

# Getting to Yes: The Points of Light and Hands On Network Merger

By Deborah Edward, Ph.D.

## Introduction

*Shawn Reifsteck, President of Hands On Network (HON) in Atlanta put down the phone in May, 2007 with a feeling of foreboding. He and Doug Gledhill, Chief Financial Officer of Points of Light Foundation (POLF) in Washington D.C. had just had a conversation that signaled eleventh-hour challenges to the negotiations between their two national volunteer networks. Despite careful work by the board members and leadership staff of the two organizations, and with support from an expert team of merger consultants, the two groups were just now confronting what was turning out to be a crisis in trust and a challenge regarding resources. Shawn knew he needed to share the message with Hands On Network's CEO, Michelle Nunn. And he knew that it was critical that the issue that had been raised be addressed immediately, and appropriately.*

The two organizations had evolved from different premises, and had developed different cultures and methods to meet a common challenge of engaging citizens in civic volunteering. Each of these national initiatives was making a difference in promoting volunteerism and supporting citizen service. Both had become more concerned about financial sustainability and impact in recent months. For five years the two groups had been competing in some areas, and collaborating in others, and the idea of consolidation was present. Merging the two national volunteer leaders could strengthen volunteerism, streamline costs and services, and deepen impact. The upcoming retirement of the POLF CEO provided an opportunity to move the conversation toward action. But could they overcome the challenges of honoring the legacy of former President George H.W. Bush and the work of the Washington-based POLF while embracing the new social activism ethos and inclusive, grass-roots management style of the Hands On Network? Could the two groups together find a financially sustainable model and be even more effective in championing the voluntary sector. Could “1+1 = 5” ?<sup>1</sup>

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<sup>1</sup> “1 + 1 = 5” became a catchphrase to reflect a successful merger. This expression was coined early by a HON Board member and used throughout the merger process to emphasize that the goal of the process was to create outcomes significantly greater than what either of the partners could produce independently.

## Background

Volunteer activity has a strong history in the US. Individuals may mentor youth, take in foster children, operate hospital information desks, drive seniors around, knit hats for babies. They may volunteer to build homes for low income families, help in schools, raise funds for worthy projects. There are countless stories from the retired CEO providing business acumen for a start-up nonprofit to the university students in classes or civic clubs who tutor at-risk youth. Teenagers in trouble with the law may be assigned community service hours unloading cans at a local food bank in lieu of jail time. Corporations or civic groups connect their employees or members to volunteer opportunities to build spirit and give back to community. Corporate newsletters celebrate employee teams competing on food drives or blood drives, or employee groups getting release time to work together on episodic volunteer projects like building a home, cleaning a school, fixing a playground, or weeding a garden.

Volunteers are key contributors supporting the work of nonprofits and other social enterprises from art museums to hospitals, senior centers to early childhood programs, tennis courts to family courts, animal shelters to homeless shelters, championing local issues to advocating for global change. Their contributions improve and extend services, provide a collective voice to influence public policy, and build credibility and visibility for the civic sector.

Over 61 million Americans over the age of 16 volunteered their time to help out a civic cause in 2006.<sup>2</sup> Many kinds of people volunteer for many reasons; to help a friend, learn a skill, build a resume, meet an educational goals, hang out with colleagues, make a difference, or be part of a work place team building project.

Over the years, various initiatives and infrastructure have evolved to support and strengthen US voluntary sector and to help those people charged with managing volunteers. Volunteer Action Bureaus were established in US cities in the 1930's, paving the way for a National Center for Voluntary Action in 1970, which was renamed the National VOLUNTEER Center shortly thereafter.

During the George H.W. Bush's presidency, the federal government announced renewed commitment for volunteerism through its "Thousand Points of Light" initiative. This call for volunteer action resulted in the Points of Light Foundation in 1990, to "encourage and empower a growing spirit of service and direct it to the social issues that might otherwise consume us."

During the Clinton years, the government created additional infrastructure to encourage volunteering. The National and Community Service Trust Act of 1993 created the Corporation for National Service (CNS) which merged earlier federal initiatives and set the stage for the establishment of AmeriCorps. Each year 70,000 AmeriCorps volunteers can be found in nonprofits, faith-based organizations and public agencies across the country - volunteering for a year in exchange for a stipend and funds for post-secondary education. In 2001, the USA Freedom Corps was created by President George W. Bush to further expand federally supported volunteer efforts within the CNCS.

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<sup>2</sup> Corporation for National Service. <http://www.cns.gov/about/volunteering/index.asp> and [www.volunteeringinamerica.gov](http://www.volunteeringinamerica.gov). Accessed: June 25, 2008.

The concept of volunteering has shifted in the US, going beyond the traditional support roles to encourage more social activism. Programs like City Year and Teach For America have pioneered stipend-based volunteering. These programs encourage young people to give back to their communities through low-pay leadership roles in addressing social problems. The Gen X and Millennials volunteers seem to be attracted to high profile, high-touch episodic volunteer experiences. They have been exceptionally responsive to corporate employee volunteer projects that are high impact, short term and team focused. The Baby Boomers, beginning to retire, are seeking skills-based volunteer experiences – to give back to their communities. New visibility about “Encore Careers” and retirement options have given rise to new “volunteer vacations” and the growth of programs like Experience Corps which creates opportunities for retirees to work with students at risk in public schools. Schools have been promoting the value of service learning from the earliest grades, and creating opportunities for kids to help in community enterprises. And the Internet has created new methods to match volunteers to community projects through social networking tools and online search engines. In addition, federal legislation and social entrepreneurs have created high profile service opportunities – Teach for America, Senior Corps, AmeriCorps, Freedom Corps, City Year all attract a new breed of responsible citizens ready to help on community issues.

The 2006 volunteer census of 61 million people reveals a drop of 4 million volunteers from the prior census. This decrease comes at a time when there are increased calls for expanded volunteerism in the US and abroad. Presidential campaigns, corporate employee programs, and schools are all stressing the value of community service, and seeking partners that can successfully organize and manage programs that result in effective, meaningful partnerships to strengthen our social fabric. The landscape of volunteerism in the US has been changing, with the result that more people are volunteering, but in new ways and for new reasons. And two national organizations have been in the midst of this change.

### **Points of Light Foundation**

Neil Bush, a long-time POLF supporter, is upbeat when he describes POLF. As a Board member, committed to ensuring that his father’s legacy be continued, Neil has the perspective of one who’s seen the idea grow from vision to impact. The POLF Mission in 2006 was to engage more people and resources more effectively in volunteer service to help solve serious social problems. When George H.W. Bush established POLF he said:

*“We have within our reach the promise of renewed America. We can find meaning and reward by serving some purpose higher than ourselves – a shining purpose, the illumination of a thousand points of light. It is expressed by all who know the irresistible force of a child’s hand, of a friend who stands by you and stays there – a volunteer’s generous gesture, an idea that is simply right.”<sup>3</sup>*

POLF acquired and expanded the Volunteer Center National Network made up of volunteer centers in communities small and large. These groups had previously been loosely connected

for training and technical assistance activities related to volunteer management. The network included volunteer coordinators in existing nonprofits as well as staff of community volunteer centers – institutions which recruited and placed individuals seeking volunteer opportunities in their communities. Through advocacy, community mobilization and knowledge leadership, the organization supported more than 300 volunteer centers around the country with technical assistance and some pass through funds. Its operating budget in 2006 was \$25 million. It had developed a large network of relationships and strong board and staff expertise. POLF also managed an information clearinghouse that supported volunteer centers.

Funding for POLF was primarily by federal appropriation but in addition the organization received 30% from private fundraising and a minimal amount from membership dues and fees for service.<sup>4</sup> During its growth phases POLF had absorbed the Volunteer Network and had added a unique business line to its functions: an online nonprofit auction site on eBay called MissionFish which contributed to POLF's operations and budget.

POLF was focused on promoting volunteerism in general, through sharing knowledge and creating mechanisms to encourage volunteering. Its generous federal subsidy limited its motivation for fundraising; in addition when it acquired MissionFish, it got an additional revenue stream that did not require significant fundraising.

POLF evolved from a federal agency culture. Over its years of existence it had developed highly structured systems for management. The staff of 120+ consisted of professionals interested in the nonprofit sector, recruited from both the public sector and the nonprofit sector around D.C. The offices were on three floors of a downtown D.C. building; each staff had a private office. Salaries were good. The organizational culture was formalized and structured, characterized primarily by top-down communication, decision-making, and planning. Decisions were made by executive leadership; there was a tendency to reflect and study prior to making decisions. POLF staff were committed to walking the talk: they would regularly take a Friday afternoon and go down to assist in a local food bank or other nonprofit effort. POL added the volunteer management support services following a merger with the Volunteer Center; staff expanded to include program associates assigned to work with various centers. Staff were organized around core initiatives; often around funded initiatives. The POLF Board reflected a D.C. orientation: colleagues associated with the Bush family or the Corporation for National Service and individuals connected with donors such as Disney. The connections to the US legislature and various national agencies were strong on the POLF board. There was minimal representation at the governing level from affiliates or constituents.

POLF served small communities and small groups and supported a variety of donor-funded initiatives. Its programs and services involved 333 volunteer centers and 2,000 corporate and nonprofit partners across the country. However, POLF's growth had stalled. According to its research<sup>5</sup> the network of volunteer centers supported by POLF served roughly 62% of the population in 1986, only 2% more of the market that had been served 20 years previously. Legislators and federal agency leaders were becoming concerned about its impact.

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<sup>4</sup> See comparison charts (from "A Window of Opportunity")

<sup>5</sup> "Volunteer Centers: A History in America" updated February 2006

## Hands On Network

Michelle Nunn, Hands On's Executive Director, was introduced to the Hands On concept as an intern in the newly formed Hands On Atlanta while waiting for her Peace Corps application to be reviewed. The Hands On model was different than the work that had become standard for volunteer centers across the nation. It focused on the social activist volunteer and on creating entrepreneurial volunteer experiences that would appeal to young people and corporate groups seeking upbeat, group projects that had immediate impact on social problems. The new model, established in NYC, Washington, DC and Atlanta in the late 1980's, caught on and other cities and states created their own versions of Hand On that shared a commitment to volunteer-centered, project-centered approaches and attracted local corporate support and the energy of a new breed of volunteers. The original Atlanta team was pressed to establish a national network, initially called City Cares, which was partially funded by the POLF.

Michelle was part of the early experimentation in Atlanta and a key player in expanding the enterprise into other urban centers around the US. Her energy and commitment to civic activism attracted a core group of staff and partners eager to see this new movement get launched. HON grew rapidly in its first six years; from \$40,000 to \$13 million with funds from private foundations, competitive federal grants, and member fees and earned income resources. The organization continued to honor its grass roots, consensus-based values as it grew, one that was very open, transparent, grass-roots based, flat in hierarchy, and attractive to the corporations and other nonprofits.

Hands On staff were slightly younger than the staff at POL. They had been recruited from regional centers and reflected the affiliates' values of teams and new civic engagement. The Hands On Atlanta office was full of cubicles: with rooms that staff could use when privacy was needed for meetings. Staff was also organized primarily around initiatives and was just beginning to organize around regional services. A small percentage of staff was located off site in Chicago, San Francisco, and Washington DC.

Michelle was committed to involving her staff in decisions and in modeling a corporate culture of volunteerism. There were quarterly staff retreats that would focus on team building, varying from a summer outing for staff and families, to a summer planning session, a work session and annual retreats to a source of inspiration, such as visiting the birthplace of Habitat for Humanity. The organization had been founded on a very inclusive model for decision-making. Michelle would ask for input, and then make decisions that could be linked to the input. As Hands On grew in staff size and complexity, less of this was evident. There was more top down strategy, evolving from the initial model of inviting staff at all levels to come up with ideas, and test them, try them, and tweak them.

Hands On was appealing to a new generation of volunteers. It had an action orientation and a network of urban affiliated as well as a strong Corporate Service Council. Its culture and operating style was open to change and characterized by an attitude of adaptability. Its impact was visible; 50,000 service projects annually through a network of 68 Hands On Action Centers working with 12,000 nonprofits and schools. In six busy years HON had established itself as a national movement with a strong following from major corporations and foundations.

Hands On Network's budget and staff size grew fast. The network expanded to 68 centers, including international affiliates. Rudimentary internal technology systems were in place to sustain communication across the network: weekly phone calls, monthly calls with affiliates, weekly e-mails of information from Michelle, and active use of e-mail within the Atlanta office and beyond.

HON's board included affiliate representation and donor representation, as well as individuals who were strong connectors into various parts of the nonprofit and government worlds. The board met regularly and was very knowledgeable about that activities, priorities and issues of the organization. Michelle consulted regularly with Board members.

POL and HON had co-existed in relative peace for a few years, with some collaboration along the way. POL was seen as the Beltway support base for volunteer centers; while HON was seen as the up-and-coming champion of the new volunteer. The two organizations had an overlap of 30 volunteer centers. Both organizations received funds from the Corporation for National and Community Service; Home Depot; Kellogg Foundation, Case Foundation, Coca Cola Company, and UPS Foundation.

Although there are at least two other national organizations focused on volunteers – VolunteerMatch and The United Way -- POL and HON were most complementary. Volunteer Match is a web-based service to connect volunteers to projects. United Way had become more involved in the volunteer work, after having abandoned this aspect of their services a decade previously. Approximately one-third of volunteer centers were embedded in their local United Way. A new ethos at United Way, branded as the "Live United" model, was encouraging local and national United Ways to support their corporate donors by providing tools and support in connect employees to volunteer experiences. POL and HON went beyond both these networks in terms of commitment to the spirit of civic engagement across many kinds of volunteers and volunteer opportunities. POL and HON considered themselves opinion leaders on a more global scale than either of the two other national efforts.

Market dynamics were pushing for consolidation of national leaders – both donors and affiliates were asking about the overlaps across the two organizations with regard to providing training, networking, and support. Board members from each organization were aware that increased competition for funds and rising donor expectations were creating additional challenges during growth. Trends in national government were favoring expansion of community service but there was considerable pressure on both organizations, especially Points of Light, to demonstrate impact and effectiveness in order to retain and increase public support for programs.

The two organizations were both quite savvy about the political context in which they worked. They had each evolved organizations of commitment and competence. The values exemplified by Hands On were about integrity, collaboration, innovation, respecting differences and learning. The values enumerated in the POL documents were similar, mentioning integrity, excellence, innovation, respect as well as stewardship, knowledge sharing, customer service, and partnerships.

## Budget Comparisons - Fiscal Year 2006

Categories	Points Of Light Foundation	Hands On Network
<b>FUNDING:</b>		
Federal appropriations	1,730,823	
Federal grant revenues	9,900,000	1,606,151
Investment income	881,171	116,344
Contributions and sponsorships	4,509,166	9,600,000
Membership dues	533,376	101,512
Conference fees	828,960	51,481
Merchandise sales	57,272	
Other fees: Mission Fish		
<b>TOTAL FUNDING</b>	<b>19,822,856</b>	<b>12,690,379</b>
<b>EXPENSES</b>		
Salaries	8,883,115	3,501,878
Professional services	6,981,831	1,469,068
Occupancy	1,161,082	154,864
Program grants	2,377,965	2,952,889
Publications, media, print	936,343	1,063,987
Merchandise sold	224,460	-
Website and technology	480,198	104,767
Other expenses		
<b>TOTAL EXPENSES</b>	<b>24,637,749</b>	<b>12,061,800</b>

### Prelude to a Merger

In October 2006 POLF CEO Bob Goodwin, announced that he would retire in March, 2007. This announcement caused a cascade of renewed questions from both organizations regarding the merger option. The HON board reached out to the POL Board to say that perhaps this would be a good time to consider a merger, prior to launching a CEO search. Michelle Nunn remembers this moment: feeling emboldened to make the initial call to the POL board because it was a “moment that might not come again”.

The initial query was tentative – HON’s Board representative asked the POL Board Chair how they were planning to replace the outgoing CEO. He suggested that it might be helpful to discuss possibilities of a strategic alliance prior to moving forward on an expensive CEO search for POL. Neil Bush of the POLF Board remembers that there was not a lot of initial interest from POL, but he was curious and concerned – Neil was determine to protect the legacy of his father and wasn’t sure whether a merger would mean that the POLF would disappear from national memory. He was committed to his father’s vision of a strong civic sector, and had heard much about Michelle’s successes.

An initial meeting was held in Atlanta December, 2006 bringing together 3 members of each board <sup>6</sup>to explore the idea – with some tentative interest expressed on the part of both parties. Michelle put forth a case for why a merger made sense at this time. During a 30 minute presentation she described the challenge:

*Hands On Network and the Points of Light Foundation/Volunteer Center National Network serve as the nation's primary volunteer infrastructure. Each organization has made important contributions to the field of volunteer engagement and civic action...yet under current conditions the two organizations.....fall short dramatically short of providing the depth and breath of support to catalyze a cultural spirit that makes service a common experience and opportunity of every American". <sup>7</sup>*

The POL Board was noncommittal, but positive about Michelle's presence and leadership. Neil Bush began to set the stage for his father to consider the option. George H.W. Bush's office put in a call on a Friday morning to Michelle Nunn's office inviting her to have lunch with the former President in Houston the next day. During that lunch Michelle impressed the former President with her vision and her flexibility, resulting in an informal vote of confidence from the person deemed most important to the POLF Board. With this endorsement, the merger started to move into real time.

Early in the process, Michelle asked for help from Accenture, a global management consulting firm with net revenues of \$19 billion and a team of over 180,000 employees<sup>8</sup>. Accenture's expertise in mergers and acquisitions had been gained from years of experience in the corporate world in 49 countries. It was important that the process have outside support and guidance from knowledgeable experts. Accenture had long standing partnerships with both organizations. Walt Shill, Global Head of Strategy for Accenture<sup>9</sup> was proud of the tools and people that Accenture could loan to the POL-HON discussion. He brought in a team of 4 Accenture consultants with merger experience to be part of the first preliminary discussion April 7<sup>th</sup> in Atlanta. This team turned out to be pivotal to the process of the merger.

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<sup>6</sup> HON brought John Gomperts (President of Civic Ventures and long time advocate of national service), Juan Johnson (former Board chair and executive at Coca Cola) and Michael Kay (HON Board treasurer with extensive experience in mergers); POL brought Neil Bush, Terry Williams and Marilee Chinnici-Zuercher (CEO and President of FirstLink and active with the national network of volunteer centers). The first 2 and a half hours were spent in Board to Board discussions, recalls John Gomperts. Michele was invited in for the last 30 minutes to present the case for the merger; the plan was for each team to take back the idea to each respective board.

<sup>7</sup> From merger materials Power Point Presentation "A Window of Opportunity"

<sup>8</sup> For more information about Accenture see

[http://www.accenture.com/Global/About\\_Accenture/Company\\_Overview/CompanyDescription.htm](http://www.accenture.com/Global/About_Accenture/Company_Overview/CompanyDescription.htm)

<sup>9</sup> Accenture ultimately invested over \$1 million in consulting services, from April through September. See: Accenture Supports A Marriage of Convenience, Charity and Commitment June 2008.

## THE MERGER PROCESS

The Accenture team helped shape the questions that were deemed important for the exploratory phase, and then helped create the structure and timeline for gathering and analyzing information about each organization and the opportunities for a new business case that would be critical to success. This phase of the process – called the “due diligence phase” -- would rely heavily on good information, presented clearly, accurately, and neutrally. Accenture consultants were assigned to assist the various task forces organized for the due diligence phase and conducted a survey of all staff about organizational culture to identify whether or not the organizations had the will and alignment potential for success.<sup>10</sup>

Accenture consultants became critical team members in the due diligence process. They ultimately contributed more than \$1 million in pro-bono assistance and counsel. As Shawn Reifsteck recalls, “The sheer amount of data generated, analyzed and presented would have been impossible to produce without an objective third party partner”.

The two boards started to put things in place to explore the merger for real. Terry Williams was named Interim CEO of Points of Light and assigned to be the lead from POL in the merger discussions. Toby Chalberg was the lead in preparing materials for HON- he'd joined HON 7 year earlier as the fourth staff person hired at HON and was extremely knowledgeable about POL.

Early on the group identified the key issues that would need to be addressed as the due diligence efforts unfolded:

- Which organization name would be retained? POLF felt strongly that the name and brand of Points of Light needed to be prominent as a legacy to President George H.W. Bush. Hands On however had an image and brand that was strong and popular.
- What leadership would be brought together from the two organizations? There was early agreement and support for Michelle as “the” candidate for CEO. People felt it would be impossible for a new external leader to successfully step in. In addition though the organization needed to think through the composition of the new board. POLF had 2 affiliates on their Board while HON had 5. But who would become chair of the new organization? How big would the new Board be? Would either of the legacy boards end up with unfair influence?

With Accenture’s help the two organizations created a three step process of information review and joint planning. The First Phase addressed some fundamental issues of greatest significance: corporate name, relationship to constituents, office locations, and leadership. The groups had spent an initial few weeks identifying the “big ticket items” critical to agree on before moving ahead. They agreed that the name “Points of Light” had strong legacy value and needed to continue into the future. They agreed that whatever the new network looked like, it would welcome and actively encourage rural and small urban center participation as well as include strong programming to support corporations and employee volunteering. Further, both

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<sup>10</sup> See “Accenture Supports A Marriage of Convenience, Charity and Commitment 2008”.

organizations supported Michelle Nunn as THE candidate for CEO of the new entity. And finally, the two groups agreed on a variety of terms and approaches that would respect the HON volunteer-centered philosophy and POLF's methodology that focused agencies and organizations as the primary customer.

The Second Phase focused on the due diligence process and developing the case for the merger. The challenge was to clearly enumerate the compelling strategic reasons that the merger would be advantageous for all. Five task forces were formed to address (1) vision/strategy, (2) integration/transition, (3) brand/marketing, (4) network structure, and (5) organization governance. The intention was that the work during this phase would result in a term sheet that would outline the terms of agreement to merge. This term sheet would then be voted on by each board, ideally before the end of June, 2007, in order to announce a decision at the annual POL Conference.

The timeline was tight. In addition to these task force activities, the two organizations had agreed to a communication and coordination schedule which included weekly teleconferences between management team members, weekly emails to merger task force members, monthly joint communications to the field through email, and monthly face-to-face meetings of the Joint Merger Task Force in April and May. Michelle Nunn and Terry Williams were the task force chairs – representing the highest staff position in each company. Key staff leads addressing internal issues were Shawn Reifsteck from HON and Doug Gledhill from POLF. Board members, staff and Accenture consultants were staffing the various other entities working on Phase 2 activities.<sup>11</sup>

Accenture had prepared an outline for a “Due Diligence Fact Book” specifying a set of financial reports, personnel materials and legal documents for review. The due diligence process started moving forward in real time. Staff and board members, within the task force structure, focused on reviewing financial data, conducting stakeholder interviews and preparing the case for the merger. A strong business case was essential.

Initial conversations had suggested the following core case for the merger: the consolidation would increase network synergies. The team put forth a tentative list of goals: to create 6 million placements, mobilize more of corporate America, help organizations better place and train volunteers and use technology more effectively.

As staff and board were focusing on the merger issues, they were also having to keep their eye on the ball on day-to-day issues, such as fundraising, program delivery, customer satisfaction, and overall management. During the spring, as the merger talks progressed, fundraising stalled for HON. Donors wanted to see how the process would turn out. At the same time, the earmarked funds for POL were coming under scrutiny by Congress.

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<sup>11</sup> See Organizational Chart for Merger Task Force Support A

## GETTING TO YES

### Stakeholder Support

Both internal and external stakeholders needed to concur that this merger would result in positive change. Key stakeholders were the affiliates, the donors, and the field.

Coming into the merger there were 17 communities in which POLF and HON organizations existed separately; 30 markets had joint affiliation; 13 markets had only HON organizations and 286 markets had only POLF groups. In general POLF affiliates were representing smaller communities; HON affiliates were located in large metropolitan areas. A survey of affiliates had revealed a set of issues and opportunities: all affiliates surveyed wanted the new organization to provide financial resources, leadership opportunities, training, marketing, best practices information and “how-to” tool kits, and timely communications, efficient technology and better 1 on 1 support. When polled about the merger, the dual organizations were most likely to say they would stay; only 59% of the HON and 48% of the POLF said they would definitely stay. Fully one quarter of each of the single-affiliate organizations were on the fence. Thus, the merger team knew there was an uphill climb to sustain and build the affiliate membership. Plans were to revise the membership structure, benefits, standards and affiliate agreements that would address the issues and interests of the affiliates across all three types.

Donors were much less cautious. David Eisner, CEO of the Corporation for National and Community Service had been insisting for a number of years that the two organizations find a way to combine resources. Eisner had been the founder of the AOL Foundation prior to taking on the position of CEO of the Corporation. In his work with AOL and in other work he had been part of eight merger processes; four of which had resulted in successful mergers. He saw the value of “reducing multiple investments”. He described the challenges of making a merger work in the nonprofit sphere as one that made the people dimensions critical to success. In business, he explained, when there was an unequal balance of resources or power, the equilibrium could be re-established through a cash exchange. Such an option was not available in the nonprofit sector.

Eisner was an ever present supporter of the merger process, providing regular input and steady reassurance to all sides that the process could be managed effectively. He likened it to being on the ocean - every time a wave would break, you needed to be prepared for the next wave and be able to ride out the rough times. Because of his authority as the major funder controlling federal appropriations and federal grants, he had significant influence. It was Eisner who said the deal needed to be announced at the joint CNCS and POLF Philadelphia Conference, creating the timeline for the process.

Other key stakeholders included funders who had ties with both organizations, such as Case Foundation and Omidyar Network. In addition, former board members from Point of Light, such as Ray Chambers, moved from sideline guidance to active leadership during the process.

## Details of the Dollars

The due diligence process was moving along quickly. Streams of information were coming out of each task force, answering key questions and helping shape a business case. The two organizations had begun the merger discussions with general knowledge of the financial management systems and the financial realities of each other. Both were proud to report that they had had clean audits since first established, and that their auditors were satisfied with their controls and processes. Both were aware that financial revenue streams were changing, but were hopeful about the future.

Initially POL had been expecting a new authorization of federal dollars, and HON had described a set of significant aspirational gifts that were expected in the near future. During the merger process, POL was getting signals that future federal dollars were in serious jeopardy.<sup>12</sup> And as time went on the focus on merger was eclipsing fundraising efforts for HON. HON donors were waiting to see the outcome before making new financial commitments,

As money matters became of increased concern, their congenial due diligence efforts began to show wear and tear. Both organizations were facing financial pressures. Both had run organizational deficits in the previous year. The merger team financial task force members wanted to make sure that the merged organization would be healthy financially.

POLF was committed to ensuring that the Bush legacy was protected, and concerned that the merger might dilute the POLF brand, and could put the enterprise in jeopardy if the merger would result in a significant financial challenge. The POLF team expected that it could work through Congress and retain or restore federal support for POLF. HON was determined to ensure that the merged enterprise would retain the spirit and model of inclusive decision-making that was the defining characteristic of HON's social activism culture. HON was confident that it could address its current fundraising shortfalls and was less confident that the POLF shortfalls could be surmounted.

The stress of the financial challenges was beginning to spill over into merger negotiations. POLF was dependent on its longstanding federal appropriation of \$10 million annually, supplemented by restricted funding and fee for service activities, including MissionFish. With the withdrawal of the federal authorization, POL was forecasting a multi-million dollar loss for 2007

Hands On Network had developed a diverse funding base with strong corporate support accounting for almost 65% of the budget, reflecting leadership gifts from members of the Corporate Service Council. Federal grant accounted for 14% of revenues. Two key donors had delayed their contributions in 2006. These delays in combination with rapid growth were contributing to a more fragile financial position for HON by spring, 2006, rather than an anticipated and projected robust surplus to bring to the proposed merger. HON was showing a deficit in unrestricted income, which was a red flag for the merger team.

In addition to the sobering realities about the finances for each organization, the financial review was surfacing organizational differences. POLF finance reviewers were uncomfortable that at times HON was bridging gaps in unrestricted cash flow with use of temporarily restricted dollars – a practice that was judged consistent with industry practices by the auditing firm and accepted by HON donors.

HON reviewers were uncomfortable with the reserves that POLF was bringing to the table. Although POLF had a hefty reserve at the beginning of the merger discussions, that reserve had dwindled significantly partly due to investments in the “We Are Family” that ran over in costs and did not yield anticipated revenue. Instead of both organizations bringing financial assets to the table, both organizations were experiencing financial reversals.

During the due diligence process HON staff was working to present a financial worksheet that could demonstrate the financial implications of each group continuing to be separate and the cost savings of a merger.<sup>13</sup> The June 4<sup>th</sup> memo to POL and the Merger Task Force from the HON board chair, treasurer and CEO Michelle Nunn explained the situation in more detail. The memo reminded the group that HON still had an untapped \$1million line of credit, and had received a commitment of \$1.5 million from a national foundation committed to the merger. The unrestricted deficit was explained in light of the aggressive growth rate of 325% that had been HON’s history: \$4.2 million FY 2004; \$7.8 million in FY 2005, \$13.2 million in FY 2006, and a projection of \$16 million for FY 2007. The memo concluded by stating that “the financial issues raised by both sides during this due diligence period are reasonable, fair and expected.”

The two organizations were concerned about each others’ financial conditions, which further exacerbated tension. Doug Gledhill remembers a call between the two organizations that signaled tensions – POLF was expressing serious concerns that the liabilities being uncovered in the HON financial reports were going to be extremely problematic to the merger. Further the conversation indicated that trust issues were becoming prominent. If POLF and HON couldn’t feel comfortable about how each was addressing and reporting financial information, were there other discontinuities that would surface after the merger that could threaten the integrity or brand of either of the group? Additionally, HON was concerned that the POLF did not understand the perilous nature of the impending loss of the federal appropriation, and did not have a plan to address this major loss. All wondered if Michelle and the new board would have the leadership capacities to address the financial challenges that everyone knew could be ahead?

HON had responded to the financial questions by hiring yet another accounting firm to review their financial reports. This firm concurred that HON’s reporting was up to standard. But there was still tension in the negotiations. The financial questions were but a symptom of the problem. Underlying the questions about the finances and the financial systems were the typical questions and dynamics that will threaten a merger. Here was POL, currently being managed and led by a corporate board and a temporary, part-time Interim Director, about to embark on a new relationship with a competitor that would be visible to the public in an open way. There wasn’t a lot of room for doubt, and yet a leap of faith was needed to get to “yes”.

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<sup>13</sup> See financial worksheet

The financial differences were emblematic of the challenges of bringing two very disparate groups together. POL was uncomfortable that a young, “scrappy” group would question its finances just as HON was prickly about being questioned on something it was proud of – tight budgeting and resourcefulness.

The difficulties were exacerbated by the reality that POL was working under interim leadership. Thus, the inequality of engagement between the two organizations was also adding to friction and lack of decisive action on a timely basis.

The phone call that Shawn had just had – in late spring -- was a warning that it was time to confront to essential underlying dynamics that could endanger the merger. Shawn checked in with Michelle after he hung up the phone. He knew that POL was experiencing its own financial challenges – the political situation was not looking good regarding POL getting any of the hoped for earmarked funds from Congress, and POL had depleted much of its reserves. And financial instability created additional pressure and tension within the organization and between the merger partners. Both organizations were looking worse financially than either had in December. The pressure about the merger was strong; corporate donors, affiliates, government leaders were all urging the union. However, the emotional tone accompanying the financial discussions were indicative of a general growing rift between the two groups regarding confidence that Michelle could take on the challenge of the post-merger enterprise and ensure that each group would have their interests represented.

Michelle and Shawn knew they needed to move fast as tensions were rising. They requested a meeting with the POL Board -- something that she had not been invited to do during these past months of due diligence. Although the Board did not consent to meet with Michelle, they agreed to review a written memo from HON. The memo needed to be sent quickly to get to the Board before their next scheduled discussion. Eisner had been counseling Michele with a persistent message: at any week the merger could be called off, or it could continue to be worked through for another week. Why not, said Eisner, keep working another week?

As Michelle began to compose the memo to POL she pondered: What should she say?

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## Appendix 1: DUE DILIGENCE MEMO

### **Hands On Network and The Points of Light Foundation: A Due Diligence Examination and Joint Decision-Making Process for Merging the Two Organizations**

**I. Background:** Preceding the process outlined in this memo, it is assumed that, documented in the form of a Letter of Intent, the boards of directors of Hands On Network and the Points of Light Foundation have each agreed to explore the opportunity of merging the two organizations in order to maximize the capabilities of the sector and work toward realizing the shared vision of a robustly engaged citizenry. Achieving this goal requires a dramatic transformation of these two organizations and a re-imagining of how their resources are deployed.

The purpose of this process is to reach agreement on a broad mandate for change that both organizations recognize would be required to achieve this shared vision and to provide appropriate decision-making from the two organizations into the look, feel, structure, and operations of the new entity that will carry the legacy, values, and purpose of each organization into the future. The completion of this period will initiate a third and final phase of the process, which is the full integration of the two organizations.

**II. Timeline:** 90 Days, beginning March 1<sup>st</sup>, 2007

**III. Internal and External Resources to Support the Process:** In order for this process to be complete and successful, teams will need to be convened from both organizations along with third-party facilitation from the start of the process to end product. Additionally, the process should consider the additional resource of external consultation support in legal, accounting, and strategy issues.

#### **IV. Statement of Purpose/Objectives**

##### **A. Process Goal**

The process is an opportunity to thoroughly educate each side on the functions, structures, systems, and programs of their own organizations and in comparison to one another. This exploration will enable a conclusive decision on the fitness of the choice to combine the two organizations.

##### **B. Product Goal**

At the end of the 90-day period, the Boards of Directors of each organization will vote to approve or disapprove the dissolution of their respective governance responsibilities and initiate a merger of the two organizations that is based on a mutually agreed-upon set of key strategic points, to include the areas outlined below. This process will also produce a jointly-created implementation plan that outlines the key strategies and roadmap for the transition.

**V. Process:** The representative teams from the two organizations should engage in two concurrent processes simultaneously: Due Diligence, a transactional exchange of relevant information between the organizations; and Joint Decision Making, through which issues of integration, strategy, and maximizing the resources of the combined organization.

**A. Due Diligence: Areas of Inquiry –** The 90-Day planning process will allow for examination of each organization's operations, policies, assets, and liabilities for the purposes of better assessing the opportunities and risks of a potential merger; determining the feasibility and potential barriers of joining the two organizations; and

providing initial input into the high-level strategies and resource allocation of the new combined entity. Some of the major areas of due diligence include but are not limited to:

- **Governance:** Review of by-laws, articles of incorporation, board compositions and authority, stakeholder agreements (affiliates and other “members”).
- **Finance:** Comparison of accounting methods and policies, internal controls, and budgeting processes; and a review of past audit reports, tax status documentation, and financial positions.
- **Human Resources:** Review of employment agreements; Compensation commitments; Benefits plans; internal policies and procedures, including EEO compliance.
- **Legal:** Assessment of outstanding contractual commitments and other obligations and corresponding reporting requirements; government compliance (track record, risks, etc.); property titles/deeds and liens/mortgages; trademarks and intellectual property; and litigation and claims.
- **External Support for Consolidation:** While not a traditional element of due diligence, it will be critical that during this process the joint-planning team tests the notion of the revenue-generating potential of a combined organization with key external stakeholders.

**B. Joint Decision Making: Designing a New Organization:** In order for each organization’s board of directors to have adequate information to reach a conclusive decision on moving forward with a merger, the joint-planning process will include proposals for the high level architecture and operations of the new entity. Importantly, the joint planning team will distinguish the scope of decisions reached during this process from those appropriately left to the incoming board of directors and executive management. The joint planning team will come to early agreement in the process on how to incorporate appropriate stakeholder input from affiliates, donors, and other interested parties. Areas considered important for resolution to inform an ultimate decision on merger in this particular situation include:

- **Brand and Associated Naming Conventions:** What is the best way to preserve the two brands and their market values while establishing a powerful and inspiring brand for the future?
- **A Merged Organizational Culture:** What will the values of the new organization be, including its functional and principled commitments to and relationship with its member organizations?
- **Major Strategic Direction:** What will the mission, vision, and purpose of the new organization be?
- **Governance:** What is the proposed size, composition (including transfer from the two organizations) and governance role for a consolidated organization’s board of directors?

## VI. Detail of the Timeline – Major Milestones within the 90-Days

### First 30 Days:

- Third-party support is identified and terms of engagement agreed upon.
- Inventory of due diligence material to be collected as well as process for incorporating field input.

### Second 30 Days:

- Stakeholder interviews and input gathering from the field continues.
- Due diligence collection complete and interim report on any findings of significance provided to the board of directors of each organization. Analysis available to support areas of joint-decision making process, as needed.

**Final Thirty Days:**

- Iterations of the proposed merger plan circulated for comments and feedback.
- Proposal of agreed-upon elements of new organization adopted by boards of directors and final phase, initiating integration begins.

There are some additional milestone dates beyond the joint planning work done here that are important to note and should help calibrate the pace of the integration. The goal of integration, should the process move forward, would be to complete the annual planning and budgeting process for FY2008, beginning October 1<sup>st</sup> as a merged entity. Therefore, agreement to move forward with integration should be reached by June 1<sup>st</sup>, to allow for 120 days of planning and transition that includes closure of FY2007 operations already underway.

**VII. Conclusion****TBD...**

## Appendix 2: DIAGRAM OF MERGER PROCESS

### Organizational Chart For Merger Task Force Support – HANDS ON

