



Article: Key Considerations for Nonprofit Mergers
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Many boards and nonprofit CEOs are quick to reel back at the mention of a possible merger. For some, considering a merger may be a necessity – for others it may just be a best practice as forward thinking leaders. Important considerations include timing, mission alignment, operational fit and process.



When should nonprofit leaders think about possible mergers? An obvious trigger point is when an organization is financially unable to sustain its mission. In such circumstances, a merger may be a necessary option. A less urgent time may be when, in the course of regular collaboration with others in your sector, you find partners that may be able to achieve more through a merger than either organization could separately. A final example is when there is a change in a nonprofit's CEO. Strong boards are not afraid of thinking through whether a merger can strengthen their leadership talent. In any of these cases, the decision may not be to pursue a merger, but by considering the option the board has taken an important step in pursuing its fiduciary duty.

What organizations are potential partners? Some proponents of mergers seem to support a broad array of combinations of entities. That's not the best approach. Once CEOs and/or boards have agreed on potential merger partners, serious testing of their mission alignment is in order. Ensure that each party understands the other's mission, vision, values and core programs. A good test of alignment is to see whether the current mission of either party could serve as the mission for both. Alternatively, draft a test mission statement that would be appropriate for the combined entities. If you can't write a compelling draft statement, perhaps the alignment is not strong enough.

If the missions align, will the organizations fit? At this stage, a thorough feasibility assessment is in order. Start by assessing the culture of each organization. After mission, culture is the most important consideration – and the hardest to fix if there isn't a good fit. Beyond culture, a partial list of considerations include:

- ***The impact on fund development.*** Will this strengthen the donor base, or will donors see this as an opportunity to cut funding?
- ***The new organizational structure.*** How will leadership responsibility be merged? Will positions be eliminated or will you need new positions?

- ***The financial impact.*** Will the new model save money for either organization or will additional funds be needed to achieve the new mission? What will need to change with compensation and benefits, and how much will that cost?
- ***Governance structure.*** Will the boards be merged? Will a smaller organization have one or more board seats after the merger?
- ***Corporate structure.*** What is the best structure for the reorganization? Merger? Acquisition? A new umbrella organization?

Are there any skeletons? Due diligence is an important step for both organizations. The goal should be to have “no surprises” after a merger. The list of due diligence documents includes corporate documents, minutes, financial statements, legal information and insurance information. It’s easy enough to find the long list of documents to exchange; it’s critical for the reviewer(s) to be thorough and experienced enough to identify areas for further investigation.

What happens after board approval? Leaders who have been through mergers will probably tell you that this is when the hard work begins. Each of the areas considered during the feasibility assessment needs an implementation plan built around the actual planned merger date. What legal documents need to be prepared, approved and filed? How do you bring staff together to form a new, well-integrated team? How will accounting systems be integrated? Who will actually serve on the board? What are the details of the insurance policy? One final, very important consideration, what is the communications plan?

The process is not trivial, especially when you remember that the basic work of the organizations needs to continue all throughout the process. Look for ways to provide assistance to the people leading the process; thank the CEOs and board leaders because they are doing more work than most people can imagine; and remember that it is worthwhile if you strengthen your ability to fulfill your organization’s mission.

Warren Whitney professionals are happy to provide additional insight on the merger process. Please don’t hesitate to call.