Lessons learnt from a Merger Consideration Process

Background

In the last half of 2014 two non-profit community organisations received NDS funding for a feasibility study into potential collaboration opportunities. A third organisation was then invited to join the study. The three organisations ranged in size from very small (7 staff) to medium (45 staff). An independent consultant was engaged to facilitate the process.

Catalysts for this study included:

- Our traditional reliance upon government funding is no longer a viable long-term financial strategy. Competitive tendering for Federal funding is disadvantaging smaller organisations. It appears that, increasingly, Federal funding is favouring larger organisations offering operational models that:
  - Are based on centralized intake processes;
  - Utilize a 'call centre' type model;
  - Are not necessarily locally based or possess strong local knowledge;
  - Use the leverage of their national profile to 'muscle' out smaller, local services;
  - Have allocated funds to employ professional grant and tender submission writers.
- This increasingly competitive funding environment is disadvantaging smaller organisations, often run on very tight budgets which have traditionally focused on responsive service delivery at the expense of sophisticated administrative infrastructure.
- Our three organisations provide similar services in adjoining geographic locations.
- CDC funding models means we all need to change how we have traditionally worked – we need to now think about 'marketing' our services.
- A desire to work more closely to better utilize resources and deliver quality community services in the developing competitive environment.
- A strong belief held by all three organisations that responsive, flexible, locally based services play an essential role in reinforcing and fostering social capital.

The Process So Far...

1. The facilitator met with each organisation's senior management to gather background information e.g. values, organizational strengths/ weakness, culture, type of partnership envisaged, possible benefits, non-negotiable issues, etc. Documentation regarding key common themes was developed. At this stage 'merger' was not a word that two of the organisations were comfortable with.
2. A round table session with Board and senior management representatives from participant organisations. The purpose of the day was to develop "shared, basic

understandings' and map a way forward towards greater collaboration between the three organisations. Agenda items included values and culture, services and support, operations, expectations and next steps.

3. Agreement reached by all three Boards to form a senior management working party to investigate closer collaboration and new service opportunities.
4. The Working party began regular meetings to identify, prioritise and plan collaboration opportunities. Terms of Reference for the group were agreed.
5. A number of collaborative actions were investigated. The focus turned to an alliance model. Considerable investigation and work was undertaken around this potential collaborative model over a series of meetings. A high level Information Technology plan and also a communications plan were developed using expert advice.
6. In April 2015 this year the Working Party reached consensus that the Alliance model was not optimal for the three involved organisations. It was agreed that a full merger be the focus of the Working Party. Each organisation undertook a SWOT and PESTLE analysis to support the extensive review process. By late May a joint document recommending a merger as the preferred option was presented to all three Boards. Each Board gave in-principle support to further investigating the merger option. A Memorandum of Understanding was developed Financial, legal and cultural due diligence reviews are being undertaken and a merger framework is being developed. The final recommendations will be presented to the Boards in August 2015 for their consideration. If agreement is reached then a transition working group comprising board representatives and senior staff will be formed to undertake detailed merger planning. The results of this planning and the Board recommendations will be presented to the members of the three organisations for their consideration and they will be asked to vote in favour of the recommendations.

What we have learnt....

1. Without bringing in a facilitator it is very hard to gain momentum after the initial discussions
2. The first step in the process is to establish if each organisation's values align this is very important in the community services sector before starting the conversation.
3. Be upfront about the potential road blocks for each organization. This is important. When they are put on the table early it is more likely a way past this road block can be agreed.
4. Set clear guidelines for objectives, processes and dispute resolution.
5. Everyone is protective of their own organisation. We all like to think our way is best. Discussing a merger means leaving emotional baggage at the door otherwise the process is undermined from the start. Observations are not

necessarily criticisms. It is good to state this clearly and remind everyone periodically.

6. Hold meetings in ‘neutral’ territory. It is difficult to hold confidential discussions on-site.
7. Whatever time and effort you have estimated for the process increase it! The time may stay the same if you have deadlines to meet but almost certainly you have underestimated the work involved.
8. Everyone involved must be 100% committed to see the process through from the beginning to end.
9. Keeping everyone in the communication loop is also very time-consuming. Email is quick but is also prone to misinterpretation. You will need face-to-face meetings, especially when it comes to discussing sensitive issues like staffing and rationalization of services.
10. Establish a Memorandum of Understanding (MOU) clearly outlining what is acceptable behavior in the process.
11. It is important to understand that if the organizations differ in size one method of communication may work for one organization but it will be quite different for another. One rule does not fit all so it is important to be flexible.
12. Remember you can make recommendations for the operational and strategic direction of the newly merged organisation but accept that it may not necessarily happen. For example, if a new CEO is recruited and decides with the new Board to make changes then that will be out of your control. This can be difficult to reconcile with the commitment and loyalty we feel to our existing organisations.
13. Don’t try to save money by doing everything yourselves. Expert advice is essential. Get legal advice, financial advice, expert IT advice, etc. If you can get it pro-bono – fantastic but if not then we strongly recommend that you bite the bullet and pay for expert advice.
14. Be prepared to let some things go.
15. Enjoy the process! It is a great opportunity to work with a group of people who have huge experience, knowledge and different skills who under different circumstances may not have come together.