

FIELDforum

MAY 2006

ISSUE 17

The Increasing the Scale of Microenterprise Finance Services Project is funded by the Ford Foundation.

Acknowledgments: The author would like to acknowledge MicroBusiness Development Corporation, and its director, Kersten Hostetter, for their support in the development of this case study. The material in this case is drawn from interviews with staff, board members and clients of MBD conducted in 2005. In addition, the parts of the article that discuss the merger between PACE and CMC draw substantially from a paper written by Shauna Levinson in fulfillment of her master's degree in Nonprofit Management at Regis University. Funding for that paper was provided by the JFM Foundation.

FIELD
Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination

The Aspen Institute
One Dupont Circle, NW
Suite 700
Washington, DC 20036
Phone : (202) 736-1071
Fax: (202) 467-0790
Web site: www.fieldus.org
E-mail: fieldus@aspeninstitute.org

STRATEGIC RESTRUCTURING AS A SCALE-UP TOOL: THE CASE OF MICROBUSINESS DEVELOPMENT CORPORATION

The road that MicroBusiness Development Corporation (MBD) followed to become one of the fastest growing microbusiness development programs in the country had several interesting twists and turns. But sure and steady navigation allowed the organization to grow from about 500 clients and a handful of loans in 1999, to 1,600 clients and 171 loans totaling more than \$1 million in 2004.

How did that impressive growth occur?

MBD actually began in 1993 as the Colorado Capital Initiative (CCI) to provide business technical assistance, mentoring and microloan guarantees. In 2001, CCI changed its name to PACE (People Assisting Community Entrepreneurs), and later that year it not only took the MBD name, but it also merged with another Denver-based organization, Colorado MicroCredit, Inc. (CMC), which focused on peer lending.

Within two years, MBD acquired a third microenterprise program, Business Capital of Colorado (BCC), and added other new products and services.

What spurred this growth process was a strategic restructuring that occurred through the initial merger with CMC and

the subsequent BCC acquisition that provided a critical infusion of resources. This case study, which details these mergers and acquisitions, provides an example of how strategic restructuring can be a tool in the process of achieving greater scale.

WHAT IS STRATEGIC RESTRUCTURING?

The Strategic Solutions project, a foundation-funded effort to assist the nonprofit sector to engage in strategic restructuring, defines the concept this way:

"Strategic restructuring is a continuum of partnerships – including, but not limited to mergers, joint ventures, administrative consolidations, and joint programming – through which nonprofits attempt to anticipate or respond to environmental threats and opportunities. These partnerships are differentiated from collaboration in that they involve a change in the locus of control of at least a portion of one or more of the organizations involved."

¹This definition is from the Strategic Solutions Web site developed and hosted by LaPiana Consultants, which implemented the Strategic Solutions project. The definition can be found at: <http://www.lapiana.org/defined/index.html>.

Background to the Strategic Restructuring: Microenterprise in Denver in 2001

In 2001, a handful of microenterprise programs were operating in the Denver metropolitan area. Each appeared to serve distinct markets, or have differentiated product lines. The programs offered a range of lending products: individual direct loans, loan guarantees and peer loans. Some offered extensive training and technical assistance; others focused predominantly on lending. The programs also served a variety of client bases: some focused on individuals living below the poverty line, others had a broader focus on “unbankable” clients, and others targeted services to Latina women.

Although each of these programs was modestly successful reaching its specific niches within the microenterprise market, the future for some programs became increasingly uncertain in the wake of Sept. 11, 2001. Some felt resources constrict as private donors focused resources on the needs of the affected communities. At the same time, private donors also were feeling the pinch of declining stock market performance.

These conditions – the existence of a set of moderately-sized, somewhat narrowly-focused programs within a single metropolitan area, combined with increasingly constrained donor and investment resources – set the stage for strategic restructuring. It was in this context that the initial merger between PACE and CMC, and the subsequent acquisition of BCC, took place.

The PACE/CMC Merger² Motivations for a Merger

It was also at this time that PACE began to feel its growth constrained by its existing product line and its delivery and funding

models. Its sole financing product was a loan guarantee. PACE worked with potential borrowers to develop and underwrite proposals for loans that would be made by local banks, but partially guaranteed by PACE, using funds raised from local investors. These investors were paid a return on their investment in the guarantee fund, although many chose to donate the interest back to PACE. The lenders and guarantors had the right to decline any loan. Loans were made in amounts between \$3,000 and \$30,000.³ The model posed two drawbacks. First, loans below \$3,000 were not considered feasible given PACE's costs. In addition, PACE's guaranty model was difficult to explain to donors and potential investors and, therefore, seemed less attractive than a direct lending model.⁴

CMC, on the other hand, used a peer-lending program to provide capital to its clients. Potential borrowers were organized into groups of five, who were able to collectively access between \$2,500 and \$25,000. Unlike other lenders in the area, CMC's lending process did not require collateral or credit checks.⁵ CMC was also successful in reaching out to those traditionally excluded from business credit; more than three-quarters of its borrowers were women, and more than 90 percent were either African American or Latino.

While CMC had many strengths – including a compelling model that was easily accessible to the public and potential donors, and an ability to reach the most disadvantaged borrowers – it, too, faced challenges in early 2001. The peer-lending model was expensive and did not result in economies of scale. With limited staff, the organization found it difficult to both continue to raise funds and expand client services. As funding became more challenged in the post-Sept. 11 era, the organization faced difficulties raising funds to support its operations. In addition, CMC

²This discussion draws substantially from a case study of the PACE/CMC merger authored by Shauna Levinson, in fulfillment of requirements for the Master of Nonprofit Management at Regis University. Shauna Levinson, “Documentation of a Merger: Colorado MicroCredit, People Assisting Community Entrepreneurs and MicroBusiness Development Corporation” (unpublished paper, September 9, 2002).

³Levinson, 8.

⁴Levinson, 19.

⁵Levinson, 24.



borrowers who were successful and wanted to access larger loans faced limits in the amounts they could borrow, and were concerned about taking on the greater liability that accompanied larger loans to other members of their peer group. Thus, its customers “grew out” of the peer-lending model, and had nowhere to go within the organization.⁶

Several other factors also set the stage for the PACE/CMC merger. The organizations were both located in the same building, and a strong relationship had developed between the directors of the two programs. The organizations also shared similar “values of trustworthiness, credibility and high standards of service.”⁷ In addition, from inception CMC had planned to work collaboratively with other organizations, and at various times had considered strategic alliances with other programs. Faced with their respective challenges, and noting the complementariness of their products, the two organizations began discussing collaboration or restructuring.

The Merger Process

In October 2001, the executive director of each organization approached their board of directors to discuss the prospects for a strategic alliance or merger. Both boards were generally favorably disposed. They also began the process of consulting with individual board members who needed additional information, donors and clients to determine their reactions to the idea. A key step forward came when the executive director of CMC stated that she was not interested in directing the merged organization. This clarified the leadership of the new organization.⁸

In November, the organizations began the due diligence process, ultimately forming a joint committee composed of board members from each organization, as well as the executive

directors from CMC and PACE. A CMC board member who was an attorney with experience in mergers drafted a confidentiality agreement between PACE and CMC, and provided a checklist of issues to be addressed in completing the merger. The boards also created subcommittees charged with addressing issues that needed to be addressed during the merger process, including staffing, facilities, marketing, services and finances.⁹

Although a range of issues emerged during the due diligence process, in general board members agree that the process moved swiftly and well, largely because of board members' willingness to make the merger a high priority. PACE formally changed its name to MicroBusiness Development Corporation in December (to be the name of the new merged entity), and later in the month the two boards voted to approve the merger. The effective date of the merger was Feb. 1, 2002.¹⁰

Key Post-Merger Issues

Completing the merger itself – the legal joining of the two organizations – was only part of the restructuring process. Once the two entities became one, there was the issue of post-merger integration of the two organizations. While many issues had, in theory, been worked out during the due diligence process, challenges emerged during the integration process.

Faced with their respective challenges, and noting the complementariness of their products, the two organizations began discussing collaboration or restructuring.

⁶Levinson, 34-35.

⁷Levinson, 39.

⁸Levinson, 44-45.

⁹This chronology is drawn in large part from the case study by Levinson cited above, which provides greater detail in the issues covered in the merger process and their resolution.

¹⁰For more information on mergers, and for tools that can be used to guide and implement a merger, see www.lapiana.org, or visit the following page on FIELD's Web site: <http://fieldus.org/Projects/direction3.html>.

The merger clearly provided the impetus for growth. Most importantly, it resulted in a single organization with a broader line of products than pre-existing programs.

Interestingly, these were not the challenges that the parties to the merger would have predicted.

Going into the merger, the leadership was concerned that clients of CMC would have difficulty making the transition to MBD, primarily because of their high level of trust in, and close relationships with the CMC staff. This did not turn out to be a significant issue. MBD worked to inform current and past CMC clients of the change, and about new products and services offered as a result of the merger. In addition, to provide continuity, CMC's director agreed to stay on as a consultant for a while. Although there were problems with the performance of CMC loans at the time of the merger, MBD offered an amnesty program to bring in delinquent clients and provide an incentive for them to work to become current on their loans.

In addition, although competition for funding was one of the motivators for the merger, the restructuring did not immediately result in more successful fundraising at MBD. Some donors backed off during the merger process – perhaps because the merger was announced very early in the discussion stage – waiting to see if the process would be successful. In addition, some donors with a strong connection to CMC were concerned that the program would take a very different orientation after the merger, perhaps becoming less focused on their target market. Eventually, MBD was successful in increasing its funding base, but there was some loss in continuity of funders after the initial merger.

Perhaps the most surprising challenge, given the close relationship between the directors of the two merging organizations, was the clash in management and leadership styles that emerged after the merger. Although both leaders and organizations were highly

committed to their clients, they clearly took a different approach to customer relations, and had a different orientation to business development and poverty alleviation. On the one hand, CMC staff developed very close personal relationships with their clients, and the director's professional experience was in counseling. Recognizing the many challenges that low-income women face in seeking to move out of poverty, they tended to be highly empathetic with their borrowers. This resulted, in some cases, in a lack of willingness to take a hard line toward delinquencies in the loan program. MBD's staff and director, on the other hand, took a much more business-oriented approach. In their view, delinquencies were as much a problem for the client as for the program, and needed to be addressed in a speedy and direct fashion.

These differing philosophies eventually led to a falling out between the two leaders. CMC's former director, who had initially planned to stay with the organization for two years, while slowly ratcheting down the number of hours worked, stayed less than six months. In addition, the relationship between the two leaders deteriorated, leading to disagreements over severance and unemployment benefits that were ultimately settled to the satisfaction of the CMC director, but which cost the organization in time, attention and financing.

Overall Benefits to the Merger

Although the post-merger integration process was rocky at times, the board members of MBD – which still include several members of the CMC board today – believe that overall it was the right step for the organization. The merger clearly provided the impetus for growth. Most importantly, it resulted in a single organization with a broader line of products than the pre-existing programs. It provided tools, in the form of PACE's individual loans and technical assistance products, to bring back CMC clients who had outgrown that organization's product offerings. At the same time, CMC's products and staff provided the tools for the organization to reach into key



target markets, such as women, refugees and Spanish-speaking clients. Although clearly either PACE or CMC could have developed new products on its own, this would have involved investments in product development (systems, staff capacity, etc.); the merger eliminated the need for either organization to take on these expenses.

Indeed, in the two-year period following the merger, MBD experienced significant growth in the number of clients served. In 2001, the organization served 941 clients; this increased to 1,274 in 2002 and 1,700 in 2003. There was less significant, but still impressive growth in the number of loans made. PACE made 32 loans in 2000, and 30 in 2001. In 2002, MBD reported making 89 loans, and it made 156 loans in 2003.¹¹ It is important to note that not all of this growth can be attributed to the effects of the merger, as MBD added other programs during this time as well. However, the merger was clearly a key catalyst for growth, placing the organization's focus squarely on its ability to offer a continuum of services to its business clients.

The merger also resulted in some efficiencies in terms of reductions in office space and equipment. Yet, in the short run the merger increased expenses in other areas, because of associated legal and other costs. PACE's executive director anticipated that the merger would involve additional costs, and raised funds to cover these expenses.

Acquisition of Business Capital of Colorado (BCC)

MBD's next venture into strategic restructuring came with its acquisition of Business Capital of Colorado in February 2004 (exactly two years to the day after the merger with CMC). The forces driving the restructuring were very different than those that preceded the previous merger. MBD was in a strong growth mode, continuing to expand its product lines and customer base. On the other

hand, BCC was experiencing significant funding challenges that meant it needed to be acquired or closed.

Background on BCC

At the time, Business Capital of Colorado was a for-profit lending organization that was about nine years old. BCC was created by a group of nine banks that had looked to the organization to provide small loans to near-bankable businesses in the city's downtown. BCC was originally capitalized with \$1 million in funding from the banks; this initial injection was used both for lending capital and to support the organization's operating expenses.

BCC's loan products were clearly different from those offered by MBD. BCC offered loans up to \$60,000. The average loan size was \$25,000, and most financings took the form of a line of credit. These lines were interest only, and had to be paid down once a year. BCC's credit standards also were substantially different from those of MBD. Start-ups were required to have 20 percent equity in the project. In most cases, the borrowers were required to pledge their homes as collateral for the loan, and all borrowers were required to have a detailed business plan. The lending process relied heavily on applicants' credit scores, which generally had to be 650 or above.

In 2003, after nine years of operations, BCC was in a difficult situation. Its base of capital was dwindling. There were no subsequent infusions of funds after BCC's original capitalization, and the combination of operating expenses (which were not fully covered by loan interest and fees) and loan losses were depleting the capital base. The board and staff of the organization initially considered three options: convert to nonprofit status to access charitable dollars; access funds from the federal New Markets Tax Credit program; or ask the banks (the shareholders of the corporation) to recapitalize the organization. The board ultimately determined that none of these strategies was feasible - the latter because

¹¹These figures are taken from MBD's annual reports to FIELD's MicroTest project.

the state of the local economy and a set of pending bank mergers made it unlikely that all nine shareholders would agree to recapitalize. In the end, the board determined to emit a request for proposals to two existing nonprofit lenders in Denver, to determine their interest and willingness in taking over BCC.

The Acquisition Process

MBD elected to respond to the BCC request for proposals. It saw taking over BCC as an opportunity to bring in new loan capital, and a larger direct loan product. At this time, MBD's primary lending products consisted of the smaller-scale peer loans, and the larger loan guaranty program. Thus, as with the CMC merger, this restructuring would enable MBD to further expand the continuum of products it could offer customers. It would also bring to MBD the capacity to make more sophisticated loans. Importantly, MBD believed that the acquisition also would provide new ways to connect with the local banking community.

In its response to BCC, MBD proposed to take on all loans that appeared likely to be repaid. This also would enable MBD to expand its client base. MBD also proposed that all interested BCC board members could join MBD's board, as well as its loan committee.¹² BCC had two employees at the time. The president was not interested in staying with the organization, but MBD proposed that the other administrative staff member join the organization. The proposal was submitted to BCC in November 2003.

After reviewing the proposal from MBD, eight of BCC's nine stockholders approved it. The ninth, however, refused. This triggered an independent assessment of the value of BCC in order to liquidate that stockholder's investment in BCC. After that process was completed, the remaining stockholders voted to complete the transaction, which took place on Feb. 1, 2004. The stockholders donated their stocks to MBD, which then dissolved the corporation.

Post-Acquisition Issues

As is the case with many strategic restructurings, the most challenging part of the process came after the transaction was complete, when two significant challenges emerged. Although these did not diminish the value of the restructuring, which brought important resources to the organization, they point out two additional issues that can emerge in the process of restructuring.

The first challenge involved the process of collecting payments on the BCC loans and lines of credit. As noted above, MBD took on only those loans that the due diligence process suggested could be repaid. In all, MBD assumed \$273,000 in loan assets in the transaction. Most of those loans were structured as lines of credit, and many were not typically repaid or paid down on an annual basis, as stipulated in the loan agreement. Therefore, MBD began restructuring these lines into term loans and anticipated that 40 percent of the capital assumed in the acquisition would be available to lend within six months.

In fact, repayment proceeded much more slowly, and involved MBD investing significant time in the businesses in order to develop feasible payment plans. Many borrowers lacked the ability to make payments of principal and interest (as opposed to interest only). MBD staff tried to work closely with these clients to ensure that they could repay without losing their businesses, or at least losing personal assets they had pledged in taking on the loans. However, early relationships with the BCC clients were difficult – because the clients had relationships with the former executive director, who was no longer there, and because the relationship with MBD began with a focus on collections.

The second major issue that emerged involved integrating the staff member who came to MBD from BCC, which initially went very well. She brought new skills and capacities to the program: how to take collateral, prepare closing documents for collateral, and structure

¹²At that time, MBD's loan committee reviewed all loan applications greater than \$10,000.



lines of credit and accounts receivable financing. She was also familiar with BCC's management information system, which MBD had to integrate with its own system. And she brought a history and relationships with the clients that MBD took on in the merger.

However, over time differences in the approach and culture of the two organizations became apparent. At BCC, most loan clients came to the organization with a completed loan application, and BCC focused on making loan decisions. BCC's loan volume was not very high; typically the organization made three new loans a month. In contrast, MBD was much more hands-on when working with clients. To MBD staff, the loan application was the beginning of a conversation: about the business, about how much debt the borrower should take on, etc. MBD also had a much higher volume of lending, and with a large stable of existing clients who were looking for loans, the volume of loan applications was dramatically higher than at BCC.

As demand for loans increased, the differences between the culture of BCC and MBD became more apparent. MBD was a dynamic organization that was clearly in a high-growth mode. Most of its staff was young, and did not mind putting in the long hours required to serve the growing volume of clients. BCC had been a much more formal and static organization; its staff person was used to a quieter setting with more predictable work hours. As a result, she chose to leave after about 14 months with the organization.

The Role of Restructuring in MBD's Growth

Although organizations may engage in strategic restructurings for a variety of reasons, for MBD one of the primary benefits was that they poised MBD for significant growth. As noted below, in the period following both restructurings, MBD achieved a significant increase in both the numbers of clients served

and loans made. Restructuring positioned MBD for growth in four ways:

- *Providing a continuum of services for clients.* Staff members at MBD are clear in their belief that the greatest benefit from the restructuring has been an expanded ability to serve clients well. Restructuring brought new products and services to the organization. Clients who came to MBD for its youth enterprise services, and chose to start a business, could find financing from the peer loan products resulting from the CMC merger. Clients from MBD's training programs who were not ready for the larger guaranteed loans could similarly start with the peer program. Moreover, peer lending clients whose businesses grew could graduate to the individual loan products, as well as the more sophisticated training products offered by MBD. A broader product line meant that clients could stay with MBD as their businesses grew, rather than seek out other providers – necessitating new relationships with other organizations.

It is important to note that restructuring was not the only tool that MBD used to fill out its continuum of products. The organization also engaged internally in product development, as it identified other client needs. For example, after building its lending sophistication through the acquisition of BCC, MBD staff added a short-term loan product for clients needing a purchase-order

A broader product line meant that clients could stay with MBD as their businesses grew, rather than seek out other providers – necessitating new relationships with other organizations.

financing product that has proven to be very attractive. Similarly, the organization is now building a kitchen incubator to serve clients who require access to a commercial kitchen to grow their businesses. However, by bringing on new products, skills, and financial assets, restructuring clearly served as a springboard to MBD's expansion.

- *Bringing new clients to the organization.* Both the merger with CMC and the acquisition of BCC brought new clients to MBD. As noted above, the merger in particular brought in new and important target markets: women, refugees and Spanish-speaking clients. And the BCC acquisition brought in the existing loan clients from BCC. This ability to reach and have legitimacy with broader markets has been key in MBD's ability to grow.
- *Attracting greater capital.* The BCC acquisition played an important role in positioning MBD to attract new capital. On its own, the acquisition did not bring significant new assets to MBD; however, these resources helped leverage other financing. In particular, the BCC acquisition provided enough lending activity and assets for MBD to be certified as a Community Development Financial Institution (CDFI), thereby enabling it to access new sources of lending capital.
- *A stronger regional and community presence.* Finally, strategic restructuring strengthened MBD's standing in the local community. There were now fewer microenterprise programs in the Denver area, and only one other microlender, resulting in less competition for resources. By virtue of the restructuring, MBD acquired new board members, including those with connections to the banking community. And by showing its ability to successfully complete the restructuring, and thereby achieve substantial

growth, MBD established itself as a dynamic and successful organization. This positioning in the local marketplace puts MBD in a strong position to raise funds required for additional growth.

Key Lessons from MBD's Experience with Restructuring

MBD's experience reveals lessons that are useful to organizations considering mergers or other forms of strategic restructuring. Looking back, MBD's board and staff strongly believe that both restructurings had important and long-lasting benefits to the organization – both in terms of helping it grow and, perhaps more importantly, in helping it better meet the needs of its clients. However, the restructuring process also brought many hours of hard work, and many challenges. Understanding these challenges, and how ultimately they were resolved by MBD, may be useful for other microenterprise programs considering restructuring. This section, therefore, highlights the most important lessons derived from the MBD experience.

- *Due diligence is incredibly important in the restructuring process.* The process of due diligence is critical to an effective restructuring process. In the case of both MBD restructurings, the board took a very structured approach to due diligence. In the end, the board believes that the outcomes of both restructurings were good, but there were bumps along the way that could have been avoided. This was particularly true in the acquisition of BCC, where it turned out the repayment problems with the organization's portfolio were more significant than was identified in the due diligence process. While these problems did not create serious financial problems for MBD, they did mean that MBD had to invest substantial, unforeseen resources in managing the portfolio, and it was not able to access that loan capital to make new loans for a fairly long time.



- *Integration is a critical issue and requires a great deal of attention.* Although negotiations and due diligence prior to a restructuring are important, the integration process following completion of the legal or formal aspects of restructuring is critical. Clients of both organizations must be informed and receive clear communication about what is happening, as well as where and how they can continue to receive services. New board members may need to be brought into the organization and new staff may also join. Technology and financial systems need to be integrated, and physical offices consolidated or moved. Any one of these steps is time-consuming and challenging for organizations; when they all take place at once, the situation can be daunting.

In managing its integration processes, MBD found that a few factors were especially important. First, the organization needed to communicate quickly and well to clients. Second, MBD found it useful to bring in interested board and staff members from the other organizations. Perhaps most importantly, MBD learned that it was important in the process to have a tool, such as a strategic plan, to help guide critical decisions and set priorities. While MBD used its strategic plan, in other mergers and restructurings, this tool may be an integration plan that clearly sets forth the steps that must be taken to successfully restructure.¹³

- *Personalities and organizational culture are two key issues that must be dealt with in the integration process.* In both of MBD's restructuring efforts, staff from the entity it merged with or acquired was absorbed. While these choices were important and positive – because they helped to maintain

connections to clients and transfer key knowledge (about products, systems, etc.) and experiences – they also led to some of the most difficult challenges. In both cases, despite the fact that the restructuring organizations were engaged in similar lines of work and had similar missions (i.e., making small-scale loans to individuals who were not bankable), their organizational cultures, approaches to working with and lending to clients, and expectations about the working environment, were very different.

In both cases, the staff from the other organizations left after a short while. However, particularly in the case of the merger, the circumstances surrounding their departure were very difficult for the organization. Thus, organizations considering restructuring should be aware that the process of integrating staff into the organization can be particularly challenging, even when the combining organizations seem well-matched.

- *In managing the integration process, keep a strong focus on the organization's mission and how restructuring will benefit clients.* While the process leading up to a restructuring demands heavy involvement on the part of the organizations' boards and executive directors, the integration process often significantly impacts the entire program staff. They may be required to work

Although negotiations and due diligence prior to a restructuring are important, the integration process following completion of the legal or formal aspects of restructuring is critical.

¹³For more information and tools regarding the integration process and integration plans, see LaPiana Associates, *The Nonprofit Mergers Workbook, Part II: Unifying the Organization after a Merger* (St. Paul, Minn.: Amherst H. Wilder Foundation, 2004).

extra hours, take on new responsibilities or tasks, get to know new clients, and deal with the challenging process of combining systems or relocating. MBD was able to navigate this process successfully, even growing substantially at the same time. It did so because the executive director maintained, and clearly expressed, a relentless focus on client needs. She kept staff focused on the organization's mission and strategic plan, and that its growth and new products were essential to the ultimate goal of building new entrepreneurs. At the end of these processes, staff uniformly said that this clear focus on client needs kept them focused and motivated during the restructuring and growth process.

- *Cost efficiencies and savings may not materialize in the initial phases of the restructuring process.* Organizations – both nonprofit and for-profit – often cite efficiency and cost savings as reasons for a merger. In MBD's case, however, it is not yet clear to what extent its restructurings will result in cost savings. In both cases, the process of completing the transaction (the merger or acquisition) imposed new costs on the organizations – for legal services, moving services, etc. In the case of the initial merger, MBD's director had raised funds to support these additional costs; in the second instance, she felt the process would be more straightforward and did not. Although there were clearly some cost savings in terms of reduced need for office space and equipment, it is not clear that overall the organization has achieved much higher efficiency.

Relative to other microenterprise programs, MBD always has been efficient in terms of its cost per client, cost per loan, and other measures.¹⁴ However, since implementing both restructuring efforts, there has been no

noticeable improvement in these measures. Nor has MBD seen significant improvement in the cost recovery and self-sufficiency of its loan fund as its lending capacity and activity have increased. Two factors may be at play here. First, MBD's director believes that the loan fund needs to grow further to realize greater self-sufficiency; she currently is seeking to achieve that growth. Second, because the organization grew dramatically during this period, adding other products and new activities in addition to those brought by the restructurings, it may be that the effects of the merger and acquisition are masked by other factors. Thus, future years may bring further efficiencies. However, it is important to acknowledge going into a restructuring that additional costs associated with the change may partially, or fully, balance out the cost savings resulting from combining organizations or functions.

A Final Word

As the microenterprise industry seeks to achieve greater scale by reaching larger numbers of emerging entrepreneurs, it needs to think creatively about how to build organizational capacity. MicroBusiness Development Corporation is an example of an organization that has succeeded in achieving substantial growth. One of the factors that enabled this growth was the organization's use of strategic restructuring – both merger and acquisition – to expand its product offerings, its client base, and its financial and organizational capacity to serve larger numbers of individuals.

This case indicates that there clearly are challenges to the restructuring process. Organizational cultures and approaches may differ widely, even among organizations with similar missions, operating in the same field. And the integration that is required after the formal restructuring process is an intense and

¹⁴As noted earlier in this paper, since 1999 PACE/MBD have reported data on program performance, including measures of its program scale, cost efficiency and effectiveness to FIELD's MicroTest project.



challenging process. However, this case also demonstrates that when synergies do exist between organizations, restructuring can be successful, and can be a springboard for growth.

Additional Resources

For microenterprise programs interested in pursuing strategic restructuring, the following resources may be particularly helpful:

The Strategic Solutions Project was a six-year initiative aimed at improving the nonprofit sector's understanding and use of "strategic restructuring." The project's Web site, <http://www.lapiana.org/project/>, provides a wide range of information and tools, including case studies, research and other resources, hands-on publications and consulting services.

The Nonprofit Mergers Workbook, Parts I and II. These workbooks are a valuable hands-on tool for any nonprofit organization considering a merger. Part I focuses on the steps leading up to a merger, and covers issues such as: how to decide what type of structure meets the organization's goals; how to seek and objectively assess merger partners; managing the board's role in the merger process, and how and when to bring in outside expertise. Part II covers the post-merger integration process, looking at the role of the organization's leader, providing specific guidance on how to develop an integration plan that focuses on all aspects of the organization: the board; staff and volunteers; organizational culture and program; communications and marketing; and finance, fundraising, technology and other systems. Both workbooks include a host of practical tools, such as worksheets, and sample plans and documents. Part II includes a CD-ROM with integration plan software and electronic copies of other tools. Information on both workbooks, which can be purchased at Amazon.com, can be found at the lapiana.org Web site.

The National Community Capital

Association's Consulting Services offers consulting services to CDFIs considering a merger or acquisition. NCS offers to facilitate comprehensive self appraisals, assist with negotiations, and work with board and senior staff of both organizations on programmatic, governance and operational issues. Help is available for internal assessments, market analysis, mission discussions, and analyses of operating performance, financial conditions, and human resource needs. See http://www.communitycapital.org/training/mergers_acquisitions.html for more information, or contact Adina Abramowitz at adinaa@communitycapital.org.

All of the resources described above can be accessed via the FIELD Web site at: <http://fieldus.org/Projects/direction3.html>.



Credits

Author:

Joyce A. Klein, Senior Consultant

Editor:

Carol D. Rugg

Designer and Production Manager:

Colleen S. Cunningham

Printer:

Economy Printing

FIELD

*Microenterprise Fund for Innovation,
Effectiveness, Learning and Dissemination*

The Aspen Institute

One Dupont Circle, NW

Suite 700

Washington, DC 20036

Phone : (202) 736-1071

Fax: (202) 467-0790

Web site: www.fieldus.org

E-mail: fieldus@aspeninstitute.org

*Microenterprise Fund for Innovation,
Effectiveness, Learning and Dissemination*



The Aspen Institute
One Dupont Circle, NW • Suite 700
Washington, DC 20036
Phone: (202) 736-1071
Fax: (202) 467-0790

Nonprofit Org.
Bulk Rate
U.S. Postage
PAID
Permit #3
Queenstown, MD