

Merger Process Overview & Checklist

Introduction

There are very few merger resources that speak directly to the needs of small community-based organizations and non-governmental organizations. Through hands-on work with our mission-driven clients, the Potomac Group has developed the following 5-Star Merger Model and Checklist. We offer a basic merger overview and checklist to help readers understand and prepare for the mechanics of a merger.

Our intention is to release a series of articles over time that touch on the hidden or less covered aspects of mergers. These include: preparing change leaders, group dynamics, managing emotions, and the process of letting go. Rather than being at the margins, we have found these to be at the heart of a successful merger process. Before we launch into covering the basic model, we will begin by addressing some common myths.

Merger Myths & Misconceptions

First, groups considering a merger are often looking to reap savings from combining administrative overhead (office space, bookkeeping, training, copier service, tech support, contract / consulting support, etc.). Although this is a benefit that most groups seek, small community-based groups run a *particular risk of putting themselves in harm's way by overestimating potential savings*. That's because small groups engaged in service, advocacy and organizing efforts typically operate with limited budgets to address unlimited needs, and routinely under-resource their infrastructure. For instance, many groups invest money in programs before computers, forgo hiring or training staff in HR / management to get more people on the frontlines, or "get by" with cutting checks once a month because staff time

is prioritized elsewhere. These shortcuts may no longer be possible under a merged structure.

In combining two organizations, there are new considerations around the cost of moving offices and the creation of new systems. The newly merged organization will likely need to invest in revamping their policies, retooling job descriptions, increasing staff training for certain jobs or functions, and even building managerial skills to support a larger, more complex organization. If the vision of the merger includes being bigger and better, then you'll likely need bigger and better infrastructure. That will cost money. Although administrative costs are often higher during and after a merger, small groups can get more bang for their buck with careful and realistic planning on the front end.

Second, mission-driven organizations frequently find themselves in a state of instability and financial stress. A long-time ED may transition out, leaving the organization without a rudder. The loss of a large grant may trigger program cutbacks or staff layoffs. Under these circumstances, *it can be tempting to merge with another vulnerable organization in the hopes that "two can do better than one."* However, the merger of two unstable organizations can result in one extremely unstable organization. A way to mitigate this is to be clear about stability of each organization and to adjust expectations accordingly. The newly merged organization may not be doing "more" than it was previously. In fact it may need to focus on producing "less" with higher quality while it regains stability and rebuilds capacity.

Third, once a group decides that a merger is right and goes through the steps of searching, preparing, testing, selecting, and adopting a



merger resolution with a partnering organization, *it can be tempting to “let it ride for a while.”* The reality is that there are usually more questions to resolve and more work to do after the merger agreement is made than before. This is why forming and preparing leaders to serve on a merger integration team is so vital.

Finally, leaders may *consider a merger to sidestep the more painful option of closing.* In many cases, shuttering the organization may present a more realistic option than merging. All groups, no matter how accomplished and important, must come to the end of their life cycle. Closing well – in an organized way that honors the mission of the group – involves many of the same steps as a merger. Organizations search for and select strategic partners in order to transfer programs and assets. By spreading seeds that can grow in new places, groups can continue to advance their mission in ways they might never have imagined.

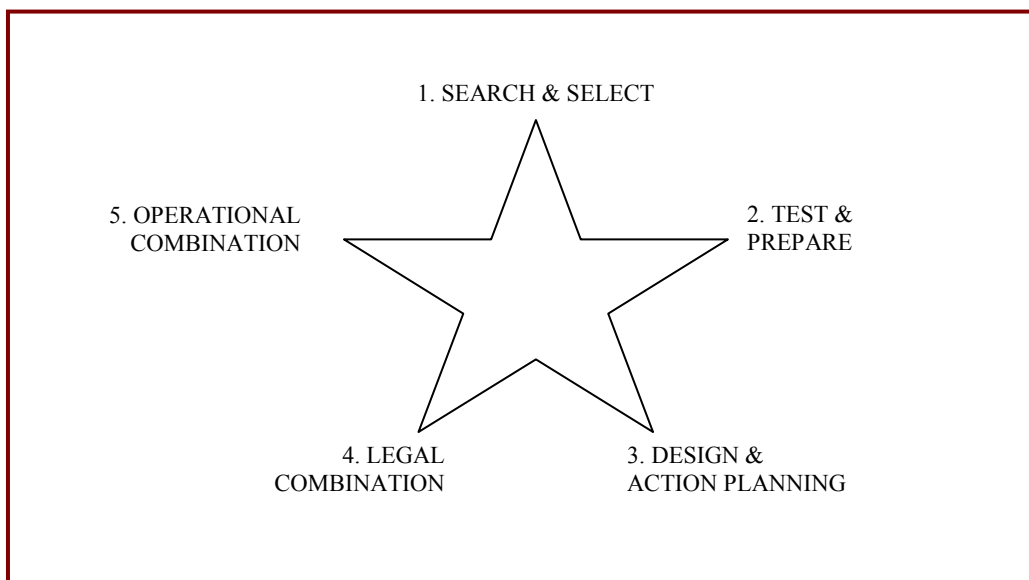
5-Star Merger Model & Checklist

In our experience, a healthy and effective merger moves through five distinct phases: Search and Select, Test and Prepare, Design and Action Planning, Legal Combination, and Operational Combination.

and Action Plan, Legal Combination, and Operational Combination. We will briefly touch on the five phases and action items under each phase for a merger, acquisition, or spin-off. We will not address here the important step that precedes the Search and Selection process: the decision to engage in a merger to begin with. This is just as important to a successful merger as each of the other steps, however we have chosen not to address the issue here because our focus is on basic mechanics. In our experience, the process of deciding on a merger, acquisition, or program spin off is completely different for each organization. We hope to touch on this in future articles, however we assume that if you are reading this article you have begun to consider one of these as a possibility.

Once a decision to move forward is made, completing each of the following steps will increase the likelihood of a successful outcome. The steps are designed so that data collection happens before action planning and action taking. A merger or closing can be charged with both high emotions and low motivation. To make critical decisions with a level of objectivity and thoughtfulness, leaders should intentionally complete each step with due diligence.

5-Star Merger Model



1) Search & Select Candidate

This phase is designed to prepare both your organization and any potential merger candidates for the change process. It also raises early compatibility issues. Remember, you may wish to engage in discussions with more than one candidate to increase your chances of finding a qualified partner. Action steps:

- Develop merger / closed-door budget & cash flow projections
- Develop criteria to rate prospective merger candidates
- Identify clear goals for the merger, including minimum desired outcomes and ideal desired outcomes
- Assess what the organization has to offer
- Assess staffing flexibility
- Identify scope of legal support needed
- Assess willingness of funders to support merger

2) Test & Prepare

This phase is one of the most important phases for testing assumptions against reality. It requires a review of corporate documents, cash flow and other financial documents, grant agreements, vendor contracts, and more.

Does the candidate truly meet the criteria developed in the previous phase? Does the candidate have the resources to successfully implement the merger? Does the candidate have the management skills and financial stability necessary? Is there an overall benefit to your organization's mission, financial position or operations? Is there a good cultural fit? Action steps:

- Create a merger team that includes individuals from both organizations

- Test interest (this includes mutual review of organizational documents)
- Learn about the organization: is there a fit with the criteria in terms of mission, financials, culture, short and longer-term stability, strategy, skills, staff, location, etc.?
- Share your assets and determine if the merger candidate will benefit
- Assess willingness of funders to support merger
- Develop statement of intent to merge
- Begin creation of business case: seek justification on strategic, financial, or operational grounds. Modify or terminate merger if business case is not strong.

3) Merger Design & Action Plan

This phase is about designing and creating the plan for the actual merger. This involves giving consideration to issues of leadership, weighing staff layoffs / changes, preparing internal stakeholders at all levels and creating strong communications for external stakeholders. Action steps:

- Define clear leadership structure and create written job descriptions
- Establish a clear vision, competitive strategy, and systems integration (i.e. finalize business case AND develop a merger integration plan)
- Support members, volunteers, staff and board of directors for new roles, changes in employment status, layoffs and messaging
- Develop substantive and symbolic communications for broad group of stakeholders (ex: poster, email, newsletter, letter, party, website, video, event, graphic representations, etc.)

4) Legal Combination

The scope of legal support that may be necessary should be estimated in the first phase. The desired legal structure should be determined in phases 2 & 3. For instance, will one group dissolve? Will two groups dissolve? Will an entirely new entity come into existence? This phase is where the organization creates plans for managing all local and federal legal requirements. Action steps:

- Identify and contract for legal support required
- Create action steps to comply with vendor contracts, foundation grants, local law, and federal law
- Ensure legal documents will be filed and ensure organizational filings take place (example: W2s, 1099s, 990s, monthly / quarterly taxes, etc.)

5) Operational Combination

This is the full implementation of the merger. What happens on the first day of merger? As new issues arise with integration of the merger, there should be joint decision-making to trouble-shoot and adjust plans as needed. Formal evaluation periods should be

established to correct and implement changes on an on-going basis. Action steps:

- Plan Day I activities
- Celebrate
- Implement changes quickly
- Move physical assets
- Solve problems jointly
- Conduct evaluation and identify areas for further integration

In closing

In a sector that is often dramatically under-resourced, a merger can be a way to capitalize on the energy and talents of staff and stakeholders; to advance a mission and vision more effectively in the community; or simply to preserve important programs during hard times. However, for the benefits of a merger to be fully realized, groups must come to the table with not only their best intentions, aspirations and hope, but with their hard data and unspoken doubts. Most of all, they must be prepared to invest valuable staff time and real organizational dollars in each of the five steps and beyond.