



AFP Information Exchange

Mergers and Acquisitions, Part I

~

This **AFP Information Exchange** resource is provided by:
Robert McKim, CEO, Edward Charles Institute for Nonprofit Mergers and Acquisitions
Contact: 310-930-0066 • edwardcharlesinstitute.com/

ASSOCIATION OF FUNDRAISING PROFESSIONALS

4300 Wilson Boulevard, Suite 300 • Arlington, VA 22203-4168
800-666-3863 (U.S. & Canada) • 703-684-0410 • 001-866-837-1948 (Mexico) • 703-684-0540 fax
www.afpnet.org • afp@afpnet.org

Mergers and Acquisitions

Part I – Six Signs

How do you know if it is time for reinventing the organization?

Six Signs

This is the first in a series of three articles on Mergers and Acquisition (M&A) for nonprofit organizations. In this article, we will describe the six significant signs indicating that it is time to consider a merger, acquisition or dissolution of a nonprofit. The second article will detail how to conduct a successful merger or acquisition. The third article will discuss the legal aspects of changing an organization's status.

SIX PRACTICAL AND STRATEGIC REASONS WHY CHARITIES SHOULD CONSIDER MERGING

LACK OF FUNDS: The most urgent situation arises when a charity has less than 90 days of cash on hand to meet its expected financial obligations. This it is not only urgent... it is critical! The board must act quickly to fulfill its financial responsibility. A merger with a stronger-balance-sheet partner is essential immediately or dissolution will become a reality.

FOUNDER'S SYNDROME: With the founder's syndrome - momentum has left the building. I was talking with a board chair recently whose founder had passed away leaving a little endowment, but not enough. Another founder had thrown in the towel. He can't move the charity any farther, because he doesn't know how. Founders who can no longer effectively drive the process due to diminished resources, talent or energy, leave the charity rudderless; this is the time when the board must act to transition the charity.

LACK OF GROWTH: Many larger charities have resources but find they have diminishing returns in acquiring new clients or donors and have over-extended their program resources. In this case, it is often a great deal more efficient to acquire a smaller, more innovative charity than to develop something similar. Or, a charity may want to expand its footprint after it believes it has saturated the geographical or demographic market place. An acquisition or merger is an

excellent solution to this challenge because the charity acquires an established organization that has experience and success in a new market.

LACK OF LEADERSHIP: The board is worn-out or dysfunctional to the extent it can no longer provide the leadership or management necessary to carry out the organization's mission. The organization is unable to be operated efficiently and effectively. In this case, inviting a healthier organization to take over allows for continued and improved service to the clients of that charity.

STRONG COMPETITION: This is an uncomfortable term to nonprofits, but very much a factor in the for-profit world. However, competition from other nonprofit and even for-profit entities can over-shadow a smaller charity and reduce its access to funds and capacity for development. If a smaller charity is out-talented, out-resourced and out-maneuvered, it is time to look for a merger partner to support its client base.

STRONG BALANCE SHEET: For those charities with stronger balance sheets this is an excellent time to look for charities that may be wounded -- and offer them a strategic alliance or merger opportunity. As the economy worsens, grant-makers are likely to put pressure on nonprofit groups to look into mergers and acquisitions. While nonprofit groups frequently resist such overtures by an organization with a stronger balance sheet, it is time to work together to achieve the long-term, strategic benefits of uniting complementary nonprofit charities into single, more sustainable and more successful operations.

NONPROFIT DARWINISM

Today, it is mostly agreed there are too many charities severing the same populations and consolidation is essential for a healthy and stable nonprofit system. This current economic upheaval is an equivalent to nonprofit Darwinism leaving only the stronger and better prepared to survive.

Many times it is the irresolvable issues that attract two organizations in the first place; they look for compatibility that would include similar values, missions and cultures. Many nonprofits share concerns about strengthening the nonprofit sector and perhaps a desire for a stronger national voice.

The number of mergers involving nonprofit organizations is increasing. So, too, is the need for concise, practical information to guide nonprofit leaders through the merger process.

In the next article, we will outline the step-by-step process of how nonprofits can create win-win merger situations that culminate in mutually satisfying agreements that result in stronger, higher-capacity organizations.



Mergers and Acquisitions, Part I was provided by:

Robert McKim, CEO, Edward Charles Institute for Nonprofit Mergers and Acquisitions
1880 Century Park East, Suite 315, Los Angeles, CA 90064
310-930-0066 • edwardcharlesinstitute.com/

At Edward Charles Institute for Nonprofit Mergers and Acquisitions (ECI), we bring together charities that need to find partners. We find win-win conditions for both sides of the collaboration, acquisition or merger. In bringing together charities, we create an environment of trust, making the merger process efficient and successful. Founded in late 2008, ECI represents the collaboration of two nonprofit experts, Robert McKim, MA, CISA, CIPP and Kent Seton, Esq. With over forty years of nonprofit and business experience, including his current position as chairman of the board of Meals on Wheels, Robert has a solid understanding of how charities work and what it takes to bring them together. Kent, a seasoned attorney, has represented thousand of charities, both large and small.

ASSOCIATION OF FUNDRAISING PROFESSIONALS

4300 Wilson Boulevard, Suite 300 • Arlington, VA 22203-4168
800-666-3863 (U.S. & Canada) • 703-684-0410 • 001-866-837-1948 (Mexico) • 703-684-0540 fax
www.afpnet.org • afp@afpnet.org