Nonprofit Mergers:
Laying the Groundwork with Volunteers and Staff
By Dan H. McCormick

One unique aspect of nonprofit organizations is the breadth of volunteer leadership, members, and staff who are emotionally dedicated to the mission of the group. This emotional connection is important to recognize, but it can also be an impediment to the change process required for a successful merger.

Despite leadership's best efforts to promote a new vision for the organization, staff members may fear a loss of organizational independence and identity, and they may view merger as the death of an organization they care about deeply.

To begin to deal with resistance to change, start at the top. If the CEO of either of the organizations involved is not convinced a merger is appropriate, the odds of completing the merger are not good. In working with CEOs, keep in mind that you are addressing their supporters as well. Most CEOs have a core group of board members who will look out for their interests. Planning for the CEO's future will definitely influence the outcome of the early merger talks and can either impede or smooth the way to a merger.

In general, if one of the current CEOs is to become the eventual chief executive, the appointment should be made early in the negotiation process. In some cases, however, early selection of a CEO for the merged organization may create political problems. Some mergers in which the CEO was selected at the pre-merger stage resulted in the new, merged board feeling that one of its chief responsibilities had been usurped. This issue is delicate, and the selection and timing of the announcement to all players is extremely important.

Volunteer Leadership

At the initial meeting of the merging parties, each organization should be prepared to discuss documented evidence of its current organizational structure and health. This information should include, at a minimum, recent information describing the mission and goals of the organization, current financial statements, lists of major assets, current and expected liabilities existing or potential litigation, bylaws, articles of incorporation, and a strategic plan (if one exists). Exchanging this information before the meeting is usually helpful. There is no need to show great detail or reveal new strategies, but the more open the parties are with each other, the better.

Every organization has a subset of leaders who can influence the votes and attitudes of core volunteers or board members. These "super-volunteers" frequently provide the key to any merger or other major organizational shift. Identify this group early and begin to explore their interests, concerns, and attitudes about a potential merger. They will ultimately provide the political power to make the merger succeed.

Using volunteers to influence other volunteers will also serve to remove some of the focus of the issue from senior management. Yet another advantage of this approach is discovering potential barriers to merger early on in the process.

Following the first meetings of the CEOs, a meeting of volunteer leaders should be held to report the results of the CEOs' meetings. These meetings should be held separately for all organizations. The volunteer leadership should be board members with the ability to influence the board of directors' votes, if possible. To help volunteers put things in perspective, try starting the volunteer leaders' meeting by having each participant say why he or she is a volunteer and why he or she believes the work of the organization is important. This process takes the emphasis back to mission and away from personal agendas.

The volunteer leaders' meeting should provide answers to the following questions: (1) Does the leadership wish to continue exploring the merger concept? and (2) What should be the process of notifying the remaining board members? Carefully recording the minutes of this meeting is imperative. The CEO needs to avoid outrunning the volunteer leadership on an issue of this magnitude. Moving too far down the path of merger without support of influential board members could result in loss of confidence in the CEO's ability to lead.

The next meetings of the merging parties should include CEOs as well as a contingent of the key leadership of both organizations. Each team needs to be similar in size and be vested with similar authority to act on behalf of their organizations. The process will be hindered if one team has decision-makers and leaders and the other does not.

Following these meetings, and assuming the volunteer leadership is prepared to move forward, a strategy should be put in place to educate the remaining board members and membership of the organization. At this point, the rumor mill is often operating at full tilt, but the issues should not be addressed in any formal or public way until the board of directors has been fully informed.

Writing about successful nonprofit mergers in a publication for the National Center for Nonprofit Boards, T. A. McLaughlin offered these tips for dealing with communication in early merger discussions:

- Initially, keep the idea among management and the board.
- Involve the staff and middle management after the leadership question is resolved so the merger development issue and the leadership question can be announced as part of the package.
- Involve staff and take your time with the process rather than rush it through.
- Give staff the chance to buy into the process because, while mergers may start from the top and work down, they are only successful from the ground up.
- Tell the truth if a premature announcement of merger discussions has leaked out.

Don't forget to informally apprise foundations, corporations, and other groups or individuals that contribute substantial funds or otherwise have a vested interest in the organizations, to alleviate potential concerns and to gain support for the proposal.

In addition, it is a good idea to notify any major accounts payable, lien holders, or mortgage holders of the pending merger. In some states, not having prior approval of merger by mortgage holders may delay the effective date of a merger.

Gaining Board Support

The first real political fireworks may well begin when the board of directors is approached with the notion of merger. It is critical that your leadership have personal contact with all directors prior to mailing a meeting notice mentioning that merger discussion will be on the agenda.

"Working the halls" has become an expression indicating that nonprofit directors are prepared to make many of the critical decisions necessary to run the organization by talking with other board members outside of the context of an actual meeting. Mergers are frequently so politically charged that working the halls is an imperative, not an option. Of course, this may allow some directors to mount an opposition effort, but that cannot be helped. If the responsible parties of a nonprofit organization do not feel merger is in the organization's best interest, even after they are presented with the opportunity and educated about its benefit based on strong supporting evidence, the merger will probably not be approved. This is the time for strong executive leadership to emerge. The CEO should carry the banner and ensure that subordinates are not undermining the efforts of the leadership. Don't rush. Patience is an ally. Work closely with your merger partner and set timing in the best interest of both parties. Consider whether the process should continue in a parallel time frame or if one party moving first would facilitate closure.

Ideally, the outcome of the first meeting of the full board of directors when merger is discussed ought to be to adopt a resolution to continue merger talks and deliberations. While this resolution will not be binding from a legal perspective, it will officially sanction the leadership's future merger activities and will serve to impress the strong possibility of merger in the minds of the board of directors. It also will give the CEO an indication of the general support, or lack of support, for the notion of merger. Another outcome of this meeting should be the appointment of a design team or oversight committee to represent each merging organization in further discussions regarding merger and to bring back a report of recommendations.

The amount of board buy-in that is required varies from state to state. Some states may recognize a vote of a simple majority of directors to effect a merger while others may require as much as a two-thirds majority. This number could be even higher if the vote is taken in writing or by proxy rather than in a meeting.

The goal should be to achieve 100% support. Volunteer organizations will be better served if they move into merger with the significant support of their membership and directorship. A simple majority vote, while it may result in the merger, may cause a huge rift in the organization and its leadership.

Spreading the Word

As with all good public relations efforts, the nonprofit's informational efforts should begin within the organization. A staff meeting to handle rumor control and ongoing written updates to staff and all volunteers (especially those not close to the merger deliberations) are especially important. The information process doesn't need to be fancy or costly, but it does need to be consistent and frequent. Let your staff and supporters know that major changes as a result of the merger may take six months to a year, or more, to complete. Reassure them that they need not fear that there will be an immediate wave of layoffs, job description changes, or staff reassignments, unless these are part of the planned initial strategic outcomes. Let them know how they will be involved in the decision-making processes regarding any major structural changes. In a volunteer-driven, mission-focused nonprofit, no merger will succeed if its people are disregarded or alienated.

Announcement of the merger can have a negative impact on many staff members. Those considering leaving the organization before the merger notice are likely to leave shortly after the announcement. Others will worry about job loss or changes in their working environment. Senior staff should be provided with honest assessments of the current situation. Some organizations even establish a merger hot line to deal with immediate questions. Organization-wide email is another excellent way to communicate.

Seizing Opportunities

Another important aspect of mergers—one that is often overlooked—is the opportunity to effect sweeping organizational change. Merger often leads to the notion that there should be a change of everything and anything organizationally or operationally related to the nonprofit entity.

This idea provides fertile ground for significant operational shifts. New initiatives, such as zero-based budgeting, decommissioning programs of questionable value, and opening or closing facilities, are often easier to accomplish in the process of a merger. Taking this more expansive view of the organization can unify disparate people, programs, and priorities.

Dan H. McCormick is CEO of the McCormick Group-EFC. This article is excerpted from Nonprofit Mergers: The Power of Successful Partnerships, Copyright © 2001, Aspen Publishers. Reprinted by permission. Nonprofit Mergers, part of Aspen's new Nonprofit Management Series, may be ordered through the Aspen Publishers Web site, http://www.aspenpub.com.