Mapping a Process for Successful Mergers

If you're thinking of merging with another organization, be sure to follow these steps.

By Penina Kessler Lieber & Susan Chase

Mergers are becoming increasingly common, not just to save nonprofits in financial trouble but to optimize resources and meet community needs more effectively. Perhaps your strategic planning process has identified merger as your organization's best option for long term sustainability. If you're considering a merger, here are steps to success:

Step 1: Ask Some Questions

Begin by having board and senior staff members consider these questions:

• **Will the merger ensure** that your programs and services are continued?

• **How will the merger protect** your financial reserves?

• **What are your organization's assets,** intangible and tangible, that may attract a merger partner?

• **How will the merger affect** your organization's donor base—your benefactors, employees, and clients?

Step 2: Look for a Partner

Develop a "Request for Proposals" (RFP) that provides information about your organization and your reasons for seeking a merger. Describe assets that may be important to a merger partner. In addition to tangible assets, include such intangibles as your organization's reputation for program content and access to funders. Ask key community stakeholders for recommendations regarding appropriate partners, and circulate your proposal to them.

Restructuring is the product of critical self-evaluation.

Step 3: Talk with Prospective Partners

Meet with interested merger partners. Narrow the pool to a small list of "best potential partners."

Step 4: Perform Due Diligence

Ask outside counsel to help you perform a due diligence review of your prospective partners' financial statements, organizational documents, business plans, program statistics, assets, and contracts. Pose questions such as these:

• **What is the fit** with this potential partner?

• **What liabilities** and risks exist?

• **Will there be a role** for current board members on the new partner's board?

• **Does the partner** have any restricted funds? If so, the organization may need approval by the court and the State Attorney General before entering into a merger.

• **Have withholding taxes** been paid?

• **Are there pending real-estate tax** issues? Does the organization have a real-estate tax exemption?

• **Are there potential environmental** problems, such as underground storage tanks, asbestos, or solid waste?

• **What employee benefits** exist? To what extent will they be assumed in the merger?

• **How many people** are employed by each organization? How many employees are expected to continue post-merger? Have COBRA health-insurance requirements been considered? Do any employees have contracts?

• **Are all licenses and permits** in good standing? Will local bodies reissue licenses and permits post-merger?

• **What is the status** of the partner's accounts receivable? Are they collectible?

• **Does the partnering organization** have adequate insurance coverage?

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• **Have all corporate documents** been reviewed for consistency and compliance with current law?

Answers to these questions will help you narrow the list of potential partners to the one that fits best with your organization.

Due diligence goes to the heart of any prospective merger.

Step 5: Reach Final Agreement

Your board can now take formal action to approve the merger. The boards of both organizations must approve a merger plan—a legal document that sets forth the key terms of the transaction. The plan should contain a provision for terminating the merger if necessary.

Then it's time to celebrate. Arrange some get-togethers with board and staff from both organizations, giving them a chance to get to know one another, before holding the community roll-out and making the public announcement.

What Are the Chances for Success?

How successful is your merger likely to be? It depends.

If the merger has resulted from structural deficits within one partner, those deficits may be cured by a new organizational system. If the merger came about because of financial hardship, the problem may be alleviated by an influx of operating cash.

The merger process may be a worthwhile opportunity for self-study that will equip you for future growth.

Yet for many merged organizations, success may be a mixed bag. If done in a hurry and without careful consideration, the result may be a one-sided loss of autonomy without a trade-off in capacity, market development, or financial relief. When that happens, the mission may be sacrificed for a larger agenda.

Where proper due diligence has been performed and the merger hasn't been hurried, the success rate is higher. If people in both organizations have adequate information and a chance to buy into the concept, there's a good possibility for success.

Merger is a favored approach for bringing together two similar entities, preserving their viable qualities while eliminating needless duplication. Don't let fear deter you from considering merger. The merger process may be a worthwhile opportunity for self-study that will equip you for future growth. ■

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Consider *Everyone* Affected by the Merger

Even ultimately successful mergers cause turmoil for everyone involved. Don't overlook *volunteers* as an important stakeholder group needing attention. They've been devoted to one of the organizations but may not be sure about their loyalties to the new entity. The reorganization may include the elimination of staff jobs seen as duplicatory. Will this happen to volunteer assignments, too? Is anyone in a decision-making position thinking about this?

Some mergers result in consolidation of several preexisting volunteer corps, often with the creation of a central office at one site only. In some situations, this may signal the beginning of the end of a thriving volunteer force at the other site. Unlike employees who want to save their jobs and will hang on during a transition period, volunteers need to feel that their services are wanted and useful each time they come in. When everything's in flux, it's understandable that some volunteers will leave in frustration.

Talk with volunteers about their hopes and fears.

The key point is that, if you're anticipating a merger, put the subject of volunteers on the agenda. Talk with volunteers about their hopes and fears. Ask their advice for how to restructure volunteer participation, assuring them continuity within change. If you must consolidate the volunteer office at one site, designate someone at the other site to be the official staff liaison for volunteers, even if this is an interim plan. Demonstrate that you're taking volunteers' needs into consideration.

--*adapted from Susan J. Ellis's* From the Top Down: The Executive Role in Successful Volunteer Involvement, 3rd edition *(Philadelphia: Energize, Inc., 2010), www.energizeinc.com/bookstore.*

Don't let fear deter you from considering merger.

RESOURCES

• **Keys to a Successful Nonprofit Merger** (Vol. 10, No. 3)

• **Collaboration and Leadership: Secrets of Success** (Vol. 24, No. 1)

• **What's Your Alliance IQ?** (Vol. 27, No. 5)

• **How to Partner for Success** (Vol. 24, No. 6)

• **Take the Collaboration Quiz** (Vol. 24, No. 3)

• **How Do Leaders of Nonprofit Partnerships Foster Collaboration?** (Vol. 22, No. 3)

These resources are available at www.snpo.org/members. Also see Learning Institute programs on-line: Strategic Alliances (www.snpo.org/lino).