

SVP Calgary


Non-Profit Merger & Amalgamation  
Decision Tool

# Objective: Facilitate non-profit partnerships in support of 5 principles

- 1** Create a positive impact for those in need – through improved services or increased scope of delivery
- 2** Improve the future financial position of organizations – through increased access to funding or streamlined cost structure
- 3** Strengthen value proposition to donors, supporters and partners
- 4** Combine organizations with complementary purpose allowing them to maintain commitment to mission
- 5** Combine organizations with complementary strengths & weaknesses leading to synergistic merge

# Document focuses on merger & amalgamation, but several other partnership options can help non-profits deliver on 5 principles

*Decreasing interdependencies*



- 1 Merger or Amalgamation:** legally combine two entities into 1; option delivers most potential value at most complexity – requires extensive integration process to combine organizations, processes & tools  
*Focus of document*
- 2 Partner:** formalize ways in which you will work together more seamlessly in the future, whether programmatically or in advocacy
- 3 Fiscal Agency:** turn financial management (in whole or in part) over to one agency to lower costs for both. This could be true of marketing and communications, human resources, fund development or other supportive administrative areas
- 4 Refer:** use the learnings from the journey to better understand the referral pathways that make it easier for those you serve while focusing each agency on distinctive specialties
- 5 Celebrate:** give thanks for the journey, having learned about another agency and meaningfully explored possibilities. Move in having a much better ability to appreciate the other

## 4 critical success factors guide merger effectiveness

### **1 Do not underestimate the impact of culture**

Although difficult to objectively measure, culture is often the dimension which 'makes or breaks' non-profit mergers; ensure fit is thoroughly evaluated

### **2 Management needs to be bought in**

Mergers without engaged leaders rarely can drive the degree of change necessary to capture benefits; best practice is to identify change champions early and empower them throughout integrations

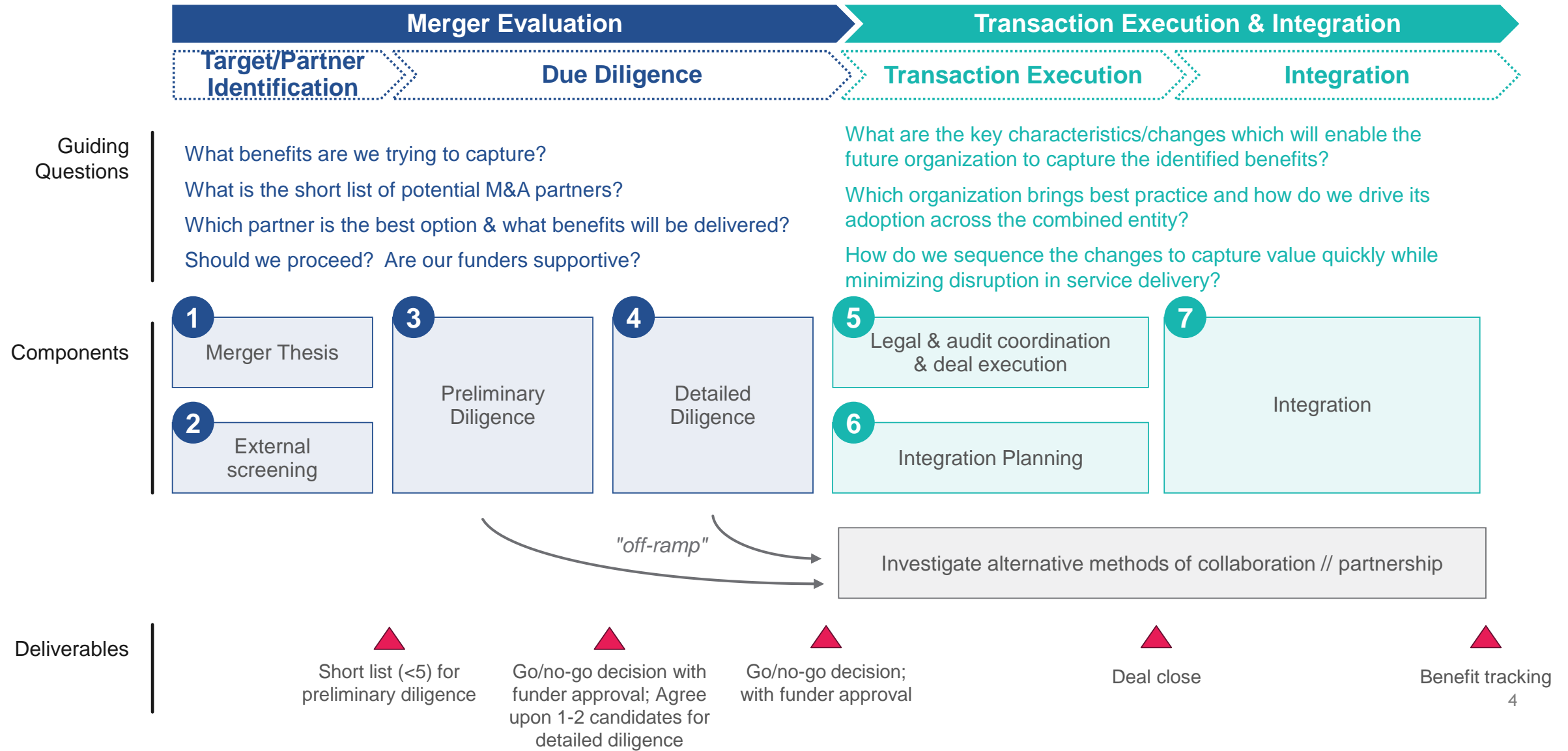
### **3 Strong integration mgmt. team required to coordinate between workstreams**

Workstreams will have a high number of interdependencies & overlapping scope; it is critical that the integration mgmt. team rapidly identify & resolve any issues to avoid confusion & simplify process

### **4 Dedicated integration resources are required**





Integration is time intensive & complex; dedicated resources required to facilitate process; a "part-time" integration team is unlikely to have success

# Seven stages to M&A from merger thesis to partner integration



# 1 Clearly articulating merger thesis will provide clarity in upcoming process

Best practice is to have a clearly defined vision and capture merger opportunities from a position of strength

Benefit	Example
 <b>Improve quality of services</b>	<ul style="list-style-type: none"><li>- After school program partners/merges with charity which specializes in delivering services to at-risk immigrant youth and uses best-practice to improve programs</li><li>- After school program partners with charity which delivers in-school support to provide more integrated services – existing clientele provided full day support</li></ul>
 <b>Expand scope of delivery</b>	<ul style="list-style-type: none"><li>- After school program with unique delivery model merges with charity which has existing footprint in schools; the combined entity rolls out improved delivery model across broader footprint</li></ul>
 <b>Increase access to funding</b>	<ul style="list-style-type: none"><li>- Two after school programs combine to qualify for larger grants which they were previously too small for</li></ul>
 <b>Streamline cost structure</b>	<ul style="list-style-type: none"><li>- After school program merges with charity delivering similar service; combined entity able to eliminate back-office costs (admin, HR, finance) to support frontline services more efficiently</li><li>- Two programs supporting the same schools merge; frontline staff of combined entity able to support both programs more efficiently (ex. less time travelling, combined program delivery)</li></ul>

Note: Merger thesis can be supplemented by logic models; helpful to refine thinking and avoid confirmation biases

# Evaluate strategic, operational and cultural fit through screen & diligence

2

## External Screen

3

## Preliminary Diligence

4

## Detailed Diligence

Evaluate <b>cultural fit</b> , considering:	- Compatibility of two missions	- Leadership values & communication styles - Culture of board and governance model - Appetite from potential partner	- Assess leadership characteristics through a formal survey, compare through alignment reports and identify any concerns - Client testimonials & 3 <sup>rd</sup> party references
Evaluate <b>strategic fit</b> , considering:	Assign H/M/L <sup>1</sup> to benefits: - <u>improve quality</u> - <u>expand scope</u> - <u>increase funding access</u> - <u>streamline cost structure</u>	Estimate anticipated benefit ranges: - <u>quality</u> – normalize & compare KPIs <sup>2</sup> - <u>scope</u> – estimate combined size & growth rate - <u>increase funding access</u> – compare donor lists - <u>streamline cost structure</u> – estimate % reduction	Quantify anticipated benefits: - <u>quality</u> – ex. use KPIs <sup>2</sup> to project impact of best practice - <u>scope</u> – estimate 1, 3 & 5 yr impacts of added clientele - <u>increase funding access</u> – specify new donors; estimate upside - <u>streamline cost structure</u> – cost savings in \$\$/year
Evaluate <b>operational fit</b> , considering:	- Size of partner/target - Footprint/geography of partner/target	- Key process steps & barriers to synchronization - Workforce skills/capabilities & gaps - Clientele similarities & differences	- Detailed process flow for merged entity - Key personnel in both organizations

<i>Activities</i>	- First pass conducted based solely on external information	- Approach partners/targets on short list - Share basic data to enable preliminary diligence - Conduct diligence & discuss with leadership at potential partner (see above) - Develop list of "deal breakers" with top candidate(s) and seek approval from BOD <sup>3</sup> to proceed with LOI <sup>4</sup>	- Share detailed data to enable full diligence - Conduct interviews with potential partner leadership & clientele - Conduct detailed diligence (see above) at first alone, then vet with leadership from potential partner - Seek approval from BOD <sup>3</sup> to proceed with merger or stop exploration
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<i>Deliverables</i>	Short list (<5) of potential partners/targets for preliminary diligence	- Top candidate(s) (1-2) for detailed diligence - List of "deal breakers" for potential partner(s) - LOI	- Go/no-go merger decision for top candidate - Estimate of anticipated benefits (wherever possible quantified) - Preliminary integration plans
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1. High, Medium, Low  
2. Key performance indicators  
3. Board of directors  
4. Letter of intent

# Diligence guided by following questions

Merger Thesis	Guiding Questions								
Evaluate <b>cultural fit</b> , considering:	<ul style="list-style-type: none"> <li>• Do the values and mission of the target align with ours?</li> <li>• Is there cultural compatibility across the stakeholders (i) shareholder/membership base; (ii) management; (iii) employees?</li> <li>• What role does the board play? Are they governance focused or a more involved "working board"?</li> <li>• What are the cultural strengths &amp; weaknesses of the organizations? Are they complimentary?</li> </ul>								
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## 5 Legal red flags, transaction mechanics & activities to support transaction

Note: Professional legal support required; information provides introductory perspective on transaction

### Legal red flags

Watch out for these warning signs

#### **Governance & org. records:**

Is the partner organization up to date on audits? Meeting minutes? Bookkeeping?

**Financial:** Debt obligations, lawsuits, labour and employment disputes, CRA<sup>1</sup> notices or failure to observe tax obligations, recent loss of major donors or revenue sources

**Material Contracts:** Ensure material contracts can be assigned to new entity

**Misc:** Unwillingness to provide full disclosure, non-independent directors

### Transaction mechanics

Different transaction types & guiding questions

3 main types of combination:

**Amalgamation:** Combination of predecessor entities (Charity A and Charity B) results in creating of new, amalgamated entity (Charity AB)

**Mergers:** New organization (Charity C) assumes the assets and liabilities of the combining organizations (Charity A and Charity B) **OR** one predecessor entity (Charity A) takes on the assets and liabilities of the other (often smaller) NFP (Charity B)

**Consolidation:** combination of already-related entities (i.e. by way of vertical amalgamation of a parent and subsidiary); rare in non-profits

Guiding Questions

#### **Type of organization combining**

(Non-share capital corporation, society, Part 9 company? Provincially or federally incorporated?)

#### **Governing statute and legislation**

Does it permit merger, amalgamation?

#### **Objects and articles of the organizations**

How are they amended? What authorization is required? Shareholder/member meeting (how likely to get the votes)?

### Transaction supporting activities

Topics that should be on your radar

**Merger authorization:** What is the minimum notice for a shareholder meeting? (consult by-laws and governing statute) Can you proceed without Charities Directorate review?

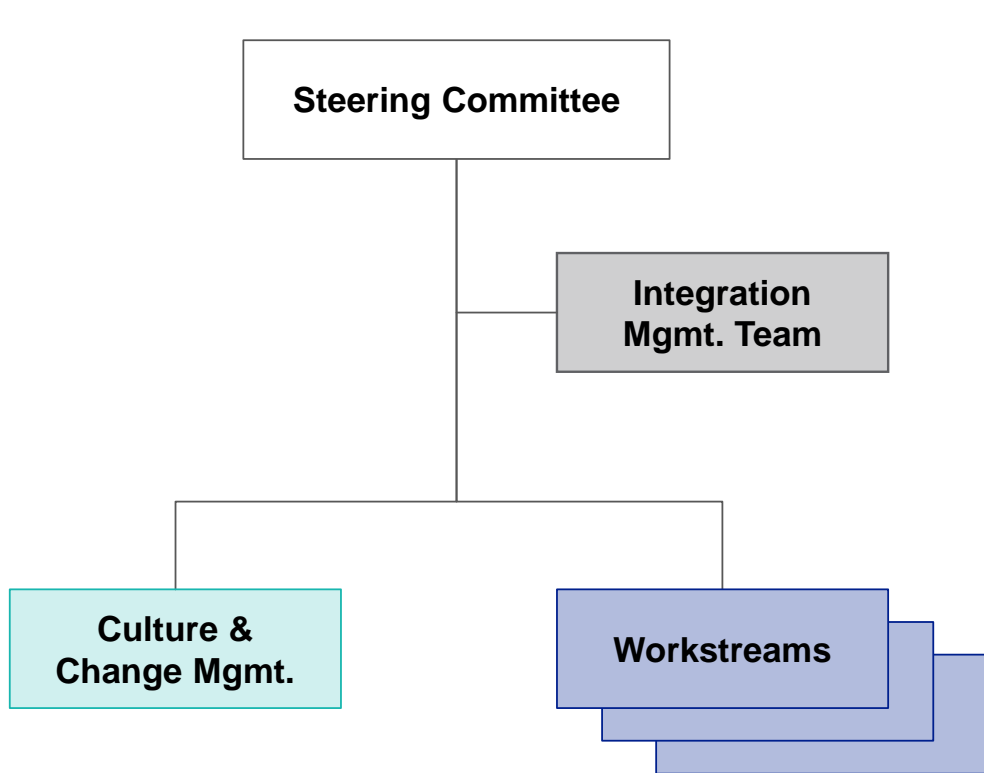
**Notice & Consent:** How much time do you need to provide notice to impacted stakeholders?

**Insurance:** How much time does it take to get insurance transferred? Can you ensure there are no gaps in coverage?

**Banking:** How do you ensure that money that might come into legacy accounts can be accessed by the combined entity?

**Objects & Mission Statements:** Can the merged entities carry on with old objects or are new ones required?

## Integration requires separate organizational structure with dedicated individuals/teams to minimize upheaval and capture merger benefits



**Steering Committee:** Set overall direction of new organization & approve key decisions including operating model principles, major org design choices, etc... Typically led by CEO of new organization

**Integration Mgmt. Team:** Structure integration governance & processes; includes setting baselines & targets, defining roles & responsibilities of integration process and setting up workstreams. Integration mgmt. team will also set overarching operating model and organizational principles.

**Culture & Change Mgmt.:** Determine target culture, identify gaps and develop plan to close gaps. Support integration processes through change management and broad-based communications.

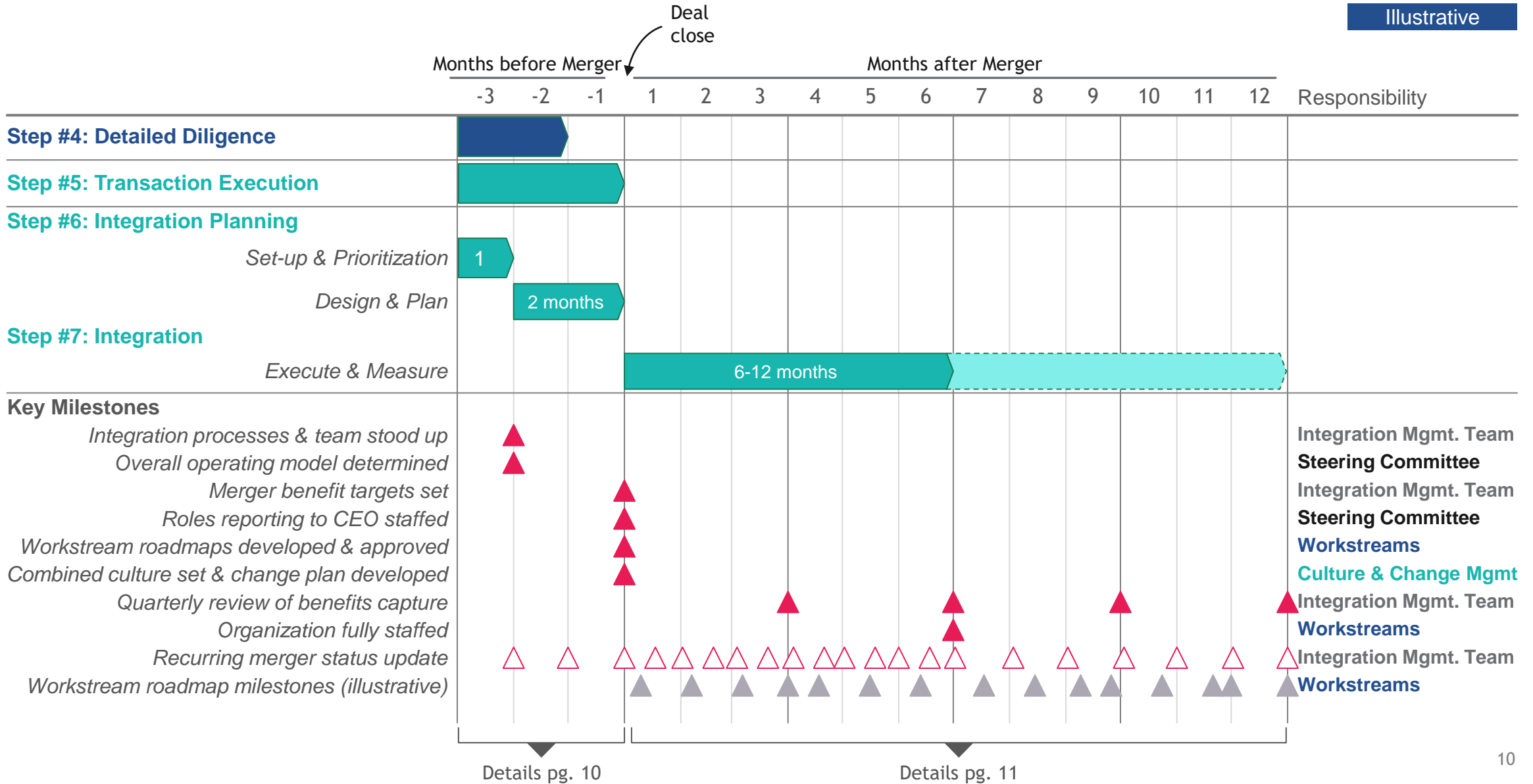
**Workstreams:** Convert operating model and organizational principles to reality through supportive changes to processes, systems & tools. Teams are typically aligned to organization structure (ie. each function of business unit will have a dedicated workstream.)

Note: Post-merger integration is a time intensive and complex process – team managing 3 organizations concurrently (2 legacy & 1 new). At minimum, a **dedicated integration mgmt team** is required. In many cases **external resources** (with merger expertise) are required.

Note: Require significant "back office" team to support workstreams & integration mgmt. team.

# Illustrative timeline for integration planning & execution

Illustrative



## 6 Integration planning lays the foundation for the new organization through governance & oversight, operating model and culture/change mgmt.

	Summary	Activities	Deliverables // Outcomes
<b>Governance &amp; Oversight</b>	Set-up integration process, set benefit targets	<ul style="list-style-type: none"> <li>- Determine integration leadership (identify lead, approval processes, ...)</li> <li>- Set-up integration processes (roles &amp; responsibilities, meetings cadence &amp; purpose, workstreams &amp; ongoing reporting)</li> <li>- Set overall integration budget &amp; timeline</li> <li>- Determine pre-merger baselines (operating expenses, services delivered, ...)</li> <li>- Set merger targets (ex. cost reduced by X%, Y new participants)</li> <li>- Identify key KPIs<sup>1</sup> (&lt;5) that will be used to track benefits, set review cadence</li> <li>- Develop a list of "Day 1 Priorities" for CEO<sup>3</sup> once integration formally approved</li> </ul>	<ul style="list-style-type: none"> <li>- Integration process articulated &amp; understood covering timelines, responsibilities, ...</li> <li>- Merger benefit targets &amp; KPIs<sup>1</sup> to track</li> <li>- Day 1 priorities document</li> </ul>
<b>Culture &amp; Change Mgmt.</b>	Identify combined culture & develop change plan	<ul style="list-style-type: none"> <li>- Determine &amp; articulate culture; develop new mission statement/vision/principles/....</li> <li>- Evaluate gaps (&lt;3) to combined culture &amp; develop methodology to close</li> <li>- Engage senior leadership as advocates for change &amp; combined culture; equip them with information and support they need to model desired behaviours</li> <li>- Identify key stakeholder groups (internal &amp; external) and develop tailored communication plans; clarify overlap between broader communications &amp; workstream specific communications</li> </ul>	<ul style="list-style-type: none"> <li>- Combined culture with aligned mission statement, etc...</li> <li>- Network of Sr. leaders working to close largest gaps to combined culture</li> <li>- Stakeholder specific communication plans</li> </ul>
<b>Operating Model &amp; Org. Design</b>	Develop new operating model & org design	<ul style="list-style-type: none"> <li>- Determine operating model principles</li> <li>- Identify and fill all L1<sup>2</sup> roles (directly reporting to CEO<sup>3</sup>) <i>(once staffed, involve all L1<sup>2</sup> in all op model &amp; org. design work)</i></li> <li>- Work with L1<sup>2</sup> to design their organization; ensure consistent with op model principles</li> <li>- Set up workstreams to lead op model change; assign leads who will: <ul style="list-style-type: none"> <li>- Document pre-merger processes, systems &amp; tools of both entities</li> <li>- Recommend 1 process/system/tool for combined entity</li> <li>- Develop a roadmap to make necessary changes to align two organizations</li> </ul> </li> <li>- Review all roadmaps with L1<sup>2</sup> leadership team and ensure alignment</li> </ul>	<ul style="list-style-type: none"> <li>- Staffed L1<sup>2</sup> team</li> <li>- Org design &amp; staffing plan with L1<sup>2</sup> approval</li> <li>- Roadmaps for process/system/tool changes with L1<sup>2</sup> approval</li> </ul>

## 7 Integration leans heavily on roadmaps & plans developed in the step prior

	Summary	Activities	Deliverables // Outcomes
<b>Governance &amp; Oversight</b>	Follow integration process; monitor performance	<ul style="list-style-type: none"> <li>- Follow integration process as designed in step #6</li> <li>- Proactively identify, escalate and resolve roadblocks to integration process</li> <li>- Schedule biweekly or monthly updates allowing board to steer integration direction &amp; provide feedback/thought partnership</li> <li>- Track merger benefits through identified process; take remedial action if required</li> </ul>	<ul style="list-style-type: none"> <li>- Target merger benefits realized</li> </ul>
<b>Culture &amp; Change Mgmt.</b>	Support culture change & implement Communications plan	<ul style="list-style-type: none"> <li>- Monitor cultural shift &amp; employee buy-in through ongoing conversations &amp; surveys; if necessary, take remedial action to close persistent gaps</li> <li>- Engage all leadership as advocates for change &amp; combined culture</li> <li>- Implement communication plan as designed; update and adapt as required (communication plan typically involves weekly or bi-weekly status updates at the start of the merger, cadence slows later in merger process)</li> </ul>	<ul style="list-style-type: none"> <li>- Organization adoption of combined culture</li> <li>- Integration with minimized uncertainty</li> </ul>
<b>Operating Model &amp; Org. Design</b>	Staff organization & execute workstreams roadmaps	<ul style="list-style-type: none"> <li>- Staff entire organization following these steps:               <ul style="list-style-type: none"> <li>- Leader develops role charters for the jobs that report directly into them</li> <li>- Leader shares proposed role charters with peers who provide feedback</li> <li>- Once approved, leader fills roles with most qualified individual (internal or external)</li> <li>- Repeat steps above in cascading manner through the organization with each leader designing &amp; filling roles that report directly to them</li> </ul> </li> <li>- Workstream leads execute roadmap; update and adapt as required</li> </ul>	<ul style="list-style-type: none"> <li>- Staffed organization</li> <li>- Target operating model implemented across organization; with supportive processes/systems/tools</li> </ul>

# Resources for further consideration

[Merging for Good](#)

[20 questions NFP Directors should ask about mergers](#)

[Unmasking the Future 2021: Environmental Scan](#)

# Disclaimer

This document is provided for informational purposes only and is not intended to provide legal or accounting advice and should not be relied upon in that respect. It does not provide comprehensive directions for the process. You should not act or rely on any information in this document without seeking the advice of a professional.

In no event shall SVP Calgary or any of its representatives be liable to any third party whatsoever.

Backup



# Diligence worksheet | Strategic Fit

Merger Thesis	Guiding Questions	Opportunity #1	Opportunity #2	Opportunity #3
Expand scope of delivery	<ul style="list-style-type: none"> <li>Does the target allow us to extend our services in a new (geographic) area?</li> <li>Does the organization provide access to new recipients that we can now serve?</li> <li>Is that the area we want to/could service?</li> </ul>	H/M/L Comments	H/M/L Comments	H/M/L Comments
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Streamline cost structure	<ul style="list-style-type: none"> <li>Are we both serving the same area and same customers and duplicating efforts?</li> <li>Are there back-office cost saving opportunities?</li> <li>What is the confidence in achieving the cost synergies?</li> </ul>	H/M/L Comments	H/M/L Comments	H/M/L Comments

# Diligence worksheet | Cultural Fit & Operational Fit

## Guiding Questions

## Opportunity #1

## Opportunity #2

## Opportunity #3

- Do the values and mission of the target align with ours?
- Is there cultural compatibility across the stakeholders (i) shareholder/membership base; (ii) management; (iii) employees?
- What role does the board play? Are they governance focused or a more involved "working board"?
- What are the cultural strengths & weaknesses of the organizations? Are they complimentary?

H/M/L  
Comments

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- Are any operational/ integration/change management challenges expected (IT, processes, system, people, organizational structure, legal/tax implications?)
- Will the acquisition improve the overall financial position/resilience of the combined entities? Diversified revenue sources, lower costs, more access to funding?
- What is the current situation of the target? Is it funding constrained? Is it looking for a partner?

H/M/L  
Comments

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Comments

H/M/L  
Comments

## Diligence backup | Initial list of documents for review

- Terms of Reference for the committee overseeing the merger
- Confidentiality agreement
- Governance documents
- Board minutes
- Policies
- Strategic plan
- Financial documents (includes tax filings)
- Organizational chart
- Agreements and contracts
- Licensing and insurance documents
- Risk management documents
- ...