



# AFP Information Exchange

## *Mergers and Acquisitions, Part II* *Seven Essential Steps to Successful Mergers*

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This **AFP Information Exchange** resource is provided by:  
Robert McKim, CEO, Edward Charles Institute for Nonprofit Mergers and Acquisitions  
Contact: 310-930-0066 • [www.edwardcharlesinstitute.com](http://www.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](http://www.afpnet.org) • [afp@afpnet.org](mailto:afp@afpnet.org)

# Mergers and Acquisitions, Part II:

## The Seven Essential Steps to Successful Mergers

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Mergers of any type involve individuals and organizations with histories, personalities and cultures that may complicate the predictability of the transaction. When the merger involves charities, the unique expectations and traditions of the nonprofit sector often add yet another layer of potential complications. Successfully dealing with these variables is the art of the agreement. Therefore, it may be best to consider mergers as artful dances, partly choreographed and partly improvised, by the particular organizational partners.

The following are the seven major steps to consider when nonprofits engage in a merger or acquisition.

1. **Trust Your Merger Partner and Yourself:** Trust is the most essential and human component that is required when entering into a business arrangement. Trust typically develops at the individual level, between people and usually in conversations. Trust grows in the absence of private agendas during negotiations. Only when the key stakeholders in an organization trust each other to perform or stand by their commitments can the business at hand truly take place. Once trust is broken, it cannot be put back together again in the same way. Trust is the bedrock on which all negotiations will continue.
2. **Get to the Real Issues:** In nonprofit mergers and acquisitions, the central issue usually isn't money – it's what each party wants to achieve. Uncovering the real concerns and desires of the other party requires a great deal of trust-building. Framing the genuine issues – the concerns the person on the other side is thinking privately – requires thoughtfulness and careful presentation. Interviewing key stakeholders is an excellent way of getting to the heart of an organization. Most often, it's the emotional subjects, such as the name of the organization, the role of the staff or board members in the new organization, employee benefits, surviving programs, and client or sweat equity volunteer concerns that are the real issues that lie just below the surface of the superficial conversations.
3. **The Art of Negotiation:** For any negotiation to be successful, you must understand the mission and culture of both organizations. Negotiating across cultures has often been called "akin to a dance in which one person is doing the waltz and the other is doing the tango." Understanding the other organization's culture to determine if it is a good fit for yours is crucial to negotiating a

successful outcome. Be clear in what you want to get out of the negotiation, but be open to listening to the other side's concerns. Discuss with the goal of finding terms of agreement. Work to achieve a win-win scenario for both organizations. Sample scenarios include understanding the need for help in fundraising, administrative back-end support, needed volunteers or geographical expansion.

4. **Importance of Due Diligence:** President Ronald Regan, when asked if he trusted the Soviet Union during the missile negotiations, replied "Trust but verify." So it is with nonprofit mergers and acquisitions. A best practice is to gather evidence that is essential to validate the conversations. Always look into the financials, loans, fund balance restrictions, grantor requests, technology systems and governance of the organization to honestly understand its operations. This can save embarrassment down the road, when the two organizations come together and assets need to be transferred.
5. **The Team Approach:** A key aspect to success is for each organization to create a problem-solving team that will handle and develop solutions to some of the potential integration issues. This team should be comprised of members from different departments who can speak about their areas of expertise and who have unique skill-sets that give them capabilities to resolve issues. For example, technology is a very important part of any organization, but two totally different platforms or databases can throw a merger into chaos if it's not resolved early in the proceedings.
6. **Prioritize the Issues:** Frequently executives who are trying to resolve the issues choose short-term fixes, when attention really needs to address long-term challenges. Eroding the resource of time with less important issues distracts from the big-picture concerns of human resources, technology facilities management and board appointments. Additional challenges include resolving the dilemma of two executive directors, what reporting procedures will be used, and human resource/payroll issues, to name just a few.
7. **Integration Time:** This is where the greatest sensitivity must take place. No matter how much good communication has taken place up to this moment, this is when the stability of the nonprofit being integrated into a larger organization is most at risk and unforeseen complications will arise. A professional outside consultant can greatly assist with this segment to ensure a seamless integration.

## **Raising the Stakes**

The concept of mergers, acquisition and collaboration must consider the stakeholders from founders, board of directors and sweat equity volunteers to clients, all of whom may be uncertain when it is time to consider a merger, acquisition or the dissolution of an existing charity.

In the next article, we will address the legalities of merger, acquisition or dissolution. This year is likely to generate a great deal of consolidation within the nonprofit sector. Therefore, it is essential that all charity stakeholders be prepared and understand how to manage through the process of mergers and acquisitions. A consultant with experience and a methodology can greatly assist to make the process a smooth and orderly transition.



**Mergers and Acquisitions, Part II** 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/](http://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.

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