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CHANGE THE WORLD FROM HERE

Facilitating a Nonprofit Merger:

Identifying the Benchmarks and Success Indicators of a Nonprofit Merger

by

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Executive Summary

This report outlines tools and philosophies that address issues of staff engagement, staff motivation, and the Actor Oriented integration process, while chronicling the steps required for strategic and structural post-merger integration. Through a literature review, a series of expert interviews, a post-merger survey, and as a principal architect of the Secured Alliance merger in 2018, this work identifies key best-practices associated with facilitating nonprofit mergers, acquisitions (M&A), and strategic alliance events. Research shows that a segmented approach is key to enhancing success probability. The principal steps to executing a nonprofit M&A or strategic alliance have been placed into a six-phase approach including Pre-Strategy, Due-Diligence, Framework Design, Structural Mapping, Execution and Post-Merger Integration.

Key takeaways from this research are the need to identify a triple-win (Figure 6), and that principal M&A operators must lead by the values of “The Leadership Paradigm"(Figure 7). The triple-win is a pre-merger value indicator that relates to a net value add through merger or association. The Leadership Paradigm proposes that during an M&A change process, the change agent should focus on employee engagement and systems integration as a primary value, and the change process and service delivery concerns as a secondary value.

Acknowledgments

The author wishes to thank his professors at the University of San Francisco, School of Management, for their professional insights and wisdom. His fellow students for their feedback and encouragement. The expert professionals interviewed during the research for this project, including CEO Tom Avramis, Attorney Stephanie Sparks, Marlene Day, Consultant Tom Noonan, and CEO Linda Beiler. His wife, Liz, for the grace and support she afforded him throughout countless hours of work and research these past many months.

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Section 1. Introduction

A General Overview

This research is both academically and experientially informed. Academic data collection has been conducted through an extensive literature review, a series of expert interviews, and a post-merger survey. The author's experience as a nonprofit merger architect brings an added dimension and depth to the research and associated outcomes.

Nonprofit mergers are less common than for-profit mergers, but the execution fundamentals are similar. (Elissa D. Giffords, 2003) The literature on this topic presents several key differences between the two. Where for-profit mergers are normally predicated on shareholder value, nonprofit mergers are often pursued as a means to mission expansion, organizational sustainability, and to address redundancy among multiple nonprofits saturating a specific geography with similar services. Although this research will show there can be great value added to community impact and mission deployment through merger, acquisition and strategic alliance pursuit in the nonprofit sector, it also underscores the complexities inherent in the quest.

This research seeks to identify the benchmarks (process), as well as the indicators (best practices), associated with a successful nonprofit merger, acquisition, or strategic alliance.

The Author's Credibility

Nathan Schnackenberg has been a nonprofit executive since 2008. He has served in the capacity of Chief Operating Officer and Chief Executive Officer for both small and mid-sized nonprofit organizations in multiple states. He has overseen several change management initiatives throughout his career and was a principal architect of the $100,000,000 merger of Secured Futures, a Pennsylvania Nonprofit Organization and Good Shepherd Fund, a California Nonprofit Organization in the launch of Secured Alliance, an Arizona Nonprofit Organization. In his role as an architect of the Secured Alliance merger, he authored the original concept design paper, the Secured Alliance Pro Forma, and operational modeling briefs, and was responsible for planning and executing post-merger integration. This research relies on the author's expertise.

This work represents Schnackenberg's Capstone Research Project, prepared for and submitted to the University of San Francisco, in pursuit of a Masters of Nonprofit Administration degree.

Section 2: Literature Review

Defining a Merger

As a way to leverage against an array of vexing environmental conditions, including economic concerns and service saturation, Nonprofit Organizations (NPO) are increasingly looking to mergers, acquisitions and strategic alliances as a way to mitigate risk (Jane E. Barnes, 2006). Gabriel Charlariu (2017) defines "merger" in three distinct categories: Horizontal, vertical, and conglomerate. Horizontal mergers take place when two organizations are in a competitive position and offer the same services to the same general publics. Vertical mergers are between two or more organizations in a buyer-seller relationship but are not competing with one another. Conglomerate mergers take place when companies are not competing and do not have a buyer-seller relationship but choose to associate with one another for strategic reasons. In a conglomerate merger, a legal and strategic collaboration is entered between two or more organizations.

For the purposes of this paper, the word "Merger" is used to associate an event, where two or more organizations come together through a binding and legal framework, and under a singular leadership structure. Mergers can be friendly or hostile, they may include a newly formed organization or not, and may be entered for a range of reasons (Avramis, 2017), including:

- Economic – where respite from a financial concern is assumed.
- Service Diversification – where a diversification to the service model is assumed to enhance mission and service delivery.
- Founder/Executive Succession – where a founder or Chief Executive seeks to retire, and the organization lacks an adequate succession plan.
- Going out of Business – when a NPO cannot reasonably continue, its assets and liabilities may be assumed by another NPO.
- Service Saturation – where service redundancy erodes organizational effectiveness.
- Strategic Synergy – where organizational strengths are assumed to offset respective weaknesses vis-à-vis the merger, among others.

Perceptions relative to NPO Mergers

There is a lot of literature on private sector Mergers & Acquisitions (M&A). Information is not as readily available in the nonprofit sector, but a growing interest among researchers in nonprofit sector merger activity seems evident, based on the amount of recent literature found for this paper.

Public and private sector perceptions about the underpinning motivations for why organizations may choose to merge is not dissimilar. Most people perceive mergers as being done by businesses to increase shareholder value, strengthening operations, and increasing profit as well as improving services, products and value for their customers (Gabriel, 2017). The desired outcomes relative to financial (profitability in the private, sustainability in the public sector) and operational (product and service delivery in either sector) enhancement is the principal driver of merger interest in either sector. It is also true to note that NPO mergers are executed similarly to those in proprietary settings, particularly around employee and post-merger integration issues. (Elissa D. Giffords, 2003)

Post-merger success metrics tend to differ between the public and private sector. In the private sector, success is often determined by the shareholder's bottom-line. Did the M&A increase shareholder value? If yes, the merger is viewed as a success. If no, the merger is viewed as a failure. There can sometimes be little to no regard for the toll M&A takes on downsized divisions, supply chain, or individual employees and their families. For a NPO, the success of the merger is more nuanced. Mission is king, not the bottom-line. To assess whether a nonprofit merger was a success, one would need to look first at mission deployment; has it been increased/strengthened, or not? Past that, NPO's tend to value post-merge cultural integration, organizational capacity building, and revenue diversification at least as highly as they do retained earnings (or profit, in the for-profit context).

For nonprofit organizations, post-merger success can sometimes be defined by culture integration, and whether the team has become a cohesive unit. Because nonprofit employees and other stakeholders are often motivated by a deep connection to the organization's mission, some researchers feel success in the context of NPO merger is inextricably tied to that sense of unity and oneness, following the coming together. To effectuate this unity, each party must strip away old loyalties and favor shared vision over sentimentality (Steimer, 2018). But for NPO operators, this can be tricky, as loyalties to the original organization may run deep.

In any merger, strong leadership is of paramount importance. Leadership is an important factor in the merger planning process and is drawn from both top management and the board of directors (Amy D. Benton, 2010). As several authors have identified, it is crucial for leaders to set an implementation pace and tempo that adequately addresses the stress and anxiety that invariably exists among rank and file, and allocate plenty of time for adjustment, involvement, and feedback so that as many of the impacted as possible are able to participate with a sense of ownership over the merger process (Kate Cowin, 1996; Brown, 2018; Bin Chen, 2012; Jane E. Barnes, 2006; Kate Cowin, 1996; The Society for Nonprofit Organizations, Volume 10, No. 3).

Universal Elements of a NPO Merger

In any merger, there are numerous tasks that must be accomplished. In their work "Nonprofit Mergers: An Implementation Plan" authors Theresa Ann Ricke-Kiely, Jennifer Parker, and Thomas Barnet chronicled the fundamental elements of various organizational stages of a merger, as shown in Figure 1 below.

Figure 1: Organizational stages of merger from investigation through execution

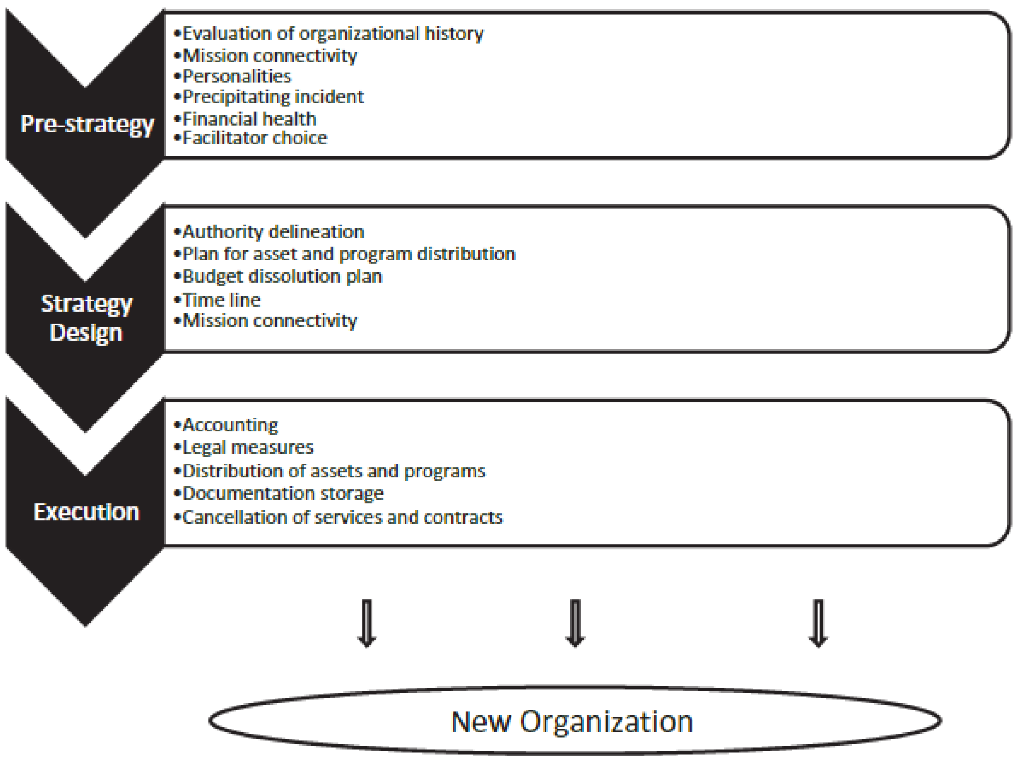


Figure 1 Data was taken from "Nonprofit Mergers: An Implementation Plan," by Theresa Ann Ricke-Kiely, Jennifer Parker, and Thomas Barnet, 2013, Administration in Social Work, 37, p. 163.

The three primary stages noted in Figure 1 are Pre-Strategy, where the possibility of a merger is reviewed and assessed, Strategy Design, where a plan is formulated, and Execution, where the plan is made manifest.

In the merger recently facilitated by this author, and noted as a case study in this paper, there were a few more steps: Pre-Strategy, Due Diligence, Framework Design, Structural Mapping, Execution, and Post-Merger Integration. Although the major elements are the same, the process and timelines associated with the case study are shown in Figure 2.

Figure 2: General dimensions and timeframes of the case study merger of Secured Alliance

Pre-Strategy 4 Months	Executive-level brainstorming, negotiation, and "dreaming" sessions Elements of a successful Pre-Strategy "If it's meant to be, we'll see the vision for it" Discussing "Close-Fisted versus Open-Handed" issues
Due Diligence 2 Months	Assessing financial health, transparent disclosure, nondisclosure agreements Whitepaper, and review overarching concept with respective Boards Disclosure of any pending legal matters , existing contracts, and previous IRS filings
Framework Design 3 Months	Draft a Conceptual Framework paper, inclusive of critical assessments: TOWS, SWOT, PESTLE Get a Board ratified "Go/No Go" ruling. Present Framework to staff of both organizations, and offer plenty of support
Structural Mapping 3 Months	Finalize legal incorporation, map Bylaw changes, and transitional governance Map information technology and Infrastructure migration plan Map a post-merger cultural/operational integration plan
Execution 1 Week	Fulfill the legal mandates of the merger Schedule as many 'celebratory' events as possible to commemorate the launch Notice industry and set early marketing agenda
PMI 12 Months	Drive integration initiatives through employees designs Execute full systems migration protocols

In the Secured Alliance case, pre-strategy took 4 months because one entity had a pro-strategic collaboration posture, while the other was dealing with a rather hostile acquisition attempt by another organization and was initially less inclined to the idea of a merger. But once mission, vision, values and principles of each entity were found to be synergistic, the pace quickened. During the due-diligence phase, executives of both organizations performed a comprehensive review of the other’s finances, operational protocols, policies, and organizational liabilities. Both organizations also underwent a culture survey conducted by a third-party business consultant. The outcomes of the cultural survey showed that, as had been assumed, strong synergies were evident between the two organizations. By the time we reached the structural mapping phase, the potential for a merger had become more probable; even likely. Following the presentation of the framework design brief, the merger was officially ‘green lit’ by both boards.

In the practical case outlined later in this paper, the structural mapping phase incorporated HR consultants, attorneys, and an array of other specialized professionals. The employees who had recently became aware of the merger were anxious, and internally-focused leadership personnel quickly found that mitigating employee concerns and reiterating a commitment to staff participation in the process going forward became an all-encompassing job.

Structural mapping was easily the most challenging phase, due to employee tensions. Nearly all mergers and acquisitions look great on paper, but according to recent Harvard Business Review report from 2017, the failure rate for mergers and acquisitions (M&A) sits between 70 percent and 90 percent. It's the stuff that doesn't show up on a spreadsheet that can derail an integration (Brown, 2018).

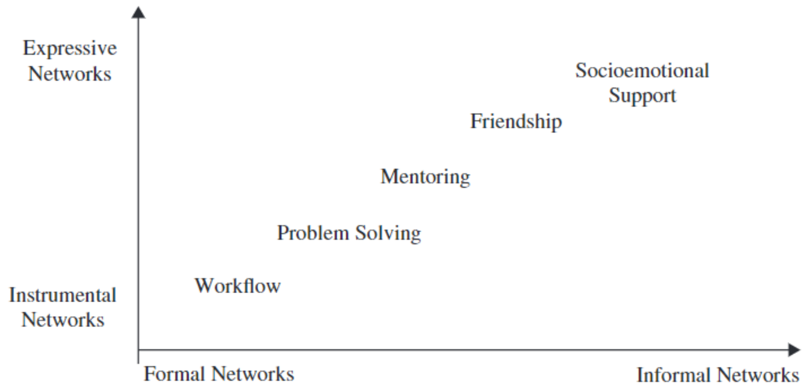
Change Management

Whether a merger is initiated between two small and local NPO's, or between two or more large, multi-national organizations, the event always sparks a season of change for every organization involved. Change in any context has the potential to disrupt. But change in a business context can be especially difficult to manage because of the diversity of personality types among the employee and other stakeholders. Not just diversity among employee receptiveness to the merger concept, there can also be diverging philosophies among the leadership on how to manage, to what extent employees should be empowered, and how to resolve conflict. Under poor change management, studies show that productivity levels tend to drop, power struggles emerge, morale plummets, turnover rises, the rumor mill flourishes, and absenteeism and stress levels peak (The Society for Nonprofit Organizations, Volume 10, No. 3).

Adopting a common and shared language for communicating change strategies is an important factor that might not just increase understanding and acceptance of change processes, but also increase the efficiency of change (Sundgren, 2005). But the strongest leaders with all the carefully crafted language in the world may not be able to convince free-thinking employees to integrate in the post-merger migration.

In their work, "Integrated or Disconnected? Examining Formal and Informal Networks in a Merged Nonprofit Organization", Chen and Krauskopf (2012) reviewed a nonprofit merger to investigate its formal and informal intraorganizational networks to see which parts integrated and which remained separate operationally. Figure 3 shows the Five Intraorganizational Networks Within a Merged Nonprofit.

Figure 3: Five Intraorganizational Networks



Data from (Bin Chen, 2012), p. 330

Formal networks consist of formally defined relationships between superiors and subordinates, and people from different functional departments interacting to perform a particular task. Informal networks are more friendly associations that exist between colleagues. In this research, Chen and Krauskopf discovered that the formal networks closer to the convergence of the X-Y axis in Figure 2 were found to be much more integrated several months post-merger than those of the informal type. This research suggests that integration is much less influenced by management on the voluntary association levels, and more influenceable in formal networks.

Change management seems therefore to be less about plan execution and change design, and more about art and time. Integration at the interpersonal levels depends on trust, and trust takes time. Change management may be able to put individuals in a room and provide the tools and mandate to perform a task, but change management is largely ineffective at putting people in a room and requiring them to be friends.

Although these finding may seem discouraging, it is this author's opinion that the evidence simply points to the need on management's part to be patient, accommodating and encouraging. As aptly put by the researchers, "these results help guide managers on integration steps they might want to consider implementing" (Bin Chen, 2012).

Factors Inherent to a Successful Merger

Leadership's engagement of staff is crucial to effectively managing change. It's important to keep staff apprised throughout the process and share new developments as they arise. However, any involvement of staff in the process needs to reflect a sincere desire that values their participation (Amy D. Benton, 2010). The merger of two distinct organizational ideologies is problematic and creates conflicts at the structural and personal levels (Gabriel, 2017), so effective communication, sincerity, patience and clarity are all fundamental to achieving a successful merger.

Several pieces of literature addressed similar factors worth considering when attempting a successful nonprofit merger:

- **Culture matters**. Organizational culture can be defined by the way and process an organization deploys mission functionality, the management-staff interactions, levels of delegated authority, and employee autonomy, just to name a few. When assessing cultural compatibility, leadership must not only decide and be aligned on how the future is going to look, but also know and understand how each organization has functioned in the past. Only if both are understood, can a clear vision for the future be cast.
- **Opportunity to build social capital**. In any merger, by the time staff are brought up to speed on the merger plan, leadership has had months, if not years to process the matter. Staff need time to digest the gravity of what has been initiated, and they will require opportunities to engage leadership, engage one another, and engage future colleagues from a separate organization to begin building social capital.
- **Mission alignment**. Leadership must understand each organization's mission and core values well enough to be able to explain their supposed alignment to the interested stakeholders.
- **Time**. It is important to not try and shotgun the process. Mergers take time, careful planning, and patience.
- **Opportunity to participate**. Employees can't take ownership for a merger when they have no say-so. If they have no say-so, they likely will not endorse the change. Leadership must find ways to engage the staff and allow them to participate in the process.

Post-Merger Integration (PMI)

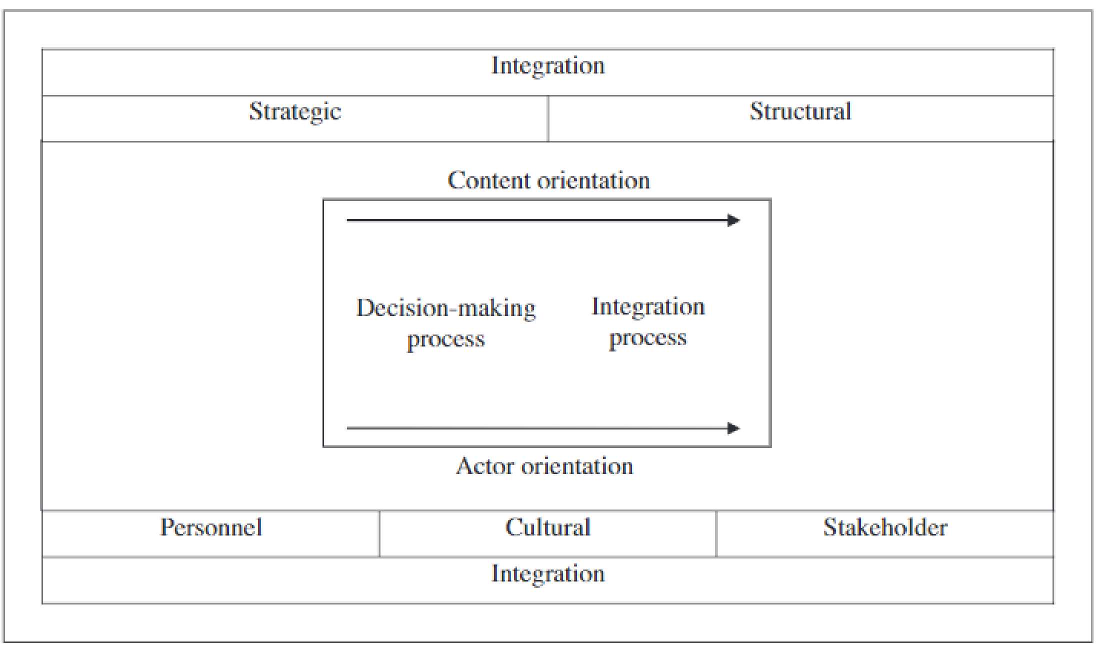
For leadership personnel, change management starts the minute a merger opportunity is realized. Change complexities increase until the merger implementation, at which point a prolonged season (possibly years) of PMI begins. PMI is the apex of change management challenge due to the many moving parts, divergent interests, employee stress, and operational confusion. The PMI process typically comes up against obstacles related to capturing synergy, client disruption, structural integration, employee retention, loss of identity and/or independence, customer retention, emotional trauma, loss of status, and learning challenges (Capron, 2018).

Julia Bodner and Laurence Capron, in their piece, "Post-Merger Integration" postulate that fundamental to a successful PMI is leadership's careful analysis of two important questions. The first is to decide on *what* must integrate. Which products, services, and systems are crucial to achieving an optimal post-merger outcome? The second is to decide, to what degree structural integration *should* occur. To this point, organizations must balance one or more merger participants' need for autonomy (normally the entity losing some control) with the need for integration in order to reap optimal economic & missional benefit.

The success of a merger is, in large extent, determined by the organizations ability to achieve structural integration and provide services to clients (Gabriel, 2017). But equally true is that a company's post-merger performance is affected by whether successful cultural integration was achieved (Rishma Vedd, 2017). It is therefore incumbent on leadership to carefully manage structural and cultural PMI to afford the merged entity its best chance for success and long-term sustainability.

Structural integration is likened to what is called the Content Perspective, while cultural integration is likened to what's called the Actor Perspective (Michael Ruess, 2012). The relationship between these two elements of PMI are shown in Figure 4.

Figure 4: The M&A Process with its Action Fields



Data from (Michael Ruess, 2012), p. 79

From the PMI content perspective, it is imperative to find the right strategic and structural direction in order to secure the best competitive outcome. From the PMI actor perspective, it is important to ensure personnel, cultural, and stakeholder support on behalf of all the actors for the PMI process (Michael Ruess, 2012). This represents something of an elegant dance that leadership must choreograph if the merger is to be a success. When done well, both sides will complement one another. When done poorly, the two sides will oppose and disrupt one another.

Key Takeaways from the Literature Review

Mergers are complicated, timely, and require high competency at the executive and board levels. They require patience, grace and humility among all participants and affected organizational stakeholders. Although challenging, studies demonstrate that mergers can be an extremely effective strategy for voluntary organizations seeking to address environmental risk factors (Greg Owen, 2012).

To truly guide individuals through the transition and produce desired behavior change, the organization needs to establish a connection between individual beliefs and desired organizational results (Heckelman, 2017). Heckelman postulates that:

1. Change needs to occur at all levels of the company: organization, team, and individual.
2. Individuals need to see the connection between their individual beliefs and organizational results to better understand their role in making change efforts work.
3. Organizations must create a disciplined change execution plan and cascade to provide sufficient direction for leaders throughout the organization.
4. Organizations must fully equip leaders at all levels to drive change.
5. Effective communication and calibration is critical for change execution success.

This literature review has focused heavily on the soft aspects of merger facilitation; the elements of Michael Ruess' Actor Orientation, more so than the elements of Content Orientation. This decision to focus on the softer elements of merger management was intentional. Structural integration tends to be more academic and dependent on the sector, industry, and the operational models of the specific entities merging. To this author's mind, the elements posing the greatest threat to post-merger success are those that are underpinned by emotion, relationship, and belief structure. Put another way, a CFO should be able to identify optimal financial integration models, a CIO should be able to assign optimal IT migration models, but how is one supposed to find optimal *Actor* integration?

Research shows that human, cultural integration is of paramount importance to the merger process and has a direct and immediate effect on organizational output and efficiency. Through this literature review and the author's own experience as an executive responsible for co-architecting the merger of Secured Alliance, the balance of this report will attempt to focus on presenting tools and philosophies that address issues of staff engagement, staff motivation, and the Actor Oriented integration process, while chronicling the steps required for strategic and structural integration.

Section 3: Methods and Approaches

A Practical Case Study – Secured Alliance

For the purpose of this paper, and with respect to the fact that it is not precisely accurate to the legal definition, the word "merger" is used to identify the strategic alliance relative to this case study and the establishment of Secured Alliance.

In the spring of 2017, while attending an industry conference, the CEO of Good Shepherd Fund (GSF) met the CEO of Secured Futures (SF), and the seeds of a possible strategic alliance were sewn. Both organizations served a similar demographic, both organizations had similar missions, and both organizations had a similar number of employees.

SF Profile: SF incorporated in 2008 as a nonprofit pooled trust fund administration organization. By 2017, SF had grown exponentially, with over $100,000,000 under management and an operational footprint in 48 states. At the time, they were one of only three national pooled trust companies and had become a prominent player in the nonprofit pooled trust administration sector. Although SF had large sums under management, they consistently operated at or slightly above break-even. By 2017, Founder and CEO Linda Beiler had developed the itch to revisit other entrepreneurial endeavors and was seeking an exit strategy that honored the beneficiaries/clients, employees, and other stakeholders of the organization.

In 2016, SF was approached by a for-profit organization offering to acquire their assets and liabilities. The offer was frustrating to Mrs. Beiler. On the one hand, she was looking for an exit strategy. On the other, the for-profit organization did not share SF's values or mission-focus and made no secret about the reasons for their interest in the acquisition. Confronted by the legal challenges associated with a for-profit owning a nonprofit, and the fact that the interested party had progressively become more aggressive, by the time Mrs. Beiler met GSF's CEO in 2017, she was at her wits end.

GSF Profile: GSF incorporated in 1970 as a corporate Guardian and Conservator to people living with disabilities. By the 90's, GSF's expanded menu of services included pooled and custodial special needs trusts administration, as well as other financial services. By 2017, GSF had a few hundred clients, primarily located in California, Oregon, and Colorado. Although GSF did not grow rapidly like SF, the organization was a fixture in the conservatorship and guardianship space, and had net retained earnings in the millions, derived primarily from large estate bequests over the years.

The impetus for early "merger" discussions had to do with the leveraging of each organization's strengths as an offset to the other's weakness. To the strengths, SF had developed in-house, proprietary technology that allowed its business to scale and grow at a rapid rate. GSF had longevity and financial foundation. To the weaknesses, SF had outgrown their business model and needed a change plan while GSF had found it increasingly difficult to expand its operational footprint, nationally.

SF needed operational diversification. GSF needed to streamline focus and expand core-mission. Figure 5 shows each organization's strengths, weaknesses, threats and opportunities:

Figure 5: TOWS Matrix

Internal Factors / External Factors	Strengths	Weaknesses
Opportunities	SF Scalability and size SF had industry-leading technology GSF longevity and retained earnings GSF resistant to business climate changes	SF outgrew operational model SF Vulnerable to business climate GSF expansion limitations GSF lacked technological backbone
Threats	Through strategic association (merger), SF inherits 'staying power' and GSF inherits a mechanism to offload trust administration.	Through strategic association (merger) SF comes under established leadership of GSF CEO, GSF accesses national expansion footprint

For several months following the initial introductions, GSF CEO Tom Avramis and SF CEO Linda Beiler continued to discuss the potential of a strategic alliance and took time to relay the opportunity to their respective boards. Of interest to both individuals and their respective boards was that each organization maintain their corporate identity and core missional focus. In this way, one organization absorbing the other was out of the question. A merger, in the classical sense, where two organizations become one new entity, was also discarded as a potential option. Following advisement from legal counsel, it was decided that a strategic collaboration was the best option forward.

Although the explanation of the legal framework that follows is simplistic to a fault, the finer legal points are irrelevant to the purpose of this work.

In this strategic collaboration, both organizations would found a new entity called Secured Alliance (SA). Both founding organizations would appoint the initial board of SA, and then each founding organization would ratify management agreements with SA. SA would then ratify policies and provisions that establish its role as a 'supporting organization' and inherit many of the assets and liabilities of each founding organization, to include such things as office lease, printer lease, employees, desks, chairs, computers and others. All the employees previously working for SF and GSF then took new positions with SA, and were in turn, leased back to the founding organizations so that SF and GSF could fulfill the mandate of their respective charter.

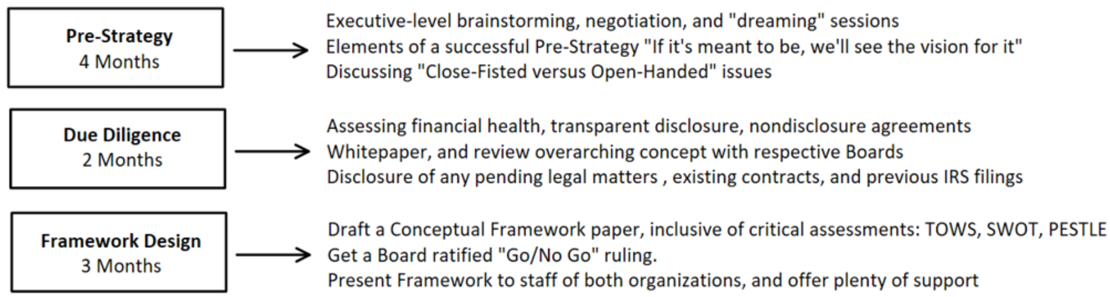
Architects of the Secured Alliance Merger

In the early summer of 2017, as the discussions between Mr. Avramis and Mrs. Beiler became less theoretical, the initial due-diligence team was established.

- Tom Aramis, CEO of Good Shepherd Fund was responsible for:
  - Interfacing with the GSF and SF Board
  - Negotiating broad strokes planning with SF
  - Negotiating legal feasibilities with corporate attorneys
  - Assessing board-level compatibilities between SF and GSF
- Linda Beiler, CEO of Secured Futures was responsible for:
  - Interfacing with the SF Board
  - Negotiating broad strokes planning with GSF
  - Assessing board-level compatibilities between SF and GSF
  - Assessing cultural compatibilities between SF and GSF
  - Overseeing SF's due diligence reviews
- Nathan Schnackenberg, COO of Good Shepherd Fund was responsible for:
  - Developing a Whitepaper (concept design) for strategic partnership
  - Overseeing GSF's due diligence reviews
  - Architecting a structural and cultural integration plan
  - Development of a mid-term post-merger financial pro-forma, inclusive of operational and revenue change-modeling

The three individuals listed above were the only operators involved in the Pre-Strategy, Due Diligence and Framework Design phases, from Figure 2 earlier in the paper, see below: (excerpt on the following page).

Figure 2: General dimensions and timeframes of the case study merger of Secured Alliance



Following a “go” ruling from each board, the team was expanded and named “The Transition Team”, and included the three individuals noted previously plus:

- Paul Beiler, CIO-elect for Secured Alliance
- Sue Stokke, CFO-elect for Secured Alliance

This transition team was responsible for structural mapping, execution, and post-merger integration.

Secured Alliance officially launched on April 1, 2018.

Other Methods

The author conducted an extensive Literature Review, a series of Expert Interviews, and a post-launch survey of the employees and board members of Secured Alliance as methods of data collection for this work. The literature review has been summarized in section 2 of this paper. Expert interviews were conducted with Good Shepherd Fund CEO Tom Avramis, Secured Futures CEO Linda Beiler, Business Consultant Tom Noonan, and Attorneys Stephanie Sparks and Lloyd Schmidt of Hoge, Fenton, Jones & Appel in San Jose, CA. A post-launch survey was conducted following the execution of the Good Shepherd Fund – Secured Futures merger. These and other materials have been added to the Appendixes of this work.

Section 4. Data Analysis

Pre-Strategy

Pre-strategy is the time to dream. This is the first phase of the merger process. It is when operators from different companies come together and collaborate about the possibility of strategic partnership and organizational alliances. Mergers, acquisitions, and partnerships can be a catalyst to community impact and mission delivery, but they can be complicated and problematic as well. Mr. Avramis summed up the perils well when he pointed out, "As an executive, we are accustomed to juggling a rather familiar set of knives. But when companies come together through M&A (Merger and Acquisition), you have to be able to juggle foreign objects while making sure no one gets impaled." (Avramis, 2017)

During pre-strategy, operators should be looking for a triple-win (Beiler, 2018); net benefits for the organizations contemplating a merger and the person's served. A successful alliance is feasible if both organizations can clearly identify a betterment through mutual association, and if the net result for the person's served is deemed to be positive. In the for-profit context, the calculations of whether to merge or acquire are heavily weighted toward shareholder value. This is more nuanced for nonprofits. Organizational value is contextualized through sustainability, mission expansion, and cultural enhancements. For the people served by a nonprofit, value is primarily wrapped up in enhancement to service delivery or "value added" proposition.

Figure 6, the Triple-Win:

Image by N. Schnackenberg, 2018

In the case study, we were able to identify a triple-win. For GSF, the access to SF's national footprint provided a clear expansion trajectory that would not have existed otherwise. As one of very few corporate guardianship organizations in the Nation, the prospect of expanding the service geography was a tremendous positive. For SF, issues of sustainability, executive succession and operational redesign were weaknesses that would be addressed through the SA framework. For the people served, barriers to service and service delivery efficiencies were quickly identified as positives.

When I asked Mrs. Beiler why she chose to pursue this merger with GSF, she said, "Secured Futures had matured beyond its humble beginnings and I knew we needed mature, tenured leadership. This was the driving factor for me in embarking on this strategic initiative." (Beiler, 2018)

When I asked Mr. Avramis why he chose to pursue this merger with SF, he said, “GSF had veered off course. Where we started as a social services company, by the early 2000’s we’d become more of a financial services company. The merger gave GSF a clear path to return to its core passion and competency, while presenting an opportunity for prolonged and sustainable growth.” (Avramis, 2017)

During pre-strategy, it is essential for operators to take inventory of their organizational strengths and weaknesses. Indicators of a successful potential merger are visible when the strengths of each organization can be leveraged to improve overall mission delivery.

Although less natural or comfortable for a nonprofit operator to discuss, it is equally important to identify the personal needs and desires of the employees of each organization, beginning with the top-level leadership. It is this author’s assessment that Mr. Avramis was looking for a means to build one another large organization. Having worked with Mr. Avramis for nearly ten years, this author believes he thrives at the helm of a large, national or multi-national organization. He’s a strategic leader and expert in building value into mission deployment through M&A transactions, and has architected 6 successful mergers throughout his career. Thus, the SA merger fit well within his personal ambitions.

Mrs. Beiler’s leadership gifting is more entrepreneurial. She has the focus and personal ambitions needed to conceive and birth an organization, and build it to prominence, but once that organization outgrows her capacities, her personal desires are to go back to the conception and birthing process. In this way, the SA merger also met her personal ambitions, allowing her to transition within the Alliance to a more suitable role.

Due-Diligence

During due-diligence, operators have established the expectation of a triple-win but must still validate those suppositions through an analysis of each organization’s policies, financials, and operational systems. This technical audit of the other organization can be awkward. Although nonprofits should be as transparent as possible, it is still unnatural to expose internal trade secrets. Additionally, every organization has skeletons in the closet. In most cases, operators will enter this phase under the constructs of a legal Non-Disclosure Agreement. In the case of the SA, both GSF and SF leadership made the decision to not execute NDA’s. This author does not think this tactic should be employed normally, but the precept for why Mr. Avramis and Mrs. Beiler chose to move forward in this manner is noteworthy.

“We claim to be industry partners,” Avramis said. “If we are truly partners, why hide behind an NDA? A merger is a tough and complicated challenge for all parties involved, and success probabilities are greatly enhanced through mutual gestures of trust and complimentary endorsements. To take the first step of a potential future together under an NDA is symbolic, and, in our case, unnecessary."

Operators are well advised to think critically about the use of an NDA. In cases where the principal organizations are direct competitors with one another, it may make sense to execute legal protections. But in cases, often in the nonprofit sector, where organizations are mutually delivering a public good or service, the logic to enter due-diligence without those protections can be strategic.

Following a review of organizational finances and legal/policy documents, it is important to draft a concept paper. We referred to this paper in the SA Case Study as our "Whitepaper". An early, redacted early version of the Whitepaper in the SA Case Study has been added to the Appendix.

Elements of the concept design paper should include the following:

- Executive Summary. A brief outline of the concept. There is no need to be technically or legally accurate at this phase, the concept design is an internal document which will undergo legal scrutiny further in the process.
- Organizational Profiles. A description of each organization, their mission, structure, operational models, strengths and weaknesses.
- A Stakeholder Analysis. A true analysis may not be feasible at this time (due to plan confidentiality) but key stakeholders should be identified, and a plan should exist to review post-merger impact.
- Identify Core Principals of the Merger Framework. Here, the operators should define the "why" question. Why are we merging? Why now?
- Structural Framework. Expound on the structural framework. Who will report to who? What do we intend to integrate? How will the process unfold? Do we expect loss of jobs?
- Key Benchmarks and Timeline. What must happen in order to move past due-diligence?

The concept design paper should then be circulated among the operators and each respective Board for commentary, tweaks and additions.

Framework Design

Following due-diligence, a letter of intent (LOI) should be signed by both organizations. In the framework design phase, organizations will begin engaging with attorneys, consultants and an array of other professionals to hone the structural framework. Due to the costs associated with this phase, an LOI is just plain common sense. Once a legal review and assessment of the plan has been ratified, and the Board issues a "Go/No-Go" ruling, employees of both organizations should be brought in on the plan. Up until this point, it is not realistic to engage the employees. Everything is speculation until the LOI's are signed and the principal organizations begin paying for professional counsel.

Key steps associated with this phase include:

- Legal review of bi-laws and other legal documents.
- 3rd party review of financial documents and associated assumptions
- A broadening of existing operators, and the establishment of a transition team
- Notice and advisement of the proposed plan to all employees

Structural Mapping

Structural mapping is where the operators work with the key stakeholders, including employees, to finalize the integration plan and put the finishing touches on the financial and operational pro forma. In the case of SA, this phase lasted just over three months.

This was the most challenging phase of our case study. In this author's experience, nearly every piece of literature reviewed for this research was deadly accurate relative to the stress and anxiety most employees felt upon hearing news of an impending merger between GSF and SF. Navigating those anxieties was difficult. Repeated assurances rang hollow to many employees who had no basis of trust or relationship with the person (me) in charge of putting the final touches on the plan. There were tears, a defiant resignation, and no shortage of gossip and panic at various intervals.

Following the execution of the merger, this author interviewed a staff member named Marlene Day, who had a particularly difficult time with the merger in general, and me in particular. Insights gleaned from that interview have been some of the most impacting for me personally, but also lent to significant insights and lessons learned.

At issue is the reality that the initial operators have likely had several months to psychologically and emotionally process the effect of the merger concept. But for the employees being brought into the circle, this news is abrupt and confusing. Likely, they would have had little to no pre-warning. Where the initial operators have reached a point of excitement and anticipation, the employees feel as though their world is being turned upside down. Additionally, the articulation of exactly what the merger is intended to look like, and how it will affect the employees in their day-to-day job responsibilities is likely only half-baked. This poses an interesting dilemma; for when the employees are brought into the circle, their chief desire is to be reassured and given definitive information about how the process will transpire, and what the end product will look like. For the operators informing the employees, the reality is, much (if not most) of the finer points are undefined.

Speaking from experience, and with the added benefit of hindsight, operators are well advised to spend less time on platitudes intended as emotional assurances about job status, and more time on transparent fact. In my interview with Mrs. Day, she pointed out that early on I gave a false statement. “You stated that nothing was going to change, and this was shown to be a lie. Within days, everything was changing.” (Day, 2018)

As the operator responsible for planning integration, my early message to the employees was that organizationally, nothing changes. What I had intended to convey was that SF and GSF will both go on as entities and fulfill the good work they have always fulfilled. But this message lost in translation. Mrs. Day was not the only one who took my statement to mean that the only change being contemplated was a high-level blending of leadership and strategy.

The message that seemed to resonate best at the time, and subsequently confirmed through post-merger surveys and the interview with Mrs. Day, was one of simple clarity.

We have identified a triple-win that can be attained through this strategic association. The details of how this will play must be defined by us all, as a collective, from this point forward.

In this way, I would advise operators to speak with less definition, and more generality, even when details are more evident to them. This strategy does two things. First, it postures the operators in closer proximity to those hearing about the association for the first time. Spoken generalities signal that everyone is agreeing to communicate with one another in a Pre-Strategy phase of understanding, and this gives newcomers a chance to work the puzzle and find their own absolutions. Second, it is strategically sound. The fact is, high-level operators often lack the ground-level expertise to devise and concoct best practices and methods of post-merger integration. This recommendation is analogous to an excited scout returning from a distant land. Rather than try and tell the collective what he/she saw beyond the horizon, it is better to simply walk them to the destination at the group’s pace.

But this strategy is easier said than done. The truth is, employees newly assimilated to the idea of a merger will naturally yearn for definition to quell anxieties about the distant land. Operators (scouts) yearn to tell the group what they’ve seen. When operators and employees succumb to their desires, the door is left wide open to misunderstanding, frustration, and resistance. What this experience taught us was that the structural mapping phase must last as long as it needs to, and patience is crucial.

The leadership paradigm as depicted in Figure 7 was developed from the insights gleaned throughout the SA case study, the data analysis conducted for this research, and expert interviews. What those of us involved in the SA case study came to realize is that some aspects of the leadership role are more important than others. To that end, it is this author's opinion that a leader is well poised for success if he/she operates within this paradigm:

Figure 7: Leadership Paradigm for a Successful Merger

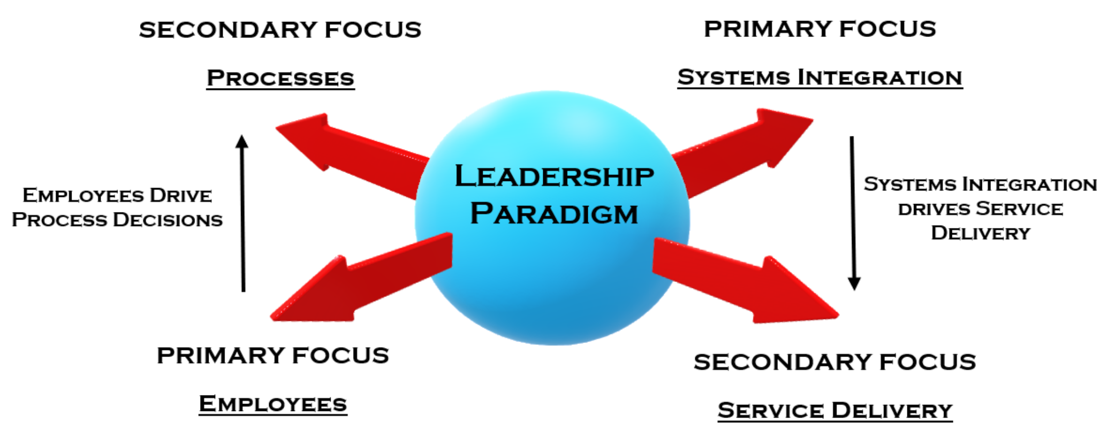


Image by N. Schnackenberg, 2018

Throughout the many steps of the merger process, but particularly from the structural mapping phase onward, it is important for leaders to stay focused on employee engagement and systems integration. Issues of operational process and service delivery should remain secondary, because engaged employees will drive process discovery, and systems integration decisions will drive enhanced service delivery. This paradigm keeps high-value imperatives primary, and frees the supporting cast to find roles, ownership, and answers that will be more lasting and sustainable than an inverted approach, which places the cart ahead of the horse and fosters miscommunication, a lack of employee engagement, strife and confusion.

By the end of the structural mapping phase, there should be a defined plan for post-merger integration, operational remodeling, and ultimately, mission expansion. These goals and benchmarks should be defined in a post-merger integration plan. A great plan is only as good as key stakeholder buy in. If done correctly, by the execution of the merger, employees will be more-or-less caught up with the original operators, and institutional excitement should outpace apprehension and anxiety.

The key elements of this phase include:

- Multilevel employee engagement

- HR issues must be discussed; are jobs changing? Who will the new leadership be comprised of? What is the process for how employees migrate to a new payroll & benefits package?
- Individuals and teams should be identified and asked to answer secondary focus questions relative to operational processes and service delivery.

- A financial & operational pro forma should be developed to assure the Board is up to speed on the institutional impacts
- A post-merger integration plan should be established
- Patience. This phase should never be rushed

Execution

The execution of the merger event is largely academic. Boards will ratify new policies and agreements, assets and liabilities will transfer, and the HR migration, if applicable, will take place. But beyond the academic nature of this phase, to capitalize on employee engagement and excitement, it is advisable to devise a series of celebratory events to memorialize the merger.

In the case of SA, this phase lasted exactly five days, Monday through Friday. Every employee was invited to Phoenix, Arizona to participate in several planned events. Because many employees and board members from the two organizations had never met one another, dinners and receptions were had, all leading up to a commencement event at a resort on the last night.

SA conducted a survey (Appendix B) of employee and board member sentiment following the launch. The results indicated that the highlight of the merger process was the commencement events during the execution phase. (Secured Alliance, 2018)

Post-Merger Integration

In the case of SA, Post-Merger Integration (PMI) is ongoing. According to the PMI plan developed for SA, this phase is anticipated to last 18 months. I had a chance to ask Mrs. Beiler and Mr. Avramis how they think its going so far, and both feel the process has progressed as smoothly as could have been hoped. Interestingly, when I asked them what they feel they should have done differently in the runup to the launch, they both said, “Nothing”. (Avramis, 2017; Beiler, 2018)

Section 5: Implications and Recommendations

Predicated on the examples from the SA case study, and the insights gleaned from the literature review and expert interviews, it is this author's conclusion that mergers and acquisitions in the nonprofit sector are challenging, complicated and very time consuming. There is no "one size fits all" in this type of event, and the decision to proceed with a merger or acquisition should be contemplated with great sobriety from the onset. At stake are people's jobs, institutional reputations, organizational sustainability, and most importantly, the products and services our customers rely on.

Leadership is of paramount importance. The Secured Alliance merger was handicapped by the fact that Good Shepherd Fund CEO Tom Avramis had previously accomplished several successful mergers in his career. He was relied upon to set pace, tempo and process. Had SA not enjoyed the benefit of his expertise, the train might have slid off the rails, particularly during the pre-strategy and structural mapping phases.

Pre-strategy and structural mapping are similar phases in the way they require extreme relational dexterity on the part of the operators. During pre-strategy, executives or board members from two separate organizations must come together, build rapport, and learn to trust one another. Early in the process there may be competing or dichotomous agendas at play, a lack of transparency, and hidden motivations.

It is not enough for an operator to simply be able to conceptualize the triple-win. The operator must also prove his/her willingness to care as much about the third win (the other corporation) as he/she does the first two (his/her corporation and the customer).

During the structural mapping phase, everything hinges on the operator's ability to build trust with the employees. Communication skill is vitally important. A fire hydrant of information can have an adverse effect on employee morale and process ownership. Too little information can cause heightened anxieties and institutional confusion. Employee engagement is an artform requiring the operator to negotiate an ever-changing set of variables, sometimes on a minute-by-minute basis.

As challenging as the process can be, a successful merger or acquisition can have tremendous upside. Organizational sustainability can improve, program diversification might extend vital services to the community, new operational efficiencies can be realized, glass ceilings over employees can be shattered, and new opportunities could be pursued by an array of stakeholders. Because the upside of a successful merger or acquisition is so great, and because mission redundancy can be problematic, particularly in localized geographies, it is this author's opinion that M&A should be a component of any nonprofit's strategic plan.

The following recommendations pertain to any nonprofit executive or board member engaging in a merger, acquisition or strategic alliance opportunity:

1. Once a possible triple-win is identified, **leverage merger expertise**.

Bringing an advisor in with merger experience can save countless hours and thousands of dollars. Operators involved in the potential merger will need to exercise their own institutional knowledge, strategy, business acumen and relational dexterity to successfully associate with another organization, but there can be no substitute for merger experience. Find an executive with merger experience and bring them in as an advisor.

2. Take a **systematic approach**.

M&A can be so complicated, with so many moving parts, that trying to approach it in any other way can have a devastating effect. This research presents a systematic approach to fulfilling the steps needed to launch a successful merger. It is unnecessary to spend much money until the Framework Design phase, and operators should get LOI's signed by both governing boards prior to hiring costly contractors.

3. Always be in the **leadership paradigm**.

Leaders in charge of mobilizing the organization(s) for change should keep to the leadership paradigm and remain focused on employee engagement and the integration puzzle. In this way, employees will engage and own the transformation as they drive process changes through logical recommendations aligned with the on-ground reality. Similarly, as operators focus on identifying what to integrate (e.g. technology, divisions, programs, phone systems, etc.), the service delivery model will crystalize.

4. **Be patient**.

Some of my early mistakes had to do with setting a timetable for tasks, and subsequently trying to meet artificial deadlines. Resist the urge to rush a process.

5. **Celebrate** when the new thing launches!

By the time the execution phase arrives, the merging bodies have likely spent tremendous amounts of time, energy and resources on the process already. On several occasions in the runup to SA's launch week I told my friends and colleagues that I felt like I was "limping to the starting line". Although many will inevitably be exhausted, it is important to the psyche of the organization to celebrate the moment. This was something Mrs. Beiler was keen to advocate for, and survey results conclude she was right.

Section 6: Conclusions

This report outlines tools and philosophies that address issues of staff engagement, staff motivation, and the Actor Oriented integration process, while chronicling the steps required for strategic and structural integration. Operators should take a systematic approach to fulfilling the various steps of the merger process and do so with grace and humility. If an operator reading this report is contemplating a merger for the first time, it is advisable to retain an advisor who has the expertise and experience to guide the process. Operators should facilitate the phases in order and maintain acute focus on the Leadership Paradigm. Taking a systematic approach to M&A was shown to be a high value to Tom Avramis, who has executed 6 successful mergers/acquisitions in his career. Operators are well advised to follow suit.

This work did not address legal nuance and case-specific variations relative to M&A in the nonprofit sector. Future studies might consider outlining the typical structures and legal frameworks associated with Nonprofit M&A and define cases for why a particular framework might be sought.

This work was timed to release roughly one month following the SA launch. As a result, long-term impact and success metrics were unavailable. As a follow-up to this work, the author will consider writing an annotation that outlines the progress of SA PMI. Additionally, SA was constructed to allow for future assimilation of additional organizations through M&A ventures. At the time of this writing, several other organizations have indicated an interest in reviewing merger options to join the newly formed Alliance. Interested parties are welcome to inquire about how that process has unfolded.

To inquire about the M&A activities of the Alliance, or to request this author’s assistance as an advisor to a potential nonprofit M&A, please contact him via LinkedIn at: https://www.linkedin.com/in/nathan-schnackenberg-16234240/

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Author's Bio

Nathan Schnackenberg

LinkedIN

Nathan Schnackenberg is the Chief Operating Officer at Secured Alliance, Inc. (SA) an Arizona-based National Nonprofit Organization. He oversees the day-to-day business operations of the organizations belonging to the Alliance and remains a principal architect of several other M&A projects having to do with the Alliance.

Prior to his current role, Schnackenberg was the Chief Executive Officer of Children's Ark, Inc., a Colorado-based Nonprofit Organization serving adjudicated youth coming out of the department of youth corrections. There, he oversaw 125 employees on a 24-7 work cycle, providing residential, educational, nutritional, and clinical/therapeutic care to as many as 92 resident youth. Campuses were spread across the state, and at its height, Children's Ark was the third largest residential treatment center for youth in the state.

Schnackenberg earned his undergraduate degree from Regis University in Denver, Colorado. He earned his Masers in Nonprofit Administration from the University of San Francisco. His key competencies include Social Impact Analysis, Corporate Social Responsibility, Systems Integration & Change Management, and Strategic Analysis & Plan design.

Schnackenberg has authored several books, both fiction and nonfiction. As a speaker, he has addressed an array of audiences on such topics such as middle eastern affairs, religion, and family & early childhood care. He spent an extended period of time volunteering as a US Aid Worker in Afghanistan in the early 2000's, where he lived among the local population and learned first-hand about the socio-economic challenges of the region. He grew up in Japan, and attended the Japanese public-school system, and speaks the language to this day.

Schnackenberg lives with his wife, Liz, and their two kids, Alex and Ari, in San Jose, California.

Appendix A, B and C: Whitepaper, Post-Launch Survey, and Interviews respectively

Appendix A: Whitepaper - DRAFT

SECURED FUTURES & GOOD SHEPHERD FUND

Concept Design for a Strategic Merger

Tom P. Avramis, President & CEO of GSF
Linda N. Beiler, President & CEO of SF
Nathan Schnackenberg, COO of GSF

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Executive Summary

Secured Futures (SF) and Good Shepherd Fund (GSF) are two similar organizations, serving a similar demographic, with a similar number of employees, organized in a similar manner, but with different strengths and weaknesses. Where SF has enjoyed a decade of remarkable growth as a nonprofit pooled trust administrator, and particularly within the arena of self-funded Pooled Sub-Accounts as referred through settlement planners, case managers, trust attorneys and mass tort administrators, GSF has experienced decades of stability as both a social services provider (multi-state guardianships, conservatorships and case management), Master Pooled Trust and endowment administrator, planned giving and estate planning advisor. Both organizations are vital to the concerns of their clients, both provide an invaluable service to those clients, and both have strong reputations within the industry.

The concept of this strategic merger was born out of a belief that the unified entity would be greater than the sum of its parts, and this design proposal aims to prove exactly that. GSF seeks industry partners needed to expand the Conservatorship/Guardianship and Limitless Adventures brands nationwide. SF seeks sustainability through a diversified program model. Where SF provides GSF the client base for core program expansion potential, GSF provides SF the sustainability model that comes through program diversification and a strong balance sheet.

With any merger concept, there are risks. This paper aims to identify those risks and address them in a way that is transparent and open.

Finally, this design is inspired and structured by GSF's CEO, Tom Avramis, and his professional nonprofit experience in reorganization, merger, and acquisitions. As with any design concept, all parties recognize that adjustments will need to be made as the process goes forward. This paper is a general document, intended to give broad-strokes definition to a framework for the strategic merger of SF and GSF, but does not assume finality of form, structure, or operating assumptions.

Following a board-level review of this document, and a mutual desire to move forward with the plan as generally outlined, legal counsel will be retained to guide this process forward.

Organizational Profiles

To understand the unique and strategic opportunities that exist in a merger, it is important to understand what both organizations do, where both organizations excel, and where they are each uniquely vulnerable.

Secured Futures

SF is a nonprofit pooled trust administrator, and has become an industry leader in a short period of time. Much of this growth is attributed to a key partnership and referral source ("X-Corp"). SF administers an array of pooled trusts, including a Pooled Special Needs Trust, as well as a few custodial SNT's. SF manages assets of more than $100 million, and serves over 1,100 clients across 48 states. SF is known for being one of the nation's premier nonprofit national pooled trust providers.

SF places high corporate value on beneficiary engagement, and in contrast to other nonprofit pooled trust administrators in the industry, welcomes unlimited engagement for a fixed percent-of-asset fee structure. SF administers their trusts from a baseline belief that the trusts are to be used and expensed on beneficiary needs, and authorizes distributions under a set of administration guidelines established by the SSA POM's, state Medicaid agencies, and best practices.

Roughly two-thirds of SF's revenues come in the form of administration fees. One-third comes from trust origination fees, and year-over-year, the organization books negligible sums to retained earnings.

Secured Futures — **SWOT Analysis**

Strengths	**Weaknesses**
Rapid Growth Large Client Base Assets Under Management Broad Geography	Lack of diversification Minimal Financial Reserves Exposure to Risk Rapid Growth
Opportunities	**Threats**
Diversification Strategic Partnerships to drive risk aversion	Economic downturn Loss of "X-Corp" referral

Identified risks to SF's business model include:

- **A drop in referrals from "X-Corp." Such a scenario would be damaging to SF's longevity and sustainability in the short-term.**
- **Program diversification. SF was organized out of a strategic belief that the agency should administer pooled trusts as close to cost as possible. This philosophy gave SF a strategic advantage and helped SF realize exponential growth in a short period of time. However, the lack of program diversification may hinder long-term sustainability should a heavily-weighted key**

referral source exert pressure on the business model. Diversification would strengthen the organization's long-term sustainability.
- A lack of program diversification which minimizes revenue potential from alternative sources.

Good Shepherd Fund

GSF is a nonprofit organization that administers Special Needs Trusts, Annuities, Charitable Remainder/Lead Trusts, a Pooled SNT, and an array of endowments. Under the GSF umbrella, GSF has roughly 250 client/beneficiaries and $26 Million in managed assets. Programmatically, GSF serves as Conservator of the person, Conservator of the estate, and Guardian to persons living with disabilities in California, Oregon and Colorado. Additionally, GSF operates a program called Limitless Adventures, which is a travel and leisure branch of operations where enrollment is offered to clients with assets above a certain net-value threshold.

GSF's first mission is to the Conservator and Guardian clients, and their social, psychological and physical wellbeing. With a team of 8 master-level credentialed social workers, GSF serves as conservator or guardian to over 150 individuals full-time, of which nearly 50% are served *pro bono*. As conservator and guardian designations are legal and endowed by a court of law, this program is regulated and highly structured. GSF does not provide direct care to any clients (group home, institutional homes, etc). The mission of GSF, instead, is oversight and supervision of such services via case management and oversight.

GSF's revenues come from fees associated with administration (roughly one third), fees associated with programs (roughly one forth), fees associated with investments (roughly one forth), and major gift contributions that come in the form of bequests and remainder positions. GSF carries over $5 million in retained earnings.

Good Shepherd Fund ***SWOT Analysis***

Strengths	**Weaknesses**
Longevity Strong Balance Sheet Diversified Product Base Multi revenue model	Slow Growth Narrow Geography
Opportunities	**Threats**
Advocacy Strategic Partnerships to drive expansion	Economic downturn Slow growth

Identified risks to GSF's business model:

- Growth model stagnation. Over the past decade, GSF's growth has been slow as the organization dealt with leadership challenges, and administrative focus has been internal, as opposed to developmental.
- Narrow geographic scope. The bulk of GSF's program clients reside in California, Oregon and Colorado. Although GSF fields numerous requests to expand program services to other states, the current model does not support rapid infrastructure development.
- Lack of strategic partnerships. Access to other trustee clients would enhance GSF's strategic program expansion plans.

Organizational Similarities

	SF	GSF
Incorporation	501(c)3	501(c)3
Mission to serve the disabled community	Yes	Yes
Annual Budget (rough estimate)	$1.5 MM	$1.5 MM
Number of employees	17	14
Core Demographic	DD/MD	DD/MD
990 Filings Current (to 2015)	Yes	Yes

Organizational Differences

		SF	GSF
1	Year of Incorporation	2008	1970
2	Corporate Headquarters	Phoenix	San Jose
3	Registration	PA	CA
4	Service/Program Offerings	3	7
5	Retained Earnings	$250 K	$5 MM
6	Assets under Management	$100 MM	$26 MM
7	Core Focus	Pooled Trusts	Soc. Serv.
8	Geographic Scope	48 states	8 states

Strategic Advantage

The organizational differences are what represent the strategic advantage in this merger concept. Below, by individual line item number, each difference is addressed in greater detail as it relates to strategic advantage:

1. Year of Incorporation:

Where GSF was incorporated in 1970, SF incorporated in 2008. GSF's longevity is evidenced by the variety of service/program offerings, as well as received and pledged major gifts that will total between $10 and $15 million. This diversified service/program model allows GSF to be less susceptible to operational, environmental, and economic risk; something that SF will be able to leverage in a merger. This strategic advantage directly addresses a key vulnerability identified in SF's business model, where "X-Corp" has excessive leverage over SF.

2. Corporate Headquarters

Having two well-established and highly regarded entities operating out of two large markets represents a strategic advantage to the post-merge expansion model. More on this later.

3. Corporate Registration

Having two entities registered in two separate states allows for potential tax/regulatory advantages, although such advantages have not been identified or leveraged in the concept design phase.

4. Service/Program Offering

	SF	GSF
1st Party Pooled Trust (SNT)	Yes	Yes
3rd Party Pooled Trust (SNT)	Yes	Yes
Other Pooled Trust	Yes	No
Conservatorship of the Person / Guardianship	No	Yes
Conservatorship of the Estate	No	Yes
CRT/CLT, Endowment, Annuity Administration	No	Yes
Case Management	No	Yes
Limitless Adventures	No	Yes

SF's pooled trust administration is represented by over $100 million in managed assets and over 1,100 clients nationwide. GSF is smaller in terms of managed assets and clientele, but broader in terms of program spectrum. GSF's program spectrum would directly benefit SF beneficiaries in need of those services, while SF's financial breadth and reach would give GSF its desired platform to fuel core program mission expansion.

What is exceptional about SF and GSF, is that for their similarities, their business models are different. SF grew out of a desire to lead the industry with affordable pooled trust administration, and became a deep but narrower organization as a result. This philosophy allowed for tremendous growth, but left it more susceptible to certain market risks. GSF is shallower by comparison, but has a broader program spectrum, which makes it less vulnerable to market risks.

5. Retained Earnings

GSF carries over $5,000,000 on its balance sheet, which makes it more impervious to economic stress. Under GSF's model, it was important to retain earnings, because when families assess GSF for long-term conservatorship or guardianship services, they want some assurance about the "Corporate Immortality" of the organization.

Strategically, SF benefits from this business model because through a GSF merger, it also becomes more impervious to economic risk, or risks associated with the potential loss of "X-Corp" referrals.

6. Assets Under Management

SF has over $100,000,000 under management. A merger with GSF gives it leverage and strength to address any loss of "X-Corp" referrals because the assets under management would be augmented by GSF's balance sheet and sustainability model.

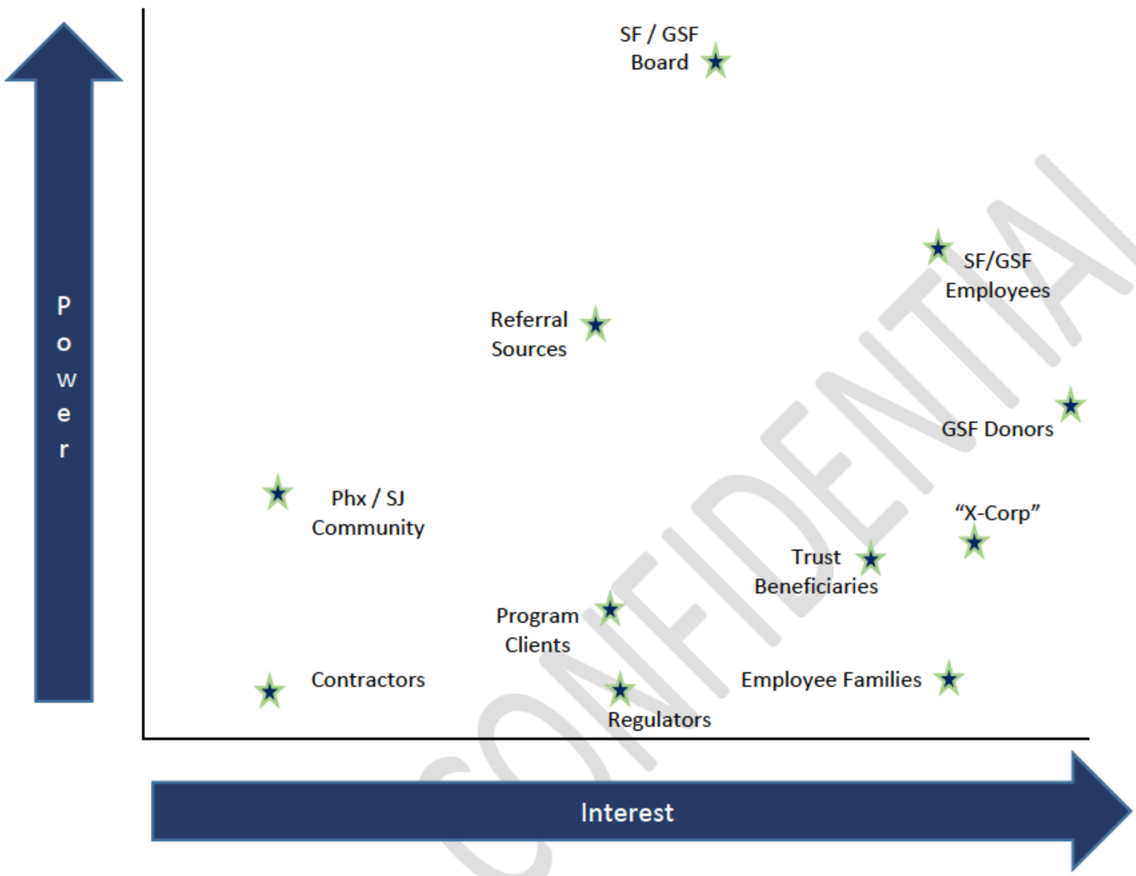
7. Core Focus

SF has primarily focused efforts on pooled trust administration. GSF has primarily focused efforts on program services within the social services sector, as well as pooled trust administration (1st and 3rd party). In a merger, appropriate financial accounts would likely transition from GSF to SF to keep the core identities intact. GSF would then brand its identity to focus on Conservator, Guardian, Case Manager, and client travel & leisure services. The strategic advantage here is that GSF's social service enterprises would be referred by SF as appropriate clients are identified. A strategic merger would crystalize the core functions of each entity and drive a firewall between the various service offerings.

8. Geographic Scope

SF operates across most of the United States, whereas GSF's services are clustered geographically. A partnership would allow GSF to expand program services.

Stakeholder Analysis



In any project, it is important to assess the impact that a large-scale decision will have on stakeholders. The chart above shows key stakeholders, and plots them on a stakeholder matrix to show their level of power over the execution of this strategic merger against their level of interest in the outcome.

Of note is that the SF and GSF Boards are unchallenged relative to external powers having influence over their respective missions. This would not be the case if either organization relied heavily on government contracts or was bound to other legal and business agreements. Each organization's staff and donors have interest in the outcome of this project, and midlevel power to affect it. With both organizations, relationships exist with referral sources who, on a case-by-case basis, should be informed if/when this proposal is adopted by both organizations.

Although the trust beneficiaries and staff families may lack significant influence over the execution, they will be affected by this decision. Keeping groups such as staff, families, donors, and beneficiaries apprised of the plan is key to a smooth and successful merger.

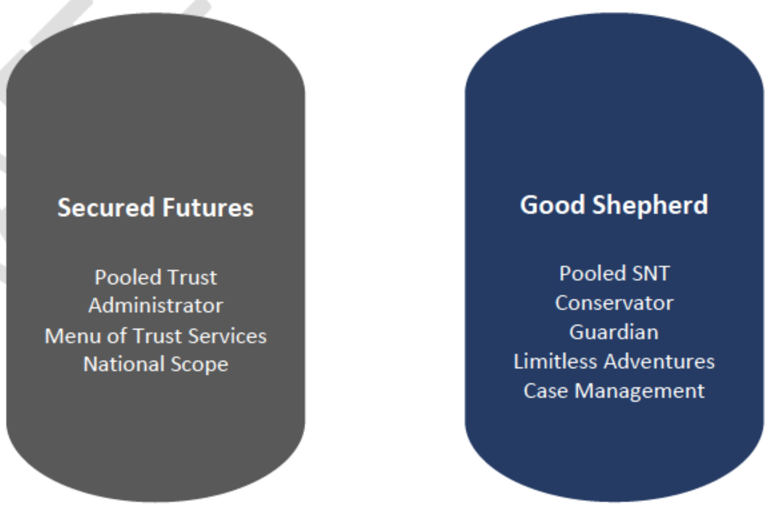
Structural Framework for a Strategic Merger

The following general framework has been identified as a potential fit. There is an array of modifications that can be made to it, and the structure can be modified as needed as to achieve the respective goals of each organization. This model conceptually derives from a previous model that GSF's CEO, Tom Avramis, implemented after securing an affirmative Private Letter Ruling from the IRS approximately 13 years ago. Legal counsel will advise SF and GSF whether any elements of the previously approved concept need modification due to any possible changes in the IRS code.

Core Principles of this Framework:

- Both organizations currently enjoy strong brand identity. For this reason, we look for a structure that would allow both brands to develop both independently of one another, and together as opportunities dictate.
- That each organization enjoys, for lack of better term, a "specialty designation." Where SF has technologically mastered Pooled and SNT administration protocols, GSF has mastered the "social services" and its associated previously mentioned functions developed over the years. Both brands are synonymous with their core functions.
- For an organization to effectively offer a continuum of services, the organization must be specialized in those core functions. For this reason, a segregation of two businesses with two complimentary specializations under one strategic partnership maximizes the strategic potential of both.
- A firewall between complementary entities serving under one "holding" entity is both strategically valuable and provides risk management.

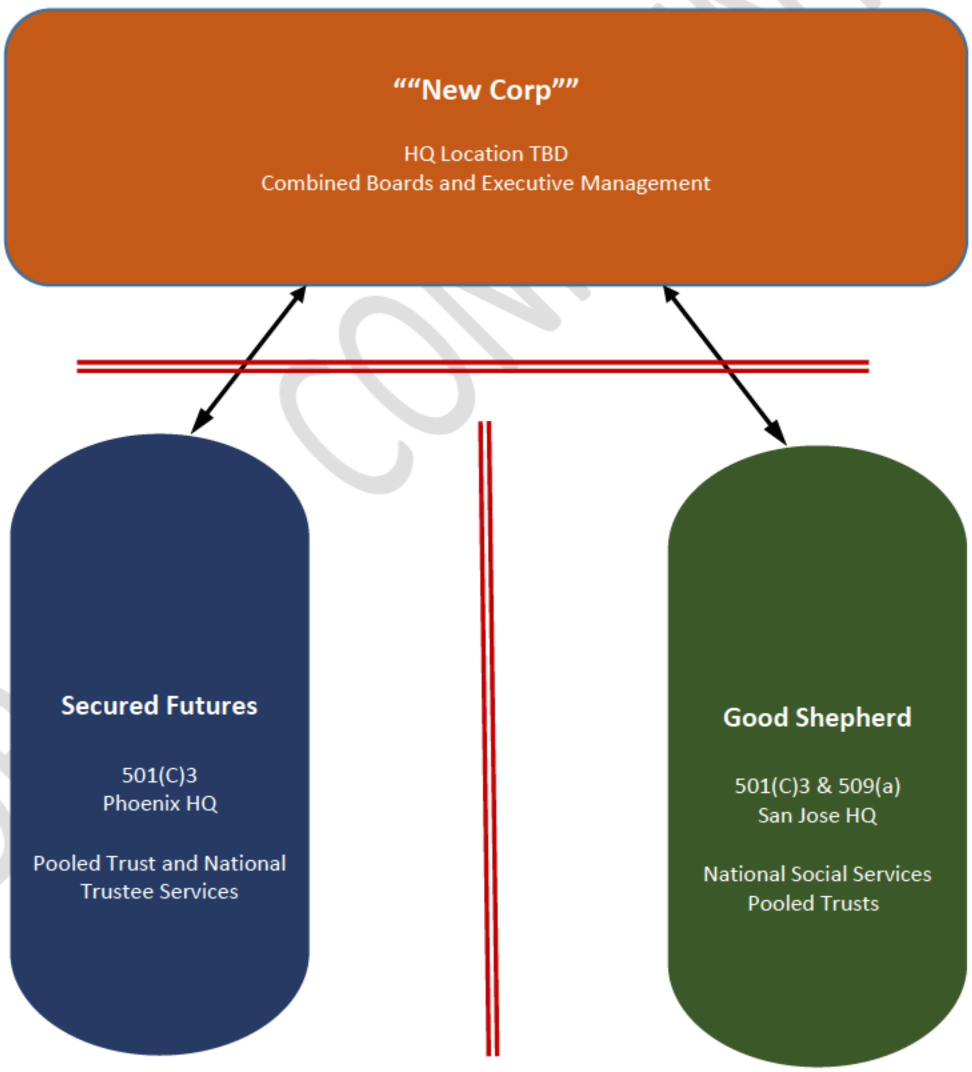
From a brand development standpoint, we see the following focus points:



The following diagram shows the general makeup of the to-be-named organization, "New Corp."

Phase I Diagram for "New Corp" framework

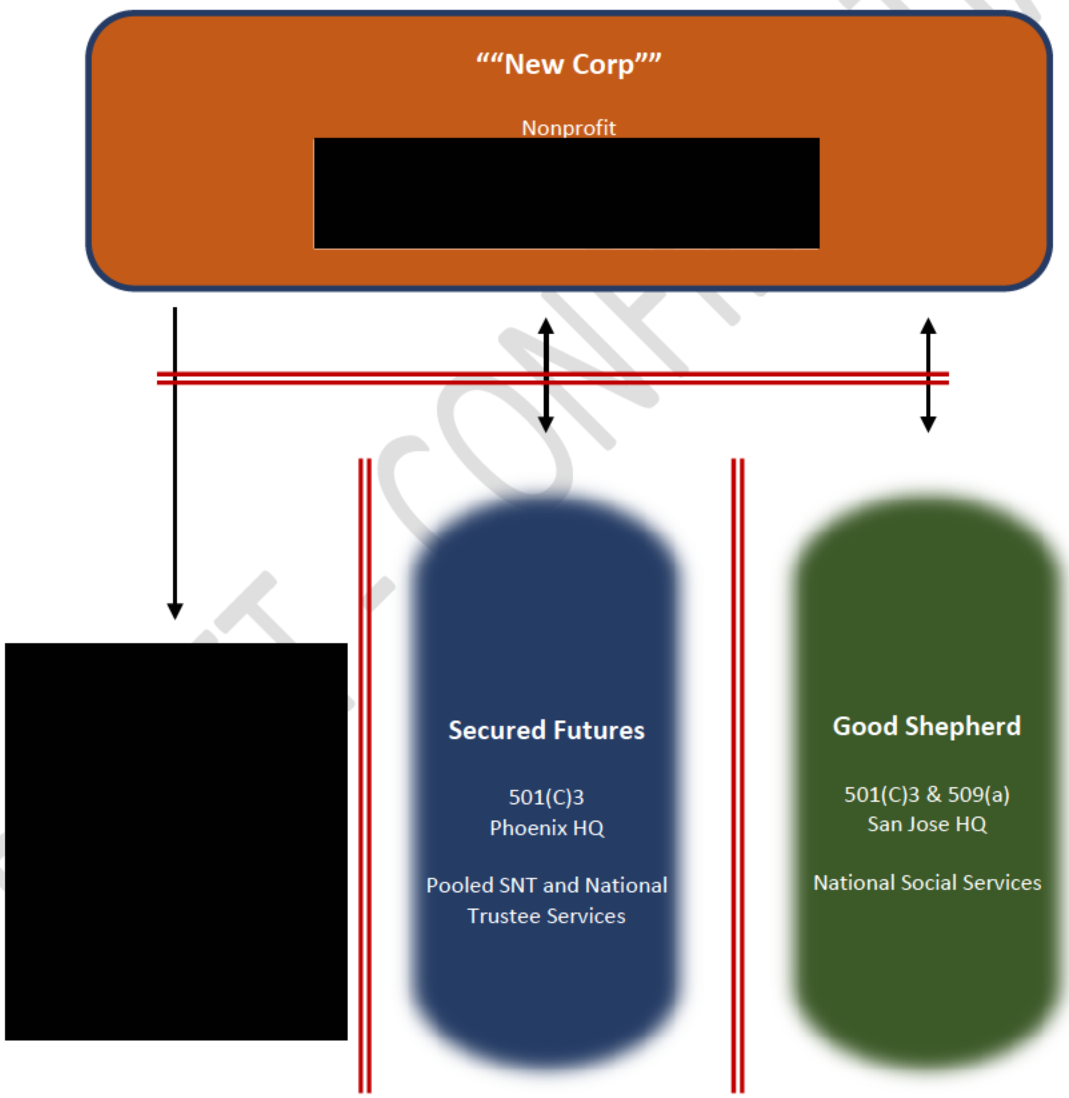
The first phase will involve organizing a new nonprofit entity, "New Corp," and amending the bylaws of each existing entity to support the new structure. "New Corp" will provide admin support services (accounting, HR, payroll, etc.) and executive management to both SF and GSF, and will seat a Board of Trustees who will serve on all three organizations. "New Corp" services to SF and GSF can be provided at cost, however, "New Corp" may monetize certain functions that benefit both entities, such as speaking honorariums, consulting contracts, etc. The Board of "New Corp" would be comprised of both current SF and GSF Board members, with the addition of Linda Beiler, CEO of Secured Futures (Tom Avramis is already a Board member for GSF).



SF and GSF will pay "New Corp" for executive and administrative costs in exchange for the service function. The red lines represent the legal firewall that will exist between the two 501(c)3 organizations and between the parent and subordinate organizations.

Phase II Diagram for "New Corp" Framework

Phase II involves incorporating a for-profit entity that would license the Intellectual Property (IP) owned by "New Corp" for development and monetizing purposes. "New Corp" would own a majority interest of "Tech Corp." The IP would be leased to "Tech Corp" by "New Corp".

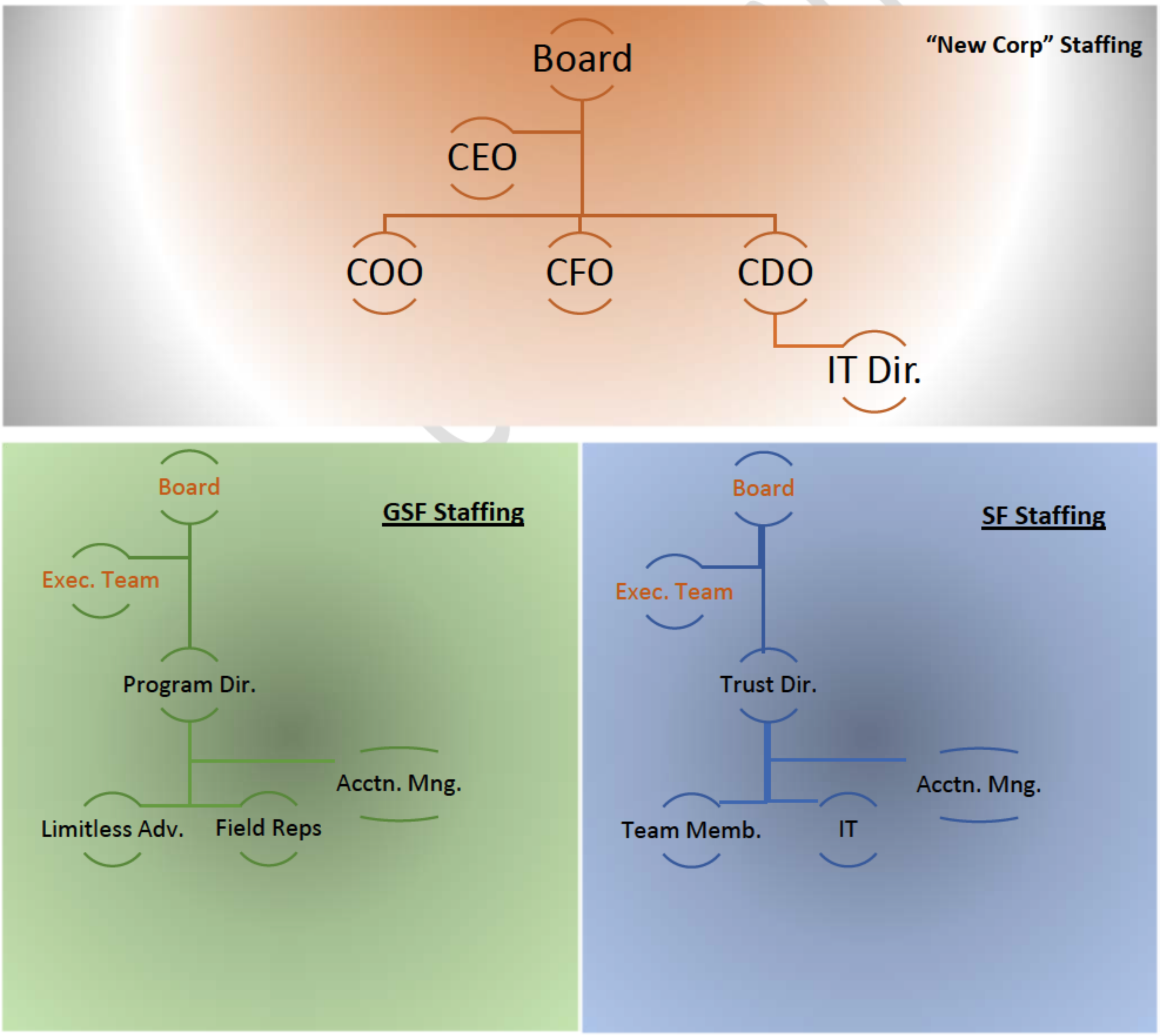


Once "Tech Corp" is operational, a development contract will be executed between "New Corp" and the "Tech Corp" CEO, the terms of which will be determined. "Tech Corp" will develop the IP for market, and focus on educating and promoting the IP to other pooled trust administrators.

HR Framework for a Strategic Merger

"New Corp's" charter will be to provide leadership and administrative services to the supported entities to guide a comprehensive strategic plan to increase the mission impact of the whole. This consolidated leadership team will direct the resources and objectives of each entity according to the combined strategic goals of the group.

Draft Design of a new Organization Chart



Benchmarks and Timeline

Some of the suggested key upcoming benchmarks, along with their associated expected timeframes, are as follows:

1. Board Review — Complete within 45 Days of July 1, 2017

Both SF and GSF to review this concept paper, with each board having an opportunity to ask questions of both Linda Beiler and Tom Avramis. Following an affirmative motion to continue forward on both sides;

2. Legal Review and Due Diligence — Complete within 90 Days of July 1, 2017

An appointed committee, made up of Board members & Executive leadership from GSF and SF, will work with legal counsel to flush the merger design and follow the process as required by law.

3. Financial Pro Forma — Complete within 120 Days of July 1, 2017

The financial pro forma will establish the billing and revenue structures for the various programs and services offered.

4. "New Corp" Inaugural Board Meeting — January of 2018

Upon conclusion of the merger an inaugural board meeting will be held.

Conclusion

What this report shows is that both organizations would strategically benefit from a merger. The process and feasibility is sound. The mission impact would be enhanced, and clients/beneficiaries on both sides will be positively affected.

The successful merger will be undertaken with the highest value placed first on the persons served by SF and GSF, as our organizations exist to serve them. Next, high value must be placed on employee needs, for they have faithfully served, and are directly responsible for the success both organizations have had.

Comments and questions may be addressed directly to the authors of this document, below.

Tom P. Avramis
President & CEO of GSF
[redacted]

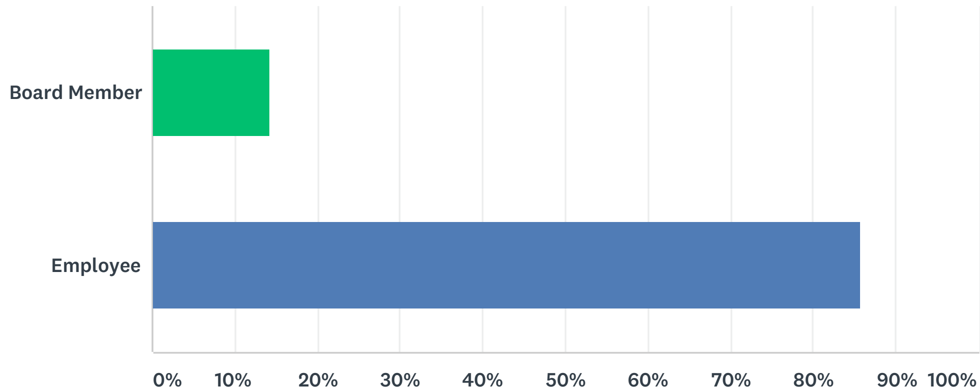
Linda N. Beiler
President & CEO of SF
[redacted]

Nathan Schnackenberg
COO of GSF
[redacted]

Appendix B: Post-Launch Survey Results

Q1 Are you an employee or board member?

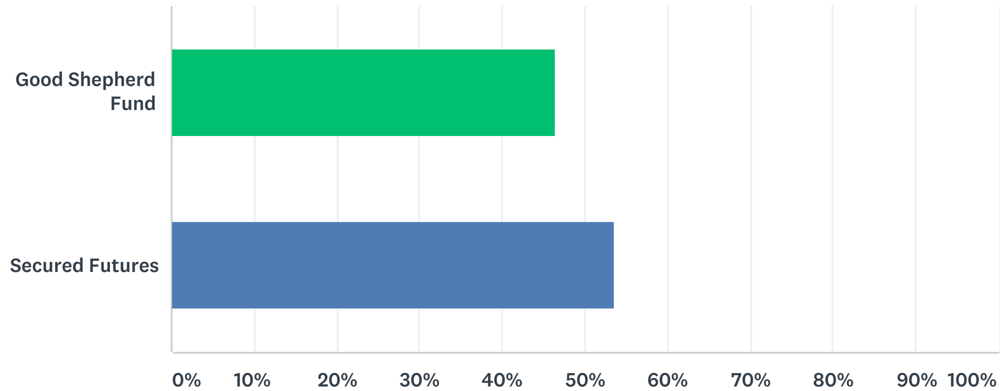
Answered: 28 Skipped: 0



ANSWER CHOICES	RESPONSES	
Board Member	14.29%	4
Employee	85.71%	24
TOTAL		28

Q2 Which organization did you originate from?

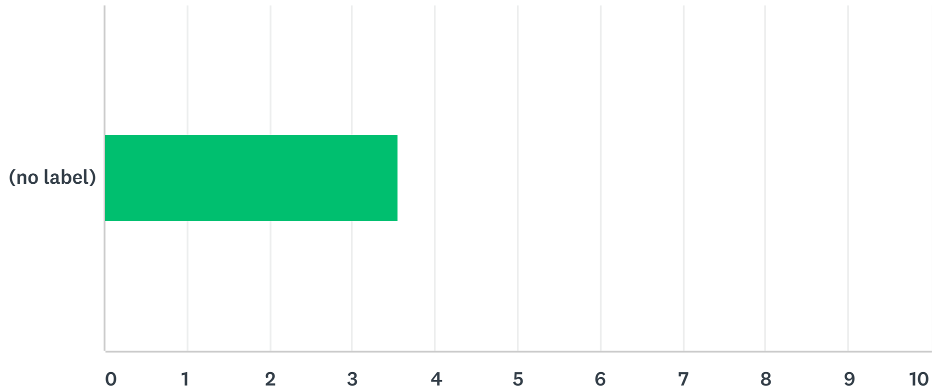
Answered: 28 Skipped: 0



ANSWER CHOICES	RESPONSES	
Good Shepherd Fund	46.43%	13
Secured Futures	53.57%	15
TOTAL		28

Q3 How would you rate the overall communication of the leadership team?

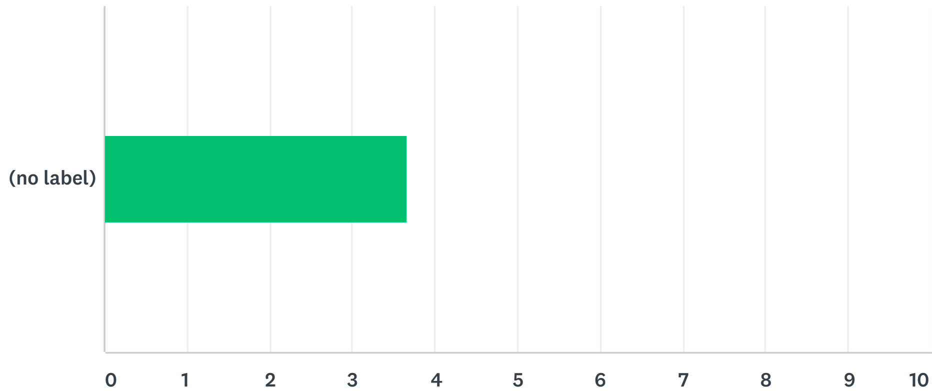
Answered: 25 Skipped: 3



	VERY POOR COMMUNICATION	COMMUNICATION WAS HIT-AND-MISS	ADEQUATE COMMUNICATION, MOSTLY SOLID	STRONG COMMUNICATION - I WAS PLEASANTLY SURPRISED	EXCELLENT COMMUNICATION - THE LEADERS NAILED IT	TOTAL	WEIGHTE AVERAGE
(no label)	0.00% 0	20.00% 5	20.00% 5	44.00% 11	16.00% 4	25	3.5

Q4 How well were your questions answered during pre-launch?

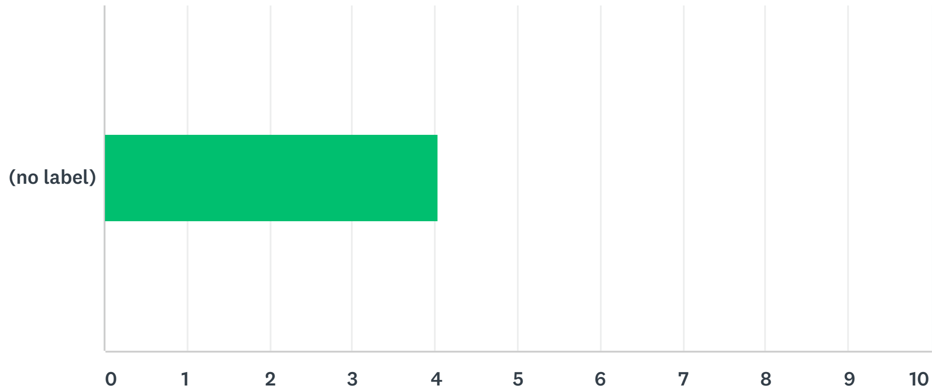
Answered: 24 Skipped: 4



	NOT AT ALL, LEADERSHIP SEEMED CLUELESS	SOMETIMES, BUT LEADERSHIP SEEMED TO LACK CONFIDENCE	ADEQUATELY, MY QUESTIONS WERE NORMALLY ADDRESSED AND ANSWERED	WELL. LEADERSHIP TOOK AN INTEREST AND GOT ME ANSWERS	SUPERBLY. LEADERSHIP WAS ON THE BALL THE WHOLE WAY.	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	4.17% 1	33.33% 8	54.17% 13	8.33% 2	24	3.67

Q5 Did you feel respected by leadership during the pre-launch period (Jan-April)?

Answered: 24 Skipped: 4



	NO, NOT AT ALL.	SOMEWHAT, BUT WITH LOTS OF ROOM FOR IMPROVEMENT	YES, FOR THE MOST PART	I DID. LEADERSHIP WENT OUT OF THEIR WAY TO ASSURE ME	ABSOLUTELY, LEADERSHIP HAD MY BACK THE WHOLE WAY	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	4.17% 1	20.83% 5	41.67% 10	33.33% 8	24	4.04

Q6 What did you like least about the 'merger' process?

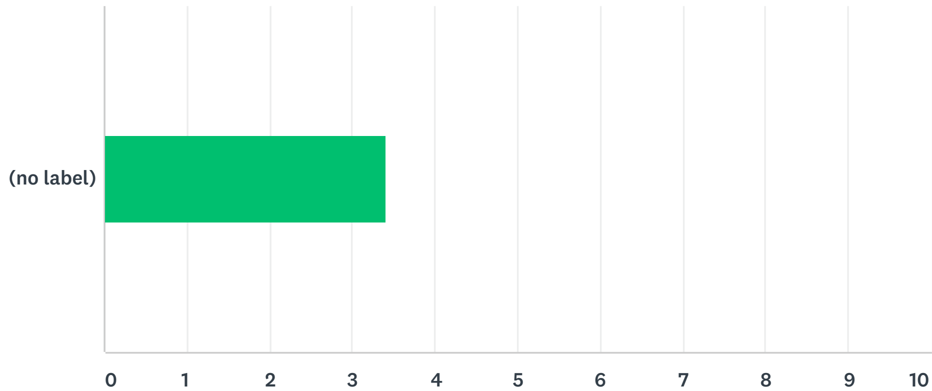
Answered: 21 Skipped: 7

Q7 What did you like most about the 'merger' process?

Answered: 22 Skipped: 6

Q8 Do you feel you are compensated fairly by the Alliance?

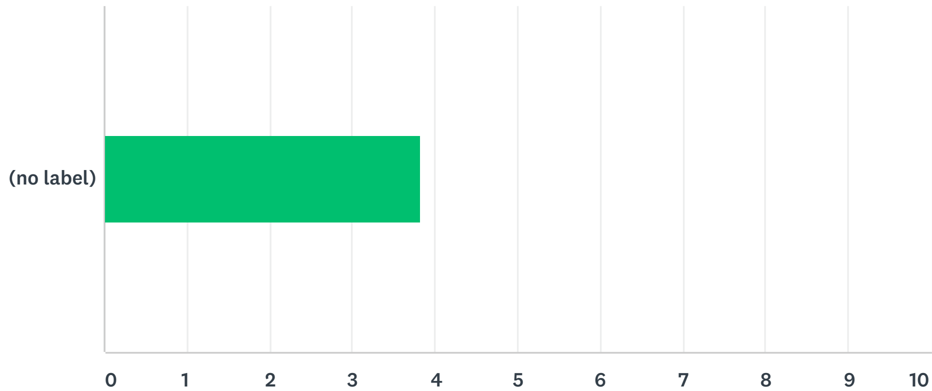
Answered: 24 Skipped: 4



	NO, I'M DISAPPOINTED IN THE COMPENSATION LEVELS	COMPENSATION IS A LITTLE LOW	COMPENSATION SEEMS FAIR	COMPENSATION SEEMS GENEROUS	COMPENSATION IS A HIGHLIGHT OF THE ALLIANCE	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	4.17% 1	58.33% 14	29.17% 7	8.33% 2	24	3.42

Q9 How would you rate your benefits package provided by the Alliance?

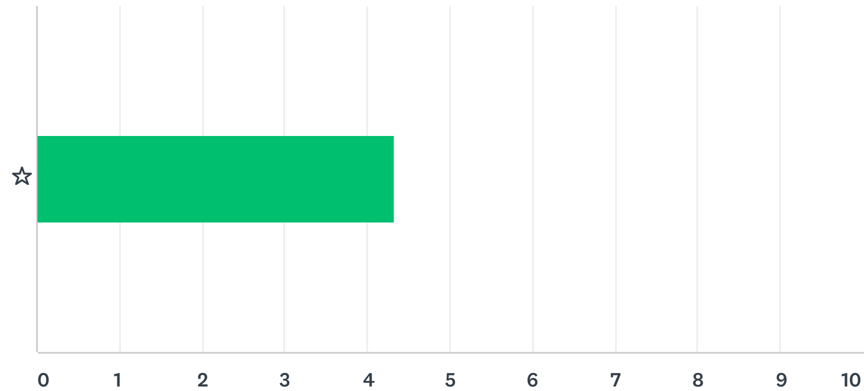
Answered: 22 Skipped: 6



	IT'S A DISAPPOINTMENT	IT'S BASIC AND APPRECIATED	IT'S SOLID, AND SHOWS THE ALLIANCE CARES	IT'S GOOD, AND MUCH APPRECIATED	IT'S GREAT, THE ALLIANCE WENT ABOVE AND BEYOND	TOTAL	WEIGHTED AVERAGE
(no label)	9.09% 2	9.09% 2	9.09% 2	36.36% 8	36.36% 8	22	3.82

Q10 On a scale of 1-5, how would you rate the Launch Week festivities?

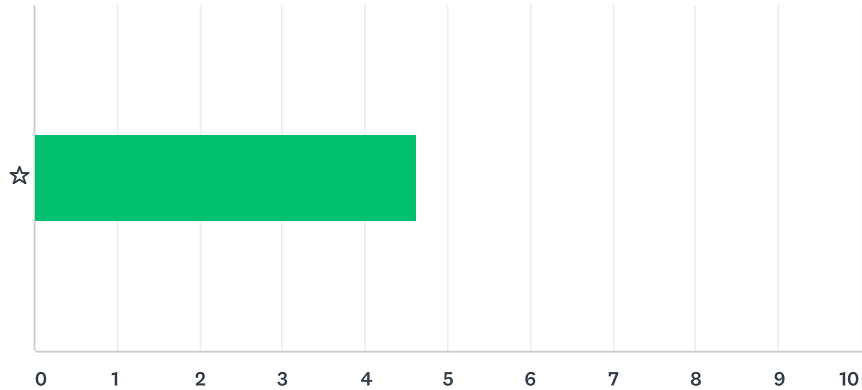
Answered: 25 Skipped: 3



	1	2	3	4	5	N/A	TOTAL	WEIGHTED AVERAGE
☆	8.00% 2	0.00% 0	4.00% 1	24.00% 6	60.00% 15	4.00% 1	25	4.33

Q11 On a scale of 1-5, how would you rate the San Marcos Hotel banquette space, lights, and service we used on Friday night?

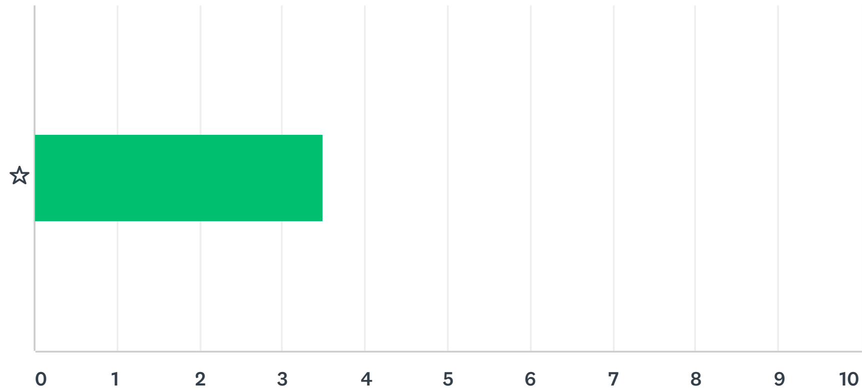
Answered: 25 Skipped: 3



	1	2	3	4	5	N/A	TOTAL	WEIGHTED AVERAGE
☆	4.00% 1	0.00% 0	4.00% 1	12.00% 3	76.00% 19	4.00% 1	25	4.63

Q12 On a scale of 1-5, how would you rate the San Marcos Hotel Rooms?

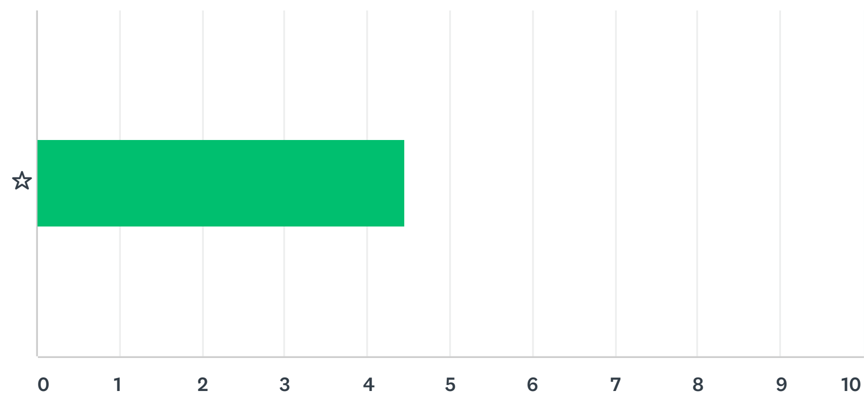
Answered: 25 Skipped: 3



	1	2	3	4	5	N/A	TOTAL	WEIGHTED AVERAGE
☆	0.00% 0	16.00% 4	8.00% 2	44.00% 11	4.00% 1	28.00% 7	25	3.50

Q13 On a scale of 1-5, how would you rate the music selection on Friday night?

Answered: 25 Skipped: 3



	1	2	3	4	5	N/A	TOTAL	WEIGHTED AVERAGE
☆	4.00% 1	4.00% 1	4.00% 1	16.00% 4	68.00% 17	4.00% 1	25	4.46

Q14 What did you like most about Launch Week?

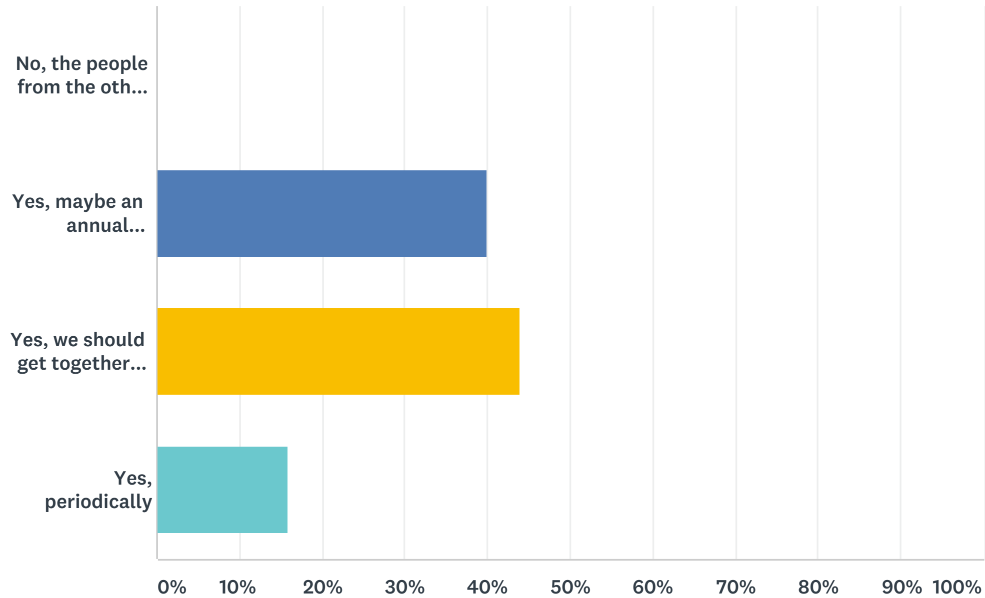
Answered: 23 Skipped: 5

Q15 What did you like least about Launch Week?

Answered: 20 Skipped: 8

Q16 Would you be in favor of getting the teams together in the future?

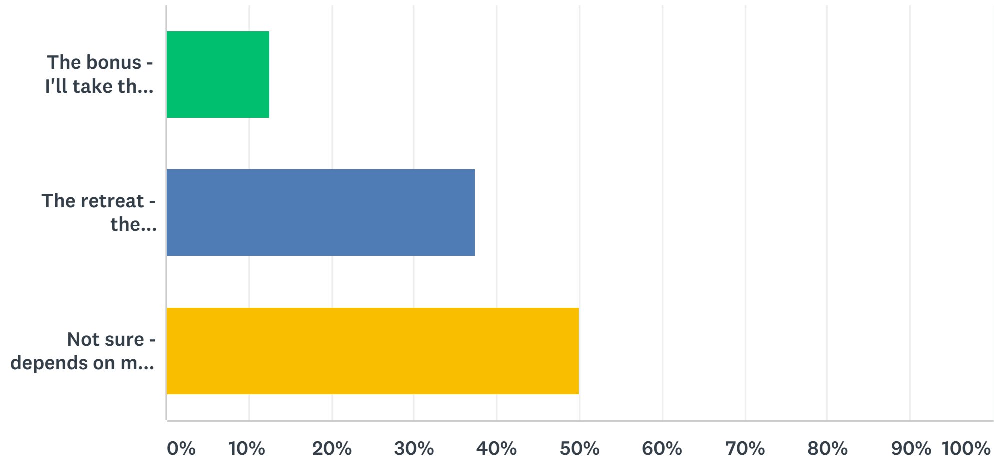
Answered: 25 Skipped: 3



ANSWER CHOICES	RESPONSES	
No, the people from the other side were a drag	0.00%	0
Yes, maybe an annual get-together	40.00%	10
Yes, we should get together at least 2x per year	44.00%	11
Yes, periodically	16.00%	4
TOTAL		25

Q17 If you had to choose between an annual bonus, or an annual all-staff retreat in a new location each year, which would you choose?

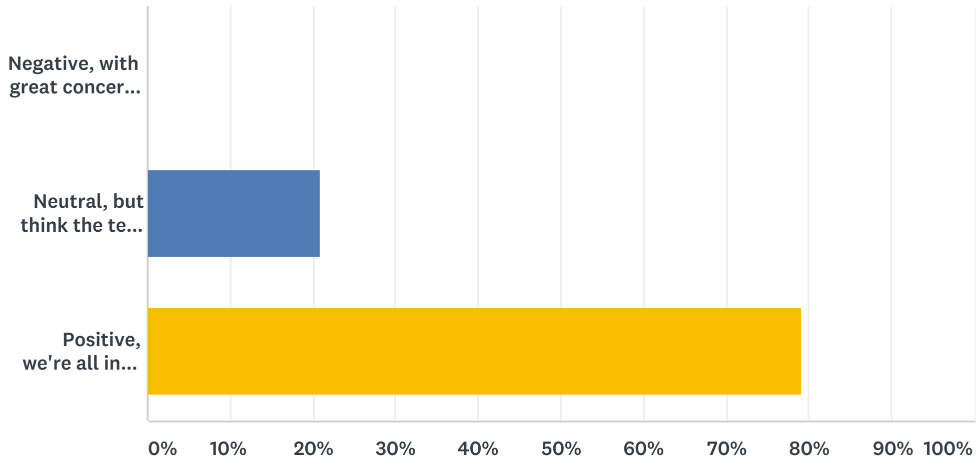
Answered: 24 Skipped: 4



ANSWER CHOICES	RESPONSES	
The bonus - I'll take the money	12.50%	3
The retreat - the team-building is priceless	37.50%	9
Not sure - depends on my life's circumstances	50.00%	12
TOTAL		24

Q18 Overall, do you feel positive or negative about the alliance?

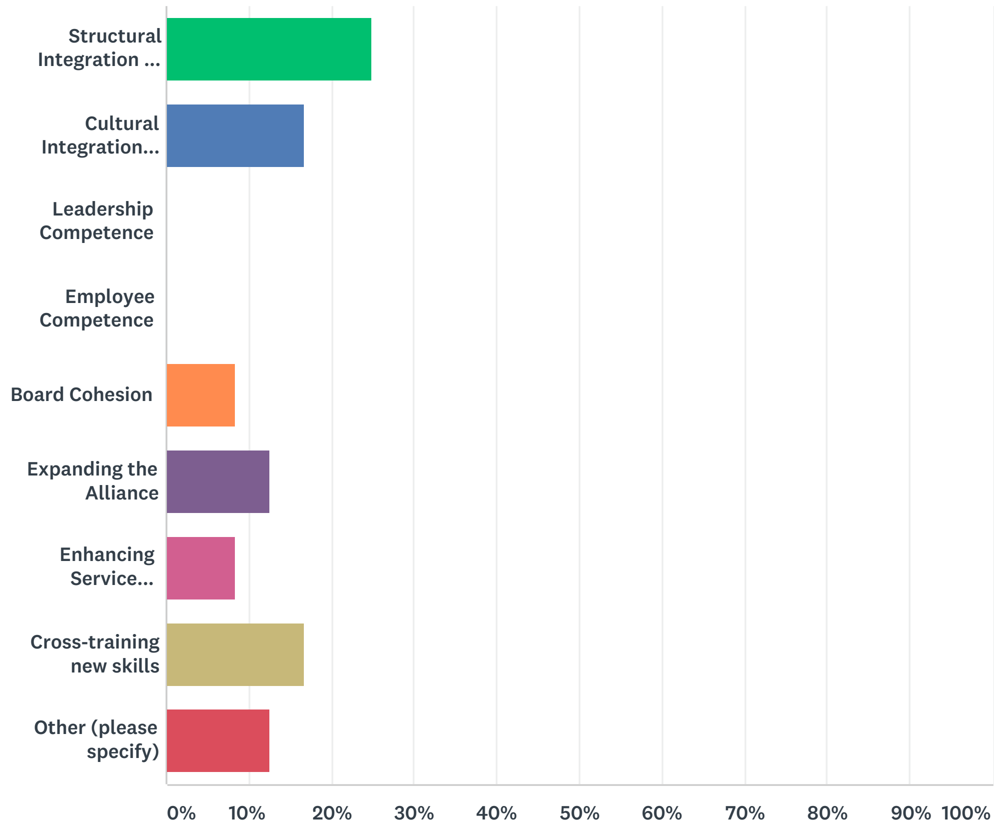
Answered: 24 Skipped: 4



ANSWER CHOICES	RESPONSES	
Negative, with great concern for long-term viability	0.00%	0
Neutral, but think the team will pull together	20.83%	5
Positive, we're all in this together!	79.17%	19
TOTAL		24

Q19 Which of the following are you most nervous about?

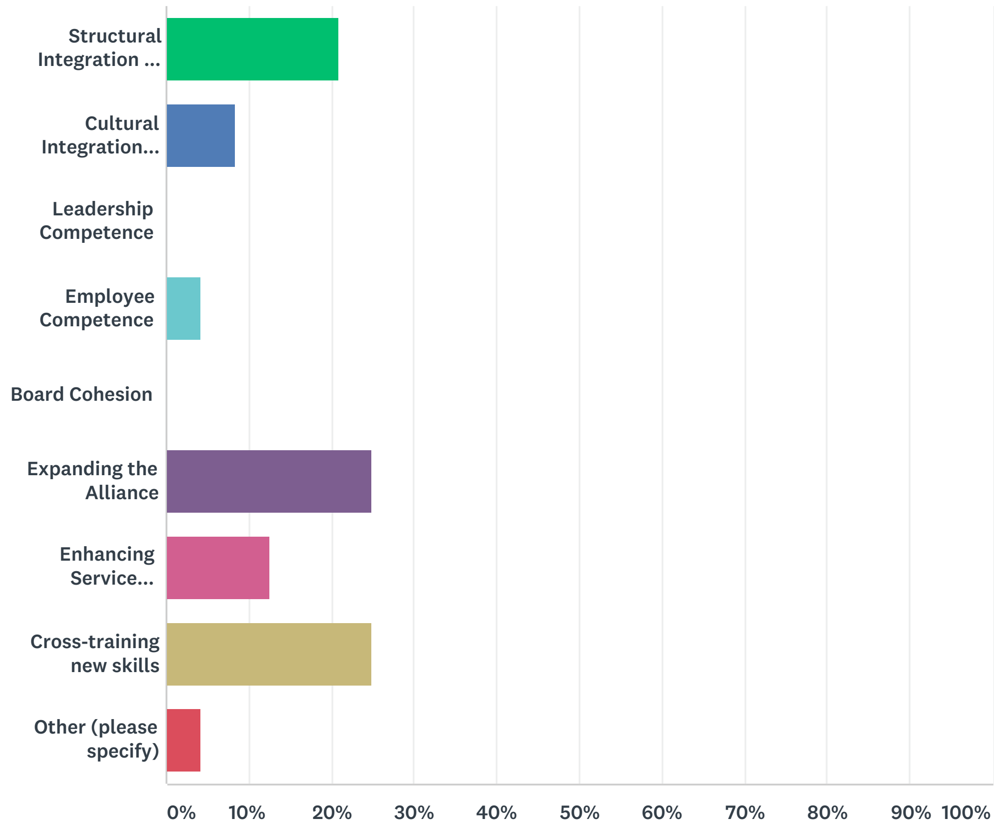
Answered: 24 Skipped: 4



ANSWER CHOICES	RESPONSES	
Structural Integration (IT and Systems)	25.00%	6
Cultural Integration (Teamwork)	16.67%	4
Leadership Competence	0.00%	0
Employee Competence	0.00%	0
Board Cohesion	8.33%	2
Expanding the Alliance	12.50%	3
Enhancing Service Delivery	8.33%	2
Cross-training new skills	16.67%	4
Other (please specify)	12.50%	3
TOTAL		24

Q20 Which of the following are you most excited about?

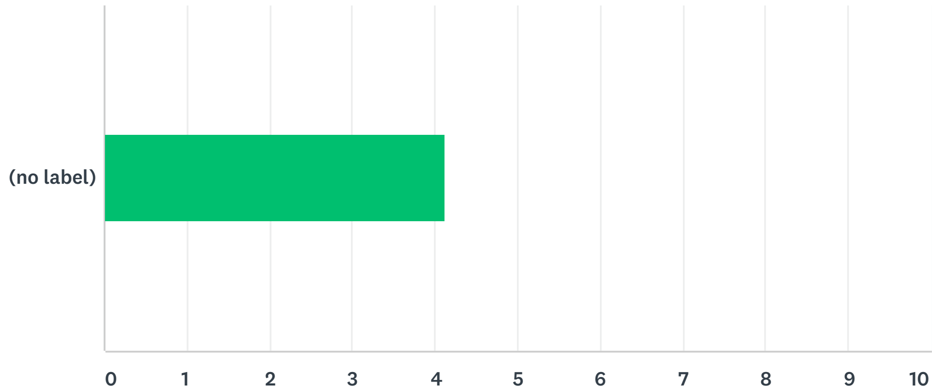
Answered: 24 Skipped: 4



ANSWER CHOICES	RESPONSES	
Structural Integration (IT & Systems)	20.83%	5
Cultural Integration (Teamwork)	8.33%	2
Leadership Competence	0.00%	0
Employee Competence	4.17%	1
Board Cohesion	0.00%	0
Expanding the Alliance	25.00%	6
Enhancing Service Delivery	12.50%	3
Cross-training new skills	25.00%	6
Other (please specify)	4.17%	1
TOTAL		24

Q21 On a scale of 1-5, rate your confidence in the CEO's (Tom) ability to take the Alliance into the future

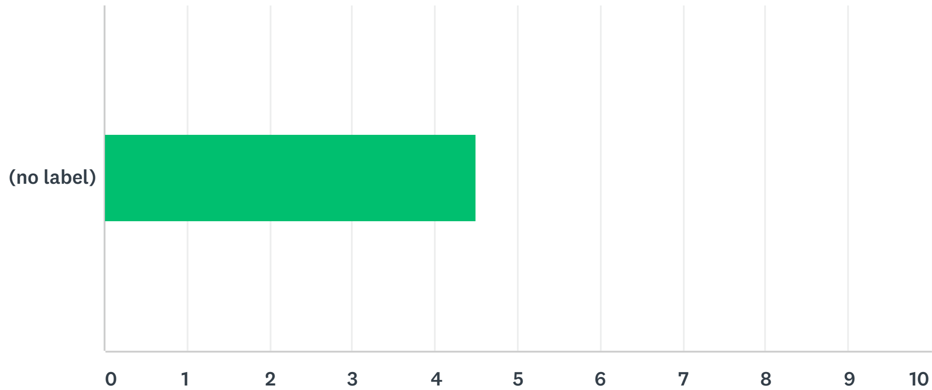
Answered: 23 Skipped: 5



	NOT AT ALL CONFIDENT	SOMEWHAT HOPEFUL	NEUTRAL, I DON'T KNOW HIM WELL	QUITE CONFIDENT, HE HAS DONE THIS BEFORE	FULLY CONFIDENT IN HIS LEADERSHIP	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	4.35% 1	21.74% 5	30.43% 7	43.48% 10	23	4.13

Q22 On a scale of 1-5, rate your confidence in the COO's (Nate) ability to lead the organization

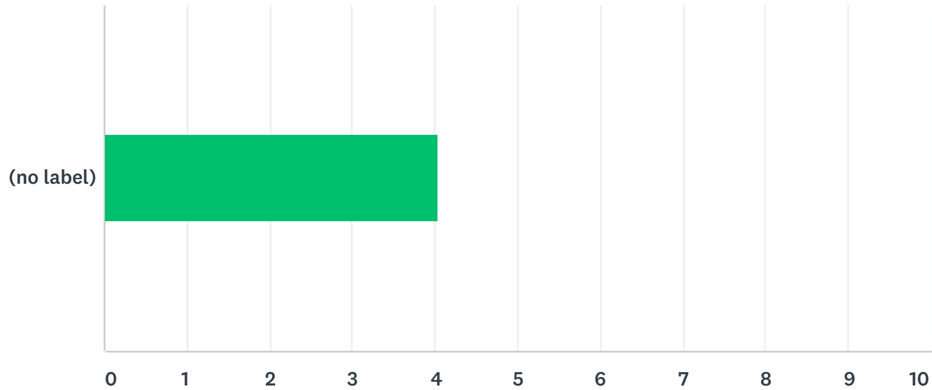
Answered: 24 Skipped: 4



	NOT AT ALL CONFIDENT	SOMEWHAT HOPEFUL	NEUTRAL, I DON'T KNOW HIM WELL	QUITE CONFIDENT, HE SEEMS CAPABLE	FULLY CONFIDENT IN HIS LEADERSHIP	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	0.00% 0	4.17% 1	41.67% 10	54.17% 13	24	4.50

Q23 On a scale of 1-5, rate your confidence in your immediate co-worker's ability to propel the organization forward.

Answered: 24 Skipped: 4



	NOT AT ALL CONFIDENT IN MY COWORKERS	SOMEWHAT HOPEFUL IN MY COWORKERS	NEUTRAL - SOME PERFORM, SOME DON'T	QUITE CONFIDENT, THEY ARE ALL CAPABLE PEOPLE	FULLY CONFIDENT, THIS TEAM CANNOT BE STOPPED	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	0.00% 0	16.67% 4	62.50% 15	20.83% 5	24	4.04

Q24 Please add anything you'd like to share beyond what has been asked in this survey:

Answered: 9 Skipped: 19

Appendix C: Expert Interviews

Appendix C:

Tom Avramis, GSF CEO

December 29, 2017 & March 30, April 11, and April 19, 2018

Linda Beiler, SF CEO

April 19, 2018

Tom Noonan, Consultant

Conversation during cultural assessment, December 2017

Stephanie Sparks & Lloyd Schmidt, Attorneys

Conversation during legal design, November 2017

Marlene Day, SF Employee

April 17, 2018

All Interviews conducted by Nathan Schnackenberg

Q. What type of mergers have you been a party to?

Tom A. All sorts. I've led six in my career, and some were hostile, others were friendly. They tend to work better if they are friendly. In my experience, they can happen for an array of reasons, but normally have some element of economic consideration. They can also happen as a result of executive succession, organizational turmoil, geographic saturation or just because joining forces makes logical sense.

Q. What's the hardest part about a merger?

Tom A. Executive leadership is always interesting. As an executive, we are accustomed to juggling a rather familiar set of knives each day. But when companies merge, you have to be able to juggle foreign objects while making sure nobody gets impaled. I think the complexity and the moving parts. Sometimes it's hard to see all the angles.

Linda. Settling into leadership differences. When a merger is initiated, you are suddenly inundated with new people who have different ways of managing challenges. I think we succeed when we take a posture of patient assessment and analysis.

Q. What do you look for as a primary indicator of a successful merger?

Tom N. Cultural synergy. The larger the gap between cultural synergy, the more you have to make up during the post-merger integration process.

Linda. A triple-win! I think if you can identify a win for your organization, a win for the opposing organization, and a win for the client, you've got a pretty realistic early indicator of success.

Tom A. I agree with Linda. It's about finding the win-win-win. If everyone wins, everyone is likely going to be behind the merger.

Q. Why did you choose to pursue this merger between GSF and SF?

Tom A. I think we all knew that GSF had veered off course from its original mission as a conservatorship and guardianship organization. This change took place in the early 2000's when we started getting into financial service delivery. This merger gave us an opportunity to revert back to what our founder had intended, and the things we're truly good at while offering us a chance to realize long-term sustainability and growth.

Linda. Secured Futures had matured beyond its humble beginnings and I knew we needed mature, tenured leadership. This was the driving factor for me in embarking on this strategic initiative.

Q. Do you think an NDA should be executed during due-diligence? And why did SF and GSF choose to not excite NDA's?

Tom A. Personally, I chose not to push that issue because we claim to be industry partners, not competitors. If we are truly partners, why hide behind an NDA? A merger is a tough and complicated challenge for all parties involved, and success probabilities are greatly enhanced through mutual gestures of trust and complimentary endorsements. To take the first step of a potential future together under an NDA is symbolic, and, in our case, seemed unnecessary. In different circumstances, I might have argued the opposite perspective.

Linda. We had nothing to hide, and there was no real discernable downside to not executing one. By the time we reached due-diligence, I felt like I could trust Tom, and he felt he could trust me.

Q. Why did we land on this legal framework?

Linda. It just made sense. We needed a framework that allowed for the continuation of both organizations in their respective markets and disciplines.

Steph. This framework was devised as a way to meet the objectives identified by GSF and SF leadership. It allowed for the continuation of business for the founding organizations, while structuring a framework for future inductees into the Alliance. It also gave us a way to hang for-profit modules onto the Alliance in the future.

Lloyd. This framework was acceptable in the eyes of the IRS, and met the goals established by Tom and Linda.

Q. As an employee, were your biggest fears looking ahead to the merger?

Day. Loss of job, identity and the ambiguity of the plan. There was a sense that leadership was unsure of how to move forward, and certain things said at the onset made me nervous.

Q. Give me some examples of how leadership failed to alleviate some of your concerns.

Day. The big one was when you said nothing would change. That turned out to be a lie and within days, everything was changing. In my opinion and the opinion of others, if you were not being honest about that, why should we trust you with other weightier things, such as the promise of a future job with the Alliance? The other one was the take-it or leave-it approach to job offers, and the whole job offer situation in general. It was made out to be this big thing, and in the end, the job offers didn't actually define anything for anyone. They were just boilerplate.

Q. What could we as leadership done differently?

Day. Just be more direct and forthright. Talk about what you know, not about what you don't. Give room for the employees to adjust, process, and buy into the process.

Q. What would you do differently as leaders engaging a merger?

Tom A. Nothing. This was as smooth a merger process as I've ever been a part of.

Linda. Nothing.