A Template for Successful Nonprofit Mergers and Acquisitions

By Fran Brown, Managing Partner

When approached strategically, nonprofit mergers and acquisitions can be beneficial for both organizations involved. According to the National Center for Charitable Statistics, there are more than 1.5 million nonprofit organizations in the U.S. That's an average of 40 per ZIP code. Combining efforts with another organization with a similar vision and mission can help you achieve greater impact.

Nonprofit mergers and acquisitions require a significant investment of time and effort, however. If your organization is considering joining with another entity, the four phases outlined below will help guide you through the necessary steps. These phases were developed by Frank Scotti, Vice President for Business & Finance at Hope International University, when the university merged with Nebraska Christian College in 2016. They provide a good template for other organizations.

These four phases will help guide you through the necessary steps.

Before You Begin

Start by reading these three best practices for a successful nonprofit merger or acquisition.

Then as you move through each phase, remember that a nonprofit merger or acquisition must:

- Have the full commitment of both organizations
- Result in long-term financial stability and sustainability
- Provide opportunity for significant growth
- Offer the ability to leverage assets to ensure future viability
- Be compliant with all accreditation requirements and state and federal regulations

You can halt the process at any point if you have concerns that the merger or acquisition won't provide the intended benefit.

Phase One: Exploration

This is the research and discovery phase, where you get to know the other organization and ensure a good fit.

- Look at the other entity's mission statement. Do you have common goals?
- The top leaders of both organizations should meet to set the tone, confirm the purpose of the merger or acquisition, and ensure that both organizations support it. Address any resistance or concerns before proceeding.
- Prepare an executive summary detailing why it would — or would not — be beneficial to proceed.
- Involve your board chair early in the process so he or she can help build support among other board members and key stakeholders.

Phase Two: Analysis

This analysis will help your organization understand the potential positives and negatives of the merger or acquisition.

- List the advantages, such as improved stewardship, expanded programs, improved financial sustainability, and expanded expertise.
- List the potential disadvantages, which could include negative reaction from constituents, alumni, donors, or staff; redundancy between programs; or missions that differ too much.
- Identify the cost. Include hard costs such as travel, IT, professional counsel (legal, accounting, etc.), marketing, and program development, as well as soft costs such as the time demands on your leadership and board.
- Create a merger budget.

- Review key data from both entities, including financial data, donor base, and the number of full- and part-time employees.
- Assess the potential risks. These might include a lack of focus on your mission while the merger or acquisition is underway, employee resistance to change, misunderstanding of organizational culture, and unknown costs.
- Provide an analysis summary that:
  - Includes data explaining the financial, constituent, cultural, and regional impact of the merger.
  - Makes the case for moving to the next phase or discontinuing the process.
  - Demonstrates that due diligence has taken place.

Phase Three: Design

The purpose of this phase is to help you understand how the merger or acquisition will work. As you start to integrate the two organizations, everything addressed in the design phase must be crystal clear to avoid misunderstandings.

- Obtain definitive agreements related to:
  - Approval from your accrediting agency or any state agency that provides a license or contract.
  - How the deal will be structured — will it be a merger, acquisition, or joint venture?
  - The board members from each organization who will be on the board of the combined entity.
  - Input from regional advisory councils and stakeholders.
  - The name of the combined entity.
  - Assets and liabilities, including any existing contracts that need to carry over to the new organization. This may be a good opportunity to rework existing contracts and address any issues.
- Determine how the facilities, governance, administration, organizational chart, and operations will be structured in the combined entity.

Phase Four: Integration

This phase requires a significant commitment of time and energy from both entities. As you work through this phase, address and plan for every issue you can think of.

- Create and implement an integration plan that addresses all areas you will need to combine. This includes finance and budget, human resources (payroll, policies, handbooks), facilities, and technology. What will you move forward with? What can be reduced or eliminated? Also address your advancement initiatives. Do you have buy-in from those who support both organizations?
- Create a short-term and long-term business plan.
- Develop a strategic plan for the new entity.
- Conduct employee training on all systems, processes, and procedures.
- Launch the branding and marketing campaign for the combined entity, if applicable.

The integration phase generally takes about 18 months. Smaller organizations may be able to complete it faster, while larger organizations could require two years for full integration.

That may seem daunting, but the analysis you perform in Phase Two should prepare you for the cost and time commitment — as well as the benefit of a stronger organization at the end of all that hard work.

As these phases illustrate, thorough due diligence is vital to the success of a nonprofit merger or acquisition. CapinCrouse can assist you with due diligence, accounting questions, and other services related to a merger or acquisition. Please contact us to learn more.

Additional Resources

Watch a recording of our webcast on “Mergers and Acquisitions – How to Make Them Work for Your Organization” here. We discuss how to determine whether your organization is ready for a merger or acquisition, identify a partner organization, and more.

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About the Author

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As Managing Partner, Fran leads the firm and guides the implementation of strategic plans and objectives. He is also involved in client acquisition meetings, significant board meetings, and representing the firm nationally. Fran has more than 30 years of experience providing audit and management consulting services to a variety of nonprofit entities, including colleges and universities. Fran previously led the New England Higher Education and Not-for-Profit Practice at Grant Thornton and was partner-in-charge of the not-for-profit practice at CCR LLP. His expertise includes strategic planning, budgeting, financial statement preparation, exempt-organization tax filing, real property sales and leases, board training, and enterprise risk management (ERM) training.

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