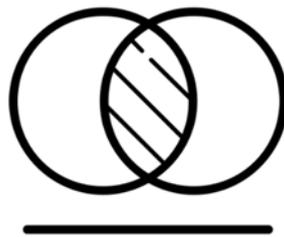


# 2018 Gee-Up Session Under the Hood

## AOMC WORKBOOK



## PRESENTED BY

Steven Bowman

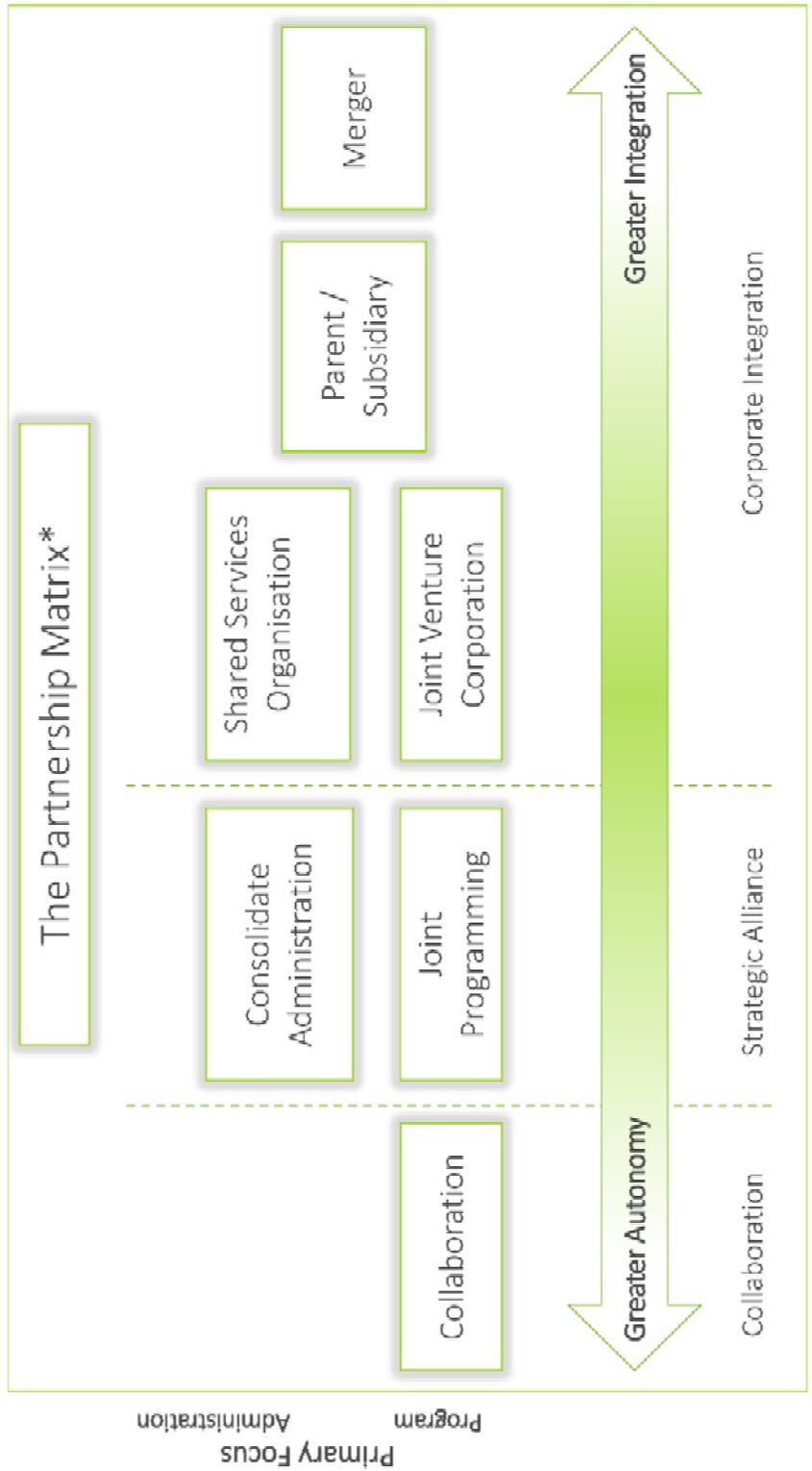
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# Agenda

AOMC GeeUp Session	
<b>Why do we exist?</b>	Vision Strategy
<b>Legal liability-Not hard!!</b>	Duty of Care, Loyalty, Obedience  Regulations/Legislation
<b>Making it easier-Simplifying meeting/reporting</b>	Compliance schedule  Board/Ctee calendar  Strat Plan as focus  Finances
<b>The next Generation (and the next... and the next...)</b>	Finding ctee members (esp. younger ones) What if induction included special stuff about the cars, visits to other clubs, under the bonnet of being a ctee member-offer what they cant get elsewhere...career tools etc Skills Matrix Recruitment Subctees-bring new people in, use the need for credentials for younger people hungry to succeed... Induction
<b>Mergers/acquisitions-how to achieve a merger/amalgamation between clubs without bloodshed and disenchanted members</b>	Partnering continuum Term sheet Integration team MOU Due Diligence

# Partnering Continuum



\* Adapted from La Piana and Harrington, The Nonprofit Mergers Handbook 2000

# Benefits of Partnering & Collaborating



Source Report: 2017 American Express Business Collaboration Index, Page 6

## Term Sheet: Critical Questions for your Board

Term Sheet Item	Possible Position	Negotiable? Yes/No /Possibly
1. Geographic coverage	Preference for org based in close to us, but would consider Victorian based org. No to interstate or overseas org	Yes: SE Melb or Vic
2. Not for profit	Definitely must be a NFP	No
3. Mission based, leading organisation	Organisation must be driven by a vision / mission that is aligned with ours. Must also be a leader in their respective sector	No
4. Service offerings	Ideally, community health or disability support or both. Would consider other service types if compatible with our operations	Yes
5. Size of Org	Prefer similar size to achieve reasonable economies of scale. Would consider larger org if relevant	Yes Possibly
6. Retention of our identity	Must be willing to retain our current branding for at least 3 years	No
7. Retention of building	Must be willing to retain our building as a community resource, in perpetuity	No
8. New Board composition	Must be willing to consider Board with 3 or 4 directors from each org PLUS an independent Chair acceptable to both	No
9. Staff retention requirement	Must be willing to consider 12 (or 24) months for staff job security (to ensure service continuity and greater chance of staff buy-in to the deal)	Possibly, but only for period of job security
10. Location of new Central Office	To be negotiated between the parties	Yes
11. Location of Board Meetings	To be alternated between the locations of the two parties for the first two years	Possibly
12. Test market for new CEO	Go to market, existing CEOs can apply	No
13. Due diligence	Must be willing to release information requested in a timely manner, included estimates of redundancy liabilities	No

14. Due diligence by third party	Would we be open to engaging a firm to do the due diligence on both parties?	Yes
15. Break fee	After signing 'Term Sheet', if a party wishes to withdraw, then a break fee of \$30,000 will be paid to the other party.	No
16. Financial viability	Other party / parties must have sound balance sheet with no major liabilities unaccounted for.	No
17. Liability for Redundancies	Need to uncover what exposure there may be for redundancies if a major contract or fund source disappears (them or us!)	No
18. Other		
19. Other		

## Sample MOU

# Memorandum of Understanding

Between X and Y

This Memorandum of Understanding (MOU) sets out the benefits and conditions of Reciprocal Membership Services between X and Y until such a time as either association wishes to amend this MOU, in consultation with the partnering association.

1. Any financial Y member who establishes short term or longer term residency in Australia is offered the full range of X membership services at no cost for the balance of the financial year from date of notification to the X. After the financial year has ended, it is expected that the Y member would take out financial membership of the X in order for services to be continued.
2. Any financial X member who establishes short term or longer term residency in New Zealand is offered the full range of Y membership services at no cost for eight months from date of notification to the Y. After this time, it is expected that the X member would take out financial membership of the Y in order for services to be continued.
3. The X services offered to Y members residing in Australia include but are not limited to:
  - The national bi-monthly journal
  - MemberPlus discount services on Home Loan, Insurances and Internet services
  - Invitations to all X professional development functions at X member prices
  - Access to the Information Resource Centre for research or study
  - Access to the X's internet site, including the members only sections
  - Educational Advisory Service if undertaking study
  - Access to JobLink, Resume Consulting Service and Experts Register
4. The Y services offered to X members residing in New Zealand include but are not limited to:
  - Yearly study programme
  - The national quarterly "NZ" magazine
  - Educational advice for those studying
  - Invitations to all Y Regional Committee functions
  - Entry to Young Professional of the Year Award if all relevant criteria are met.
  - Recognition of X qualifications

- Publications available at member rates
5. Members may contact their respective local association, or alternatively contact the association in the country they will be residing, to arrange inclusion on the respective association database.

# Merger Project: ABC and XYZ

November 2017

## Executive Summary

The XYZ association of New Zealand (XYZ) has reached a critical point in its history where its very existence is severely threatened.

Factors that have led to this situation include:

- The effect of continual restructuring and downsizing of the New Zealand XYZ industry on the available pool of members
- The lack of success in broadening the membership base to the broader financial services sector
- Diminution of the role of XYZ as an educational broker between the XYZ industry and educational providers
- Reduction of financial support from sponsor organisations in New Zealand to the point where XYZ would be unable to continue operations in the near future
- A limited selection of member services

As a consequence of the above, XYZ has approached the Australian ABC association (ABC) to investigate the possibility of a merger.

The ABC has increased its services to members significantly in the past two years, is now generating a surplus each year based solely on member services, and has developed a wide range of electronically delivered services that are independent of geographical location.

The ABC has agreed to assist the XYZ in developing a strategy to ensure that XYZ professionals in New Zealand are serviced by an appropriate industry association. There is a strong strategic fit, common vision, and benefits to members of both organisations from such a merger.

The main issue to be resolved is a commitment by the New Zealand sponsor organisations to continue to fund (albeit at a significantly lower cost) the XYZ for a 2 year period to enable the New Zealand operations to become self funding within the merged entity.

*The Executive Directors of XYZ and ABC met over three days to develop the following guidelines for continuance of merger discussions.*

## A. STRATEGIC ISSUES

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### **A1. Strategic fit for both organisations**

#### Historical

The ABC and XYZ have an historical strategic fit. The ABC of Australasia (the precursor to the ABC) was responsible for members in New Zealand until April 1976, when the New Zealand Chapter of the ABC severed connections and became the XYZ.

#### Membership

Both ABC and XYZ are individual membership non-profit associations. Membership grades are very similar (This is discussed in more detail later)

#### Strategic Directions

The ABC has seven key strategies developed in its Strategic Plan (2017). Strategy 2 states: “Investigate alliances/mergers with other associations in order to better service the finance industry”.

The two action plans under this strategy state:

##### Action Plan 2.1

Identify and negotiate alliance/merger opportunities with appropriate associations

##### Action Plan 2.2

Negotiate formal transferability of membership grades between relevant associations

The XYZ is currently experiencing reduction of organisation sponsored subsidy funding, similar to the ABC three years ago. The organisations in NZ are keen for members of XYZ to belong to a professional organisation based on the services provided by that organisation, not because the organisation pays for their membership.

## **A2. Mission/Vision**

The Vision and Mission statements are very similar for both organisations.

## **A3. Benefits of merger to members of each organisation**

### Benefits to ABC members

There are few tangible benefits to ABC members arising from this merger, however...

- Combined membership will increase from 12,680 (2016/17) to 14,670 in 2018/19, thus reducing fixed costs per member (although this will not be a large dollar amount per member)
- Members funds will increase by approximately Aud \$144,000 (retained earnings of XYZ)
- Major benefits will be available to XYZ members, who are faced with the extinction of their professional association and who will have access to the full range of ABC benefits and services, far in excess of their current benefits under XYZ

### Australian industry

- The industry in the region will benefit through a more rigorous and active educational monitoring and intervention role played by the ABC.

### Education sector

- This merger will enhance the transferability of educational qualifications between the two countries due to the consistency of educational policy towards educational institutions in both countries.

### Benefits to XYZ members

As above, plus

- Access to distance education/professional development through the website
- Qualifications gained in New Zealand would be recognised in Australia
- Access to research and information resources through the resource centre
- A more comprehensive merged journal that covers issues in Australia and New Zealand, with 6 issues per year rather than the current 4
- Resume consulting service
- Jobline 24-hour employment service
- Experts Register for consulting assignments
- Educational advisory service
- Increased professional development functions
- An organisation that is eventually self-funding, financially stable, and not reliant on organisation sponsorship, hence stability of services

## A4. Structural Options for Merging

### Option 1:

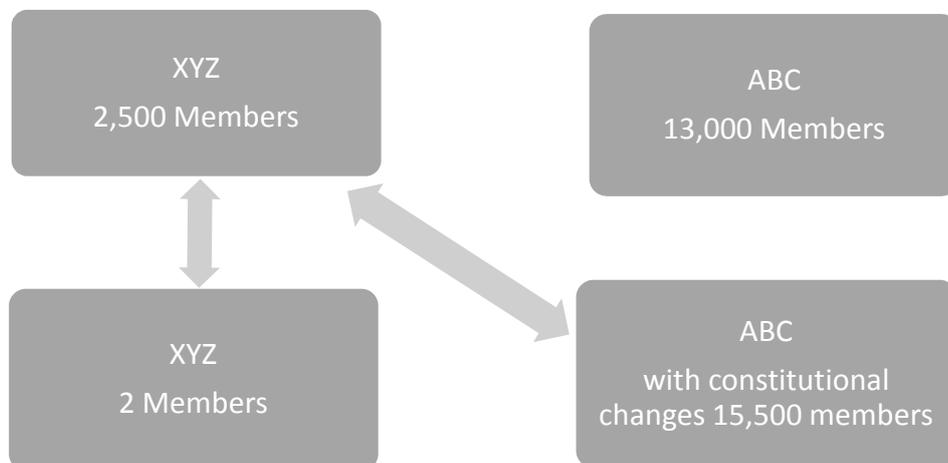
XYZ and ABC form separate company (not-for-profit), and transfer all assets and members to the new company. ABC and XYZ dissolve.



The disadvantages of this model include extra cost of creating a new entity, possible loss of tax exemption, and increased administration leading up to the creation of the new entity

### Option 2:

ABC and XYZ develop a Heads of Agreement concerning transfer of members and assets to the ABC, make any constitutional changes required by the ABC (including governance and name changes), XYZ retains its legal status for 2 years with 2 members and a small amount of cash at bank, then dissolves.



This option is easier to implement, retains the structural integrity of the ABC (including tax status), and allows for XYZ to retain its corporate shell in case there are any legal, contractual or administrative matters that cannot be sorted out before the merger.

Option 2 is the preferred option.

## **A5. Governance**

It is recommended that the governance structure of the two merged bodies include the following:

**Five** Board members nominated by the four major organisations in Australia and the major New Zealand organisation

**One** Board member from another relevant institution from Australia or New Zealand appointed by a Nominations Committee

**Six** Board members elected by members from all members in Australia and New Zealand, for a 4 year term

Total: 12 Board members

## **A6. Merger committee**

It is recommended that a merger subcommittee be formed in each country, comprising the Executive Director and two Board members, to review the merger plan before it is submitted to the respective Boards.

## **A7. Harmonisation of Membership Structures**

There are a number of minor changes that have been recommended to allow harmonisation of membership categories.

## A8. Cost Structure of Memberships

### ABC/XYZ Membership Comparison

	XYZ	ABC	* Convert ABC to NZ\$	Difference XYZ/ABC
<b>Type</b>	<b>NZ\$</b>	<b>AUD\$</b>	<b>NZ\$</b>	<b>NZ\$</b>
General	85.00	85.00	98.94	13.94
Sponsor Organisation member	60.00	-	-	(60.00)
Affiliate	30.00	100.00	116.40	86.40
Associate	85.00	115.00	133.86	48.86
Senior Associate	85.00	145.00	168.78	83.78
Fellow	100.00	180.00	209.52	109.52
Retired	45.00	35.00	40.74	(4.26)
Retrenched	45.00	35.00	40.74	(4.26)
Student	50.00	35.00	40.74	(9.26)
Life Member				
Accreditation		110.00	128.04	128.04
Membership Renewal	Rolling	July		
Conversion Rate			1.164	

\* NZ \$ required to pay for ABC rate

GST (NZ) not considered at present.

There are some major discrepancies between membership fees. It is proposed that the XYZ membership fees be increased over the next 2 years to bring them in line with ABC fees.

## A9. The role of Membership in merger approval

It is recommended that a Heads of Agreement be drafted, presented to the various Boards for approval, provided to members for comment, and a Special General Meeting be called for members to vote on any issues that affect the relevant constitutions.

## B. DUE DILIGENCE

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### **B1. Income and Expenditure**

The attached XYZ Budget projections show the XYZ actual 2016/17 results, projected 2017/18 actuals, the revised XYZ budget given significant reduction in costs identified as a result of a merger with ABC, and the budget for the years 2017/18, 2018/19.

XYZ currently have very limited income streams. To increase both the income from existing streams, and to create new streams, is the key to this merger being financially successful. XYZ is currently funded 64% by sponsor organisations. This funding will need to continue for two years to enable the merged operation to manage its income streams to match expenditure.

#### Details of first year of merger

##### *Increasing NZ income from existing streams*

- Membership and accreditation fees will need to be increased significantly in the next 2 years. This may also have an adverse impact on the number of members renewing. In return, the XYZ members will receive a number of new services.

##### *Increasing NZ income from new streams*

- Conferences and professional development activities will need to be developed.
- Sponsorships will need to be developed

##### *Decreasing NZ expenditure*

Significant savings have been identified from a merger.

- Salaries would decrease by \$80,000 NZ due to staffing restructure
- Journal costs would decrease by \$40,000 by merging the publications
- State expenses would increase, due to the proposed restructure of staff into regions
- Rent should decrease by \$20,000 due to decreased need for space and/or a new location
- Audit/professional fees should decrease by \$5,000 in the first year and then a subsequent further \$10,000 as the Head Office would prepare most of the material
- Course brochure costs would decrease by \$15,500 as a joint publication would be produced in a different format
- Printing and stationery would reduce by \$2,000 then a further three and then four thousand dollars in subsequent years as a number of current NZ activities would cease (some sponsorships, brochures etc)
- PR and advertising would decrease by \$7,000 as sponsorship arrangements that currently cost XYZ would be restructured to be cost neutral
- Scholarships and awards would decrease by \$35,000 as they would either cease or their format changed to be similar to the ABC, which generates a net return from scholarships

- Staff development would decrease by \$2000 as there would be less staff
- Staff expenses/recruitment would increase by \$4000 as new staff would be needed
- Telephone would decrease by \$8,000 as the current expensive PABX system would be sold, to be replaced by two single lines
- Travel and accommodation would increase by \$3,000 as there would be more regional activity and more visits between NZ and Australia

To date, we have not yet ascertained the cost of retrenchment or leave provision for NZ staff.

Given the assumptions on costs and income, the net result would be that merging with XYZ would generate a loss of AUD\$257,419 (NZ\$299,635) over 2 years unless XYZ sponsor organisations agreed to fund the deficit for those two years until the New Zealand operation was cost neutral. This funding required is 59% less than budgeted for in 2017/18. There should be no call on ABC or XYZ members reserves to fund the cost of merging.

## **B2. Assets**

Whilst XYZ has a number of office equipment assets, some are very old and will need replacing. The computer systems are unsuitable and are on loan from organisations. New capital expenditure will be required for 2 new computers, windows operating system, 2 printers, cabling, modems, internet software and ABC membership software. There is sufficient office equipment.

## **B3. Debts**

Neither XYZ nor ABC have any outstanding debts

## **B4. Cash flow**

Supplied

## **B5. Member surveys**

Supplied

## **B6. Past two years Board papers**

Supplied.

## **B7. Material contracts/sponsorships/MOUs etc.**

Supplied. There are no binding contracts that have expenditure commitments, except a XYZ lease contract that expires in May 2017.

## **B8. Any lawsuits**

There are no pending law suits

## **B9. Access to staff files**

Access to staff files has been arranged. XYZ will supply details of staff payout arrangements. The current contracts are that there will be 6 weeks payout for the first year of service, and 1 week per year thereafter. The CEO's contract expires in June 2018. Any costs of retrenchment need to be funded by a special levy on the sponsor organisations, not from members retained earnings.

## C. OPERATIONAL

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### **C1. Constitutions of both bodies:**

No prohibitions to merging, as long as members approve the necessary changes to the constitutions

### **C2. Current and potential staffing requirements**

An analysis of staffing at the XYZ and ABC was conducted. It was agreed that the XYZ Executive Director position could be phased out by June 2018, and that the other two staff would also likely be made redundant. Two new Executive Officer positions would be created, one full time in Wellington and one part time in Auckland. These positions would have similar responsibilities to the Executive Officer positions in the current ABC (position description attached).

The staff activities currently undertaken that would be retained in New Zealand include: Young Organisation Executive award, Scholar award, Liaison with members and institutions, certificate presentations, educational advice. The staff activities that would be centralised, but have input from the New Zealand staff and committees, include: Journals, publications, database, office management, computer maintenance, finances, strategy, governance

### **C3. Computer systems**

The XYZ member database would be transferred to the ABC membership database. New computers are needed in New Zealand. A full audit of ABC software and business operations, and a business continuity plan, will be expanded to include New Zealand operations.

### **C4. Membership database**

All XYZ data would be transferred to the ABC database. Auckland and Wellington would have online access to the database, read only, with all updates conducted centrally and sent electronically to all sites.

### **C5. Financial accounting and reporting and valuation of assets**

XYZ and ABC are both on accrual accounting, with similar sets of accounts, although XYZ has a July year end and the ABC has a June year end. The major difference is the ABC has a financial year membership renewal, whereas XYZ has an anniversary date renewal (ie members renew 12 months after they join, whatever month). Valuation of assets is historical.

## **C6. Badging of organisation**

It will be necessary to rebadge both ABC and XYZ to reflect the merger.

## **C7. Communication between staff sites**

This will be done primarily by email (both communications and transfer of documents/update of databases etc), as is currently done in Australia between National Office and 6 state offices

## **C8. Reserve Domain name**

A new Domain name will need to be reserved for the internet site, once a new name has been agreed.

## **C9. Caveat clauses in renewing or new contracts**

Any new contracts for XYZ or ABC should have wording similar to “The XYZ, or any like organisation which might result from a merger,....”

## **C10. Assigning of costs if merger falls over**

Each body shall be individually responsible for any costs incurred by that body during the merger process

## Summary of Merger Recommendations

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1. That XYZ and ABC sign the Heads of Agreement and continue discussions leading to a merger
2. That New Zealand organisations fund the XYZ operation by \$299,635 for 2018-2020 with a lump sum payment before July 31st 2018
3. That ABC retain its organisational and legal structure and revise its articles of association to accommodate XYZ operations
4. That the governance structure be as described in A5
5. That ABC and XYZ call a special general meeting of members to put the merger case to the vote (including proxies). There should be information sessions provided around Australia prior to the meeting. The relevant ABC rules are:

### *16. Special Meeting*

The Executive Director shall call a Special General Meeting of members at a location approved by the Board of Management ..... on such other occasions as may be deemed to be necessary by the Board of Management.

### *18. Voting Powers of Members*

At any properly convened meeting of members and unless otherwise provided in these Rules:

- (a) All questions for determination shall be decided by a majority of the votes of those present (which may be by a show of hands).
- (b) Every member shall have one vote.
- (c) Members may be represented by proxy provided that their proxy forms (as approved by the Board of Management at the time) are lodged with the Secretary at least 72 hours before the time fixed for the meeting.

### *19. Quorum*

The quorum at a meeting of the Board of Management shall be five, and at a meeting of the members convened under these Rules shall be 40.

## 6. Critical path

February: ABC and XYZ sign Heads of Agreement

April: Notification of impending merger vote and Special General Meeting in journal

May: Members vote at Special General meeting

July 1: Formal Merger

# Due Diligence: ABC and XYZ

Agenda of issues to be investigated

## Strategic

1. Strategic fit for both organisations
2. List of benefits of merger to customers of each organisation
3. Is it a merger (ie new body) or a Memorandum of Understanding (transfer of assets)
4. Merger committee (Pres/Vice Pres and CEO of each?)
5. Governance structure (What ABC/XYZ representation, how many on Board (not proportional representation))

## Due Diligence

1. Income
2. Expenditure
3. Assets
4. Debts
5. Cash flow
6. Any customer surveys
7. Past two years Board papers
8. Material contracts/sponsorships/MOU's etc
9. Independent legal advice
10. Any lawsuits
11. Access to staff files
12. Any pay out arrangements (this is often forgotten and unbudgeted, and can be very expensive)

## **Operational**

1. Constitutions of both bodies
2. Current and potential staffing requirements
3. Computer systems
4. Communication to customers and market about proposed merger (Q&A in journal, personal presentations, all communications to be joint etc)
5. Customer database
6. Financial accounting and reporting and valuation of assets
7. Badging of products and organisation
8. Communication between staff sites
9. Reserve Domain name
10. Reserve name with Office of Fair Trading or equivalent
11. Informal approach to ACCC re merger
12. Caveat clauses in renewing contracts
13. Financial modeling 3-4 years out
14. Assigning of costs if merger falls over
15. Budget for merger
16. Tax advice-status of new body, transfer of assets and losses (if any)

## **Preparation by both bodies**

Each organisation should provide copies of the following:

1. Strategic plans
2. Articles of association and any bylaws
3. Audited Income and expenditure statements for past 2 years
4. List of assets
5. List of debtors
6. Cash flow
7. Customer surveys
8. Past 2 years Board minutes

9. Details of material contracts/sponsorships/MOU's
10. Lists of any outstanding lawsuits
11. Current staffing and job descriptions
12. List of computers, peripherals and software
13. Details of customer database software and operation
14. Details of any Board policies on staff and finances

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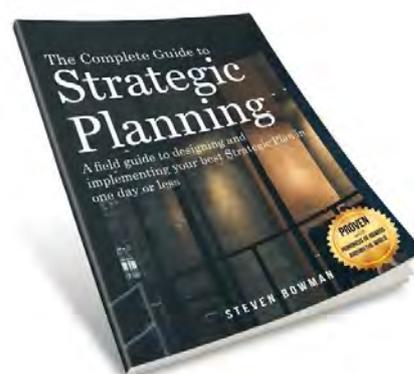


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