ASSOCIATION MERGERS - -
WHEN IT GOES RIGHT AND WHEN IT GOES WRONG
(PART I)

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Introduction

As trade associations and professional societies continue to evolve from social/business organizations to organizations structured to meet specifically defined goals of the membership, there is an ever increasing pressure on associations and professional societies representing a common membership base, to merge or consolidate. Those in favor of the merger or consolidation argue that a combined organization will be more efficient. They contend that one organization will have a more powerful voice before the Congress, regulatory agencies, and state governments. They believe that the "old ways" of operating an association no longer meet the needs of the membership. They claim that the merger or consolidation will result in a stronger, better-staffed and more effective organization.

Those opposed to the merger or consolidation will argue that the two organizations can cooperate together where necessary but that each organization has its own identity and culture. They contend that by merging or consolidating, each organization will lose its identity or culture. They suggest that the merger or consolidation will destroy a tradition that has been built over a lengthy time period; a tradition which represents the core of how the industry or profession operates.

After these opinions have been expressed, those in favor of the consolidation or merger will usually convince those opposed that there would be no harm in having some preliminary discussions.

Beginning Discussions

Once a decision has been made to move forward with the first round of discussions, the two organizations involved usually establish committees to handle the negotiations. Often the committees are the Executive Committees of each association. A series of meetings is held and if things go well, a business plan is developed. Information is exchanged as to the financial position of each organization, corporate structure, activities, membership, staffing, litigation and any other potential significant liabilities.

If the decision is to continue to move forward, the committees will come up with a plan of merger or a plan of consolidation. The plan will show the membership of each organization how the proposed merger or consolidation will work. It will outline how the assets and liabilities of the two organizations are to be brought together; describe how the surviving or new organization will be structured; and enable each member to see how it will be positioned in the reorganized or new organization. Once the business plan and plan of consolidation or merger have been approved by the negotiating committees, they will be presented to the Board of Directors of each organization. Assuming that both Boards approve going forward, the lawyers and accountants will be brought in to finalize the structure of the transaction to meet legal and accounting requirements and the members of each organization will be asked to vote.

Culture

During the meetings of the negotiating committees of each organization, it will become clear that each organization has its own culture. For an association, "culture" can be defined in terms of both an institutional mindset and an operating philosophy. To what extent are committees driven by members rather than driven by staff? How involved is the Board of Directors or Executive Committee in the day-to-day operations of the association? What are the roles of the "Associate Members/Vendors" in the association? Does the association meet at fancy resort locations, or downtown business class hotels? Are association meetings usually held on weekends, or during the week? Does the association operate on truly democratic principles or is there a controlling "clique" which calls the shots?

These are extremely important questions. If the answers to these questions and similar questions show that the two organizations about to merge or consolidate have contrasting cultures, the chances of a successful merger or consolidation are significantly diminished.

In some ways, a merger or consolidation must be viewed as a partnership. Two entities are getting together and each will expect to be comfortable in the consolidated or merged organization. Unless there is an advance agreement as to how the cultures are going to be integrated, a merger or consolidation will have major problems.

As an example, assume one association to a proposed merger prides itself on the fact that all of its annual meetings for the past 20 years have been at Ritz Carlton properties. The other merger partner prides itself on keeping costs down. All of its annual meetings for the past 20 years have been at Holiday Inns. The committees that met to discuss the merger have compromised and decided that in the future, annual meetings should be held in some mid-level property such as a Marriott. This appears to be a reasonable compromise, but are the members of either group going to be happy with this compromise? Although this example may appear to be trite, it is demonstrative of the type of cultural issues that must be dealt with in any merger or consolidation of associations.

It is essential that the negotiating parties spend a significant amount of time and effort in dealing with questions involving culture in order for the transaction to be successful. If during the discussions, it becomes apparent that there will be sufficient culture shock regarding any significant issue to make the members unhappy, the negotiators must be willing to pull back and reevaluate. They must agree to take the time to bring the organizations together slowly and develop a means of buffering the clash of the two cultures. Each group must recognize the need to modify its practices and the negotiators must realistically evaluate whether a proposed compromise will work. Each side must carefully listen to what the other side is saying. Each side must understand that they may have to change certain practices just because such practices are not acceptable to the cultural values of the other organization.