within a 30-mile drive of this dot on the map," said Barkley Garrett, Director of Economic Development for the Greater Niles Chamber. By merging the two organizations, Garrett and his colleagues will be better able to address the needs of executives and site selectors. **This notion that smaller communities can and should compete much more effectively through closer collaboration has and will continue to drive discussions of organizational consolidations and mergers.**

CITIES LIKE INDIANAPOLIS COMPLETED MERGERS TO BETTER ALIGN THE RESOURCES OF MULTIPLE ORGANIZATIONS.

In 2012, the Greater Indianapolis Chamber of Commerce, Develop Indy, Indy Partnership, and Business Ownership Initiative merged, with then-Mayor Ballard stating, “Aligning the strategic resources of these organizations with those of the Chamber will better position our efforts to attract new jobs and grow existing companies” (Indy Chamber, 2012). By bringing the four organizations together, they had greater resources to put towards business recruitment and supporting the existing business ecosystem. This is true for both financial and staff resources – something that organizations are often lacking.

OTHER CHAMBER AND ECONOMIC DEVELOPMENT ORGANIZATIONS ARE MERGING TO ACCELERATE RESULTS.

GoTopeka is an excellent example of this. The community was hungry for a holistic community-wide strategy. President & CEO, Matt Pivarnik, said the decision also came down to competitiveness. “Why are we competing with ourselves when we need to compete with the rest of the world? If we are completing against the world we should be on the same team, rather than working separately from each other.” By merging the Greater Topeka Chamber, Go Topeka (EDC), Visit Topeka and Downtown Topeka Inc., into the larger GoTopeka, they were able to combine resources, raise additional capital, become more competitive and achieve accelerated results for the community.

CHANGES IN LEADERSHIP CAN ALSO IGNITE THE MERGER CONVERSATION.

Often when a CEO retires, communities are left wondering if they should stay the course or change their direction. If there is dissatisfaction with results or a desire to grow, the decision to merge may be the natural result of those conversations. This was the case in Fond Du Lac, Wisconsin. The retirement of local leaders resulted in the community considering the direction they wanted to go next. The business community and investors saw it as an opportunity to merge organizations to gain a unified voice for the community, believing they could accomplish more and better leverage their resources by combining the chamber and economic development organization. As a result, Envision Greater Fond du Lac was born. According to Cecilia Harry, President & CEO, “The community has responded very positively to the merger and is pleased to see there is one message going forward.”

WHAT'S YOUR VISION?

WHEN CONSIDERING A MERGER, IT IS CRITICAL TO ENSURE THAT MEMBERS AND SUPPORTERS OF BOTH ORGANIZATIONS WILL GET BEHIND THE MERGER AND WILL SHARE THE SAME VISION FOR THE NEW ORGANIZATION'S GOALS AND OBJECTIVES.

WHEN VISIONS ARE NOT ALIGNED, IT CAN LEAD TO DISSATISFACTION AND, POTENTIALLY, A FUTURE SPLIT.

This is what happened in Tallahassee when the county's Economic Development Council split from its affiliation with the Greater Tallahassee Chamber of Commerce, after membership in the organization declined and public officials began to question the organization's record. At the time, Mayor Andrew Gillum stated a concern that there was a competing vision between local businesses who may have taken a protectionist approach and the business recruitment efforts being undertaken by the organization (Rossman, 2016). This conflict in vision and mission ultimately led to the demise of their working relationship. Differing (and sometimes competing) agendas and expectations from business leaders and elected officials is a frequent cause of organizational tension and must be properly monitored and managed.

Jason Ball, President & CEO of the Sioux Falls Area Chamber of Commerce, echoed these sentiments when saying, "In Sioux Falls there is a cultural expectation that organizations like ours work together. But for that culture expectation, similar initiatives could have failed. Everyone must be committed to working together. If leadership within a community is inclined to lean hard towards one organization and their mission at the expense of others a merger won't be successful."

The Community's Culture Matters

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THE VISION FOR A MERGER MUST BE COMMUNITY-LED.

By comparison, when the vision for the merger is community-led, organizations will benefit from extensive support and may have further growth opportunities. In Fond du Lac, an independent study was conducted to ask stakeholders if they would get behind the merger. They did and it proceeded with much support. “This must be a decision made after engaging the stakeholder base, rather than having the two boards making the decision,” said Cecilia Harry.

Forward Sioux Falls is a community-led joint venture between the Sioux Falls Chamber and the Economic Development Foundation. The two organizations remain separate but work together to implement the Forward Sioux Falls Agenda (which NCDS has raised over $50 million for through 7 successive 5-year campaigns). The boards of both organizations come together every five years to establish community and economic development priorities. NCDS raises funds and then those funds go to the organizations to implement their respective part of the strategic plan. While the structure is unique, Forward Sioux Falls is structured exactly as the community envisioned it and there is great support for the organization. “The community feels that Forward Sioux Falls has worked incredibly well and are very proud of its success,” said Jason Ball.

In Topeka, leaders had the vision and the will to merge the organizations when it became clear that Topeka had too many siloed community/economic development organizations and that the only way to accomplish their strategic plan - Momentum2022 - would be to have a meaningful coming together of different organizations. “The fact that the CEO of Visit Topeka and Downtown Topeka Inc. were amiable to the merger was good for the community. These two CEOs said this may not be the most comfortable thing, but we are in to do what it takes to make Topeka successful and the strategy successful,” said Matt Pivarnik, President & CEO of GoTopeka

WHO'S MERGING?

MERGERS ARE HAPPENING THROUGHOUT THE COUNTRY, IN LARGE AND SMALL COMMUNITIES.

Still, not everyone is merging. According to the Association of Chamber of Commerce Executives, Trends in Chamber Operations 2017, organizations with a combined revenue of $2 million or more are the most likely to merge. The largest percentage of chambers with economic development functions are organizations with over $2 million in revenue, at 41% respectively (Executives, 2018). In addition, 21% of chambers with over $5 million in revenue had both economic development and tourism functions (Executives, 2018).

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DO THESE ORGANIZATIONS MERGE AS A RESULT OF THEIR LARGER BUDGETS, OR DO THEIR BUDGETS INCREASE BECAUSE OF THEIR MERGER?

The annual revenue per FTE is significantly higher in organizations with multiple functions than those which are exclusively a chamber (Executives, 2018). For example, the average revenue per FTE in chamber-only organizations was $119,128 (Executives, 2018). In those with tourism and economic development functions it was $146,583, perhaps indicating that the more functions an organization has, the greater its capacity to raise capital for projects or to generate revenue for ongoing operations (Executives, 2018).

For example, when the GoTopeka merger was complete, the organization was able to raise significantly more capital and now has a $10 million budget.

Similarly, Forward Sioux Falls has successfully raised over $50 million over seven capital campaigns through the joint venture between Sioux Falls Chamber and the Economic Development Foundation. The two organizations remain separate but work together to implement the Forward Sioux Falls Agenda. Using the joint venture to raise capital has been successful, in part, because stakeholders and investors are confident that the two organizations will work together to maximize the results and impact of their investment. NCDS has helped the organization to raise the $50 million through a series of 5-year capital campaigns.

MERGERS CAN BE A CATALYST TO TURN MEMBERS INTO INVESTORS

The Association of Chamber of Commerce Executives also found that among survey respondents, members are paying significantly more to be part of organizations with multiple functions. In organizations with $2 million or more in revenue, who are more likely to also have tourism or economic development functions, the average dues in 2017 was $1,339 vs. $462 at organizations with under $450,000 in revenue (Executives, 2018).

These larger organizations may be implementing a strategy similar to what NDCS promotes – turning members into long-term investors. When each member invests in the organization’s mission to their maximum capacity, it is not necessary to have as many members at the lowest levels of financial commitment. Dues may also be higher because members are paying for the benefit of multiple services. For example, GoTopeka now sends members one invoice that covers all the benefits, services, and events offered by the four previously separate organizations.

BENEFITS OF A MERGER

BEYOND THE POTENTIAL TO RAISE ADDITIONAL CAPITAL, MERGING ORGANIZATIONS MAY CREATE DISTINCT BENEFITS IN REGARD TO STAKEHOLDER PARTICIPATION, MAXIMIZING RESOURCES, VISIBILITY AND RETENTION.

#1

INCREASED PARTICIPATION

Many organizations face the same challenges when it comes to recruiting volunteers – there simply are not enough of them. Very often, volunteers will split their time between the chamber, economic development organization, downtown business associations, etc. In this case, volunteers can be spread too thin and easily burn out. In situations like these, merging organizations can actually make it easier to participate and volunteers may not feel as though they are pulled in multiple directions

Rather than asking board members, stakeholders and volunteers to assist in a wide variety of efforts, organizations can direct them to the areas they are most passionate about and are likely to make the greatest impact.

Would your investors be willing to give at a higher-level?

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AS ORGANIZATIONS MERGE, THERE IS AN OPPORTUNITY TO MAXIMIZE THE IMPACT OF STAKEHOLDER PARTICIPATION.

Understandably, merged organizations also have a higher number of board and committee members, as documented in the Association of Chamber of Commerce Executives, Trends in Chamber Operations 2017 (Executives, 2018). Interestingly, though there are more active members, the boards of these organizations meet less frequently, perhaps a reflection of the larger staff sizes who can take on more organizational responsibility.

#2

AVOID DUPLICATION OF EFFORTS & BECOME SPECIALIZED

When organizations merge or partner for a specific initiative, it creates an opportunity to achieve greater things. “With Forward Sioux Falls, our organizations avoid duplication of services. By combining forces, we are accomplishing more than we could do individually,” said Jason Ball. Investors are wary (and weary) of providing funding for multiple organizations, and all too often, perceiving a lack of community impact.

#3

ACHIEVE GREATER THINGS

When merging organizations, leaders have the opportunity to consider their mission and set much larger goals. With a bigger team and increased stakeholder participation, goals that once seemed impossible can suddenly become probable.

CHALLENGES TO MERGING ORGANIZATIONS

MERGING ORGANIZATIONS DOES NOT COME WITHOUT ITS SHARE OF CHALLENGES. THESE MUST BE CONSIDERED CAREFULLY BEFORE EMBARKING ON THIS JOURNEY.

Going into a merger with eyes wide-open is necessary for helping a merger to go smoothly, if this is what a community decides to do.

#1 TIME

It takes significant time and energy to plan for a merger, to implement it legally and financially, to rebrand and bring staff together.

#2 COST

There is a cost to merging that is often underestimated. For example, there will need to be branding, a new website and a PR campaign. New and larger office space may also be required, and new staff members hired.

#3 MANAGING EXPECTATIONS

Many check writers will assume that a merger should provide big cost savings and enable the new organization to “do more with less.” Leaders must establish realistic expectations and combat misperceptions.

#4 GOVERNANCE

Successful mergers usually require a carefully-conceived governance structure, and legal assistance to facilitate the transaction

#5 FINANCIAL MANAGEMENT

There could be concerns over comingling funds and how capital will be used by the new organization.

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MIXING FUNDS AND FINANCIAL MANAGEMENT CAN BE AN ISSUE

Merging a community's chamber and economic development organization does not come without pitfalls, one of which is in the area of funding, especially when it impacts how time, energy and money are allocated. The Fayetteville North Carolina Regional Chamber and Economic Development Alliance split into two separate organizations because of these concerns. Since the city of Fayetteville, Cumberland County and the Public Works Commission paid for a substantial amount of the annual budget to go towards new business attraction, the community's perception was that not enough energy was being put towards supporting existing businesses. Jack Rostetter, a community advocate for the split, said in 2015, "We have allowed ourselves to get whipped down because of our financial purse" (Barksdale, 2015). Even the chamber's CEO, Doug Peters, felt that it was time for the organizations to separate, saying, "Our community and businesses deserve a strong, focused and vibrant chamber of commerce" (Barksdale, 2015).

CONCERNS OVER HOW FUNDS ARE UTILIZED AND THE INFLUENCE THEY MAY HAVE CAN LEAD TO A SPLIT WITHIN LARGER ORGANIZATIONS, BUT SOMETIMES, THAT SEPARATION IS SOMETHING LEADERS WANT AND ADVOCATE FOR.

Such was the case in Jonesboro, AR. In 1986, the Chamber of Commerce created Jonesboro Unlimited (JU) with help from 100 private companies who each pledged to give $1,000 a year towards economic development. The two organizations worked in tandem with JU being a committee of the chamber. When they needed a new strategic plan in 2015, they reevaluated the partnership structure.

NCDS completed a feasibility study and helped the organization to raise $3.5-million in private sector funding. To promote transparency during the raise, they decided to create more separation between the chamber and Jonesboro Unlimited, establishing a separate board for JU. They created a new governance structure to ensure investor funds were being spent as desired in order to implement their strategic plan. Now, Jonesboro Unlimited is a standalone entity, instead of the Chamber's economic development committee. It is governed by a 15-member board, all of whom are major investors. That's exactly how CEO, Mark Young, wanted it, "Separating the organizations gave us the opportunity to be very single focused on the economic development efforts. We created a 5-year strategic plan. We are fulfilling that plan and have an obligation to investors who have gone above and beyond to fund that. We have 135 entities that have invested $3.5 million to ensure our successes. This provides an additional level of accountability, focused and acute communication between us and investors. It continues to provide the governance structure I think is appropriate when you have a high level of funding for a specific purpose."

SOME ORGANIZATIONS HAVE FOUND A WAY TO ADDRESS FINANCIAL MANAGEMENT CONCERNS WITHOUT SEPARATING THE ORGANIZATIONS.

Since chambers typically don't take public money and economic development organizations often do, this is a critical issue regardless of how much a community supports the idea of a merger. In Topeka (and many other communities), they have taken steps to build a firewall on the chamber side, since it is still 100% funded by private money. As part of the merger, GoTopeka brought on a CFO and created a finance committee made up of the treasurers of all four organizations (each organization still has a board of directors) and a system-wide treasurer who is the CEO of a local bank. GoTopeka's finance committee oversees the organizations finances to ensure that public dollars are not comingled with private dollars.

This is especially critical in communities where the chamber has a PAC to support local candidates and other government affairs. To ensure complete separation, GoTopeka's CEO and the presidents of the three other organizations leave the board meetings when the PAC is being discussed – they are completely on the outside of all PAC-related discussions or decisions. Such a high level of caution may seem extreme, but it is necessary for maintaining public confidence in how the finances of the organization are being handled and the level of outside influence politicians may have.

BENEFITS TO KEEPING ORGANIZATIONS SEPARATE

WHILE A MERGER MAY BE BENEFICIAL IN SOME COMMUNITIES, IT IS NOT ALWAYS THE RIGHT CHOICE.

Mark Young, the CEO of the Jonesboro Chamber and Jonesboro Unlimited is confident that separating the two organizations was the right decision in their community. Jonesboro Unlimited's primary goal is to grow the economy and to focus on higher paying jobs to raise the standard of living for everyone in the community. So far, they have created 2,100 jobs and over $280 million in new investment and new construction. While JU is working to achieve the 5-year strategic plan, the chamber is focused on workforce, education and supporting existing businesses. "This is a holistic vision. To achieve the strategic plan, we need to be successful in every area and the best way to achieve that is for people to be mission-specific and tackle certain pieces of that puzzle so that it will all come together. A 5-year plan seems like a long time but it's not, so we are very focused on what we are doing, on executing and reporting back to investors," said Young.

"There is no one-size-fits-all. Know your community and what is right for you. This organizational structure made sense here but may not work everywhere. What investors want and expect will be different in each community."

- Mark Young

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ADVICE FOR ORGANIZATIONS CONSIDERING A MERGER

LISTENING TO INVESTORS IS THE BEST ADVICE.

In Jonesboro, investors wanted the chamber to be separate from Jonesboro Unlimited so that the missions of the organizations were clear.

In Topeka, investors called for the organizations to merge because it was necessary for the city to take its place as a growing metropolis.

In Fond Du Lac, investors wanted the organizations to merge for a consistent vision and to promote strategic collaboration.

In Sioux Falls, investors are content to keep the organizations operating separately, but want multi-year capital campaigns to fund a joint venture that allows each organization to play their role in a broad strategic plan and long-term community vision.

COMMUNITIES CONSIDERING A MERGER MUST FIRST LISTEN TO INVESTORS, STAKEHOLDERS AND THE OVERALL BUSINESS COMMUNITY.

Conducting surveys or hiring a third-party to conduct interviews is a good way to start. Then, when the results are in, leaders must be willing to take direction from those investors and stakeholders, even if they are asking for something uncomfortable or challenging. “It’s not about us as professionals, but about what our community’s task us with. We are tasked with empowering the community to achieve their mission regardless of where our job ends up at the end,” said Cecilia Harry.

IT WON'T BE EASY.

IF IT IS DETERMINED THAT A MERGER IS THE BEST OPTION, COMMUNITIES ACROSS THE COUNTRY WARN THAT "IT WON'T BE EASY." HERE ARE A FEW THINGS OTHER LEADERS WISH THEY WOULD HAVE KNOWN GOING INTO IT.

#1
RAISE MONEY FIRST

"You need to raise money for things to be transformative. Communities should consider the funding needs that are part of the process since it will cost more than you think. Even though you are combining organizations that doesn't mean that expenses are going to go down. They could go up as you focus on a stronger and more transformative mission."

-Cecilia Harry, President & CEO of Envision Greater Fond du Lac

#2
GET LEGAL HELP

"Taking organizations with autonomous boards, bylaws and staff, and combining them takes time, effort and legal help. Be strategic in how to complete the merger and give yourself the opportunity for senior leadership to come together as a team, so that the organizations can come together smoothly."

-Matt Pivarnik, President & CEO of GoTopeka

"I wish we could have done it over two years instead of one. If a community can take it slower, that's advisable but sometimes you just can't."

Matt Pivarnik, President & CEO of GoTopeka

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RAISING CAPITAL AS PART OF A MERGER

COMMUNITIES MUST BE PREPARED TO RAISE CAPITAL TO FACILITATE A SUCCESSFUL MERGER AND, MORE IMPORTANTLY, TO FULFILL THE STRATEGIC REASON FOR THE MERGER.

National Community Development Services, (NCDS) helps to build great communities by building the capacity of non-profit organizations through strategic plans and long-term capital campaigns. Since 1977, our clients have created hundreds of thousands of new jobs, launched innovative entrepreneurship and workforce development programs, built museums, theaters, and other cultural assets, and enriched countless lives.

Through our proven MaxFund® methodology, NCDS enables community prosperity by:

#1 Bringing public and private stakeholders together around shared agendas

#2 Influencing and maximizing investments from the people, companies, and institutions that matter

#3 Optimizing our clients' relevance and impact on the communities they serve

#4 Creating frameworks for long-term, sustainable funding of community and economic development priorities

To learn more about NCDS and how to raise money for a merger or to fulfill a strategic plan, contact Tom DiFore President (404) 231-0730 or email tdifiore@ncdsinc.net.

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