Mergers and Acquisitions: Implications for Social Services Leadership

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Abstract

Mergers and acquisitions are common occurrences in the for-profit sector. Driven by economic pressures, trends in globalization and/or growth strategies aimed to gain competitive advantage, businesses continue to look to mergers and acquisitions for future sustainability and increased value. More recently, the nonprofit sector and more particularly, Ontario’s social services sector is experiencing increased merger and acquisition activity. Largely reliant on government funding, social services organizations are increasingly pressured to reduce costs and improve service delivery. Government system change strategies including service integration and regionalization and the recent economic downturn all challenge social services leadership in sustaining and improving services while effectively responding to a changing environment as well as anticipating opportunities in merger and acquisition approaches.

The purpose of this study was to consider the implications of mergers and acquisitions in the social services sector. This conceptual paper reviews the current literature of mergers and acquisitions in the for-profit and nonprofit sector with a focus on improving outcomes by identifying critical success factors in the three merger phases: pre-merger, integration/transformation and post-merger. Emerging from this literature review is a social services merger roadmap.

Both for-profit and nonprofit studies on mergers and acquisitions indicate that few organizations reach their intended goals. Mergers and acquisitions are characterized in the literature as complex, disruptive and placing significant strain on the organizational human and financial resources of the merging organizations. In order to improve the outcomes of mergers and acquisitions in the for-profit sector, the literature identifies the critical success factors including independent and informed board oversight. These critical success factors require leaders with transformational leadership characteristics and a capacity to lead both day-to-day operations and mergers and acquisitions activities. Effective leaders must also maintain customer focus, emphasize organizational culture and climate issues and initiate processes that support continuous quality improvement.

Nonprofit mergers and acquisitions literature is comparatively limited in research and draws largely from the lessons of the for-profit sector. Similar to the for-profit sector, nonprofit mergers and acquisitions literature identifies the critical role of boards and leaders. Additional issues include merger and operational management, organizational culture and quality improvement efforts in achieving successful merger outcomes. These are all central issues that are required to achieve efficacy and long-term success. In addition, however, social services mergers and acquisitions have the key variables of
organizational mission that may present ideological conflicts in a merger situation and the diverse and potentially conflicting expectations of key stakeholders, some of whom are vulnerable and dependent on the organization and others whom are critical to the financial stability of the organization. Furthermore, the social services sector is widely recognized as having limited resources and capacity. To improve outcomes, social services organizations often need to build governance and leader capacity in order to effectively address the inherent complexities of mergers and acquisitions.

In consideration of the implications of merger and acquisitions in the social services sector, this study developed recommendations to improve outcomes. To develop and strengthen organizational assets prior to mergers and acquisitions, it is recommended that organizations build capacity to address the complex and shifting sector environment including investments in board and leader development as well as quality improvement knowledge skills and tools. It is also recommended that, prior to a merger or acquisition decision, social services boards and leaders undertake a thorough strategic planning process to ensure all options and optimal service strategies are pursued. The process of development, implementation and improvement of a comprehensive merger plan is recommended. Stakeholder engagement strategies and the building of collaborative connections are also recommended. The undertaking of an organizational cultural assessment and plan of action to address gaps, priorities and opportunities is recommended. Finally, the acquisition and application of relevant for-profit knowledge and tools to improve and enhance merger outcomes is recommended.

The nonprofit sector is faced with ongoing change and unpredictability. Social services leadership is challenged in identifying and implementing strategies that effectively sustain and improve services. Applying the knowledge of for-profit mergers and acquisitions experiences, leveraging the passion of the organizational mission and the interests and resources of stakeholders and community connections will have a significant impact on social service organizational capacity to address mergers and acquisitions, transform and thrive.
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Introduction

Mergers and acquisitions have become common business activities in the private sector. As governments tackle growing service costs and address concerns of consumers of public service, there is increasing pressure on social services agencies to collaborate, integrate or merge in order to reduce costs and improve service delivery systems. Terms such as integration, transformation and regionalization have become commonplace in the nonprofit sector. A merger is an activity that may be forced on or selected by a social services organization. Leadership in this sector faced the dual challenge of effectively responding to this changing environment and of foreseeing opportunities for mergers and acquisitions as an effective approach.

The purpose of this study is to consider the implications of mergers and acquisitions for social services sector strategy and the sector’s leadership. This conceptual paper reviews the current literature in the field of mergers and acquisitions in the for-profit and nonprofit social services sector with a focus on Ontario. An analysis of the literature identified key considerations critical to effectively leading social services organizations through merger phases. Emerging from the literature review and analysis, a social services merger roadmap was developed and is presented as Appendix 1.

Research Purpose and Research Questions

Social services sector leadership seeks strategies intended to sustain and improve services. Mergers and acquisitions, a growing trend in this sector, are undertaken as a response to resource limitations, government funding and strategy. Leaders in the social services sector are facing a challenging situation. The questions raised are:

- What is to be learned from mergers and acquisitions in the for-profit sector that can be applied to inform leaders in the social services sector?
- Are there differences between for-profit and nonprofit mergers and acquisitions?
- What are the strategic and leadership implications given this current social services environment of mergers, change and unpredictability?
- If social services leadership pursues merger/acquisition, what are the critical steps for success; adding service value for clients, staff and communities?
Literature Review

Mergers and acquisitions are one of the paths that for-profit and nonprofit organizations have travelled with the objective of addressing forces of change. Mergers and acquisitions are pursued with the intent of increasing and creating product and service value. The economic conditions over the past decade have led to another wave of mergers and acquisitions (Lafforet & Wageman, 2009). In the social services sector, organizations, with limited or reduced funding, are increasingly pressured to respond to growing social issues, complex individual client and community needs and expectations and to service system transformation (Benton & Austin, 2010; Field & Peck, 2003; IBM, 2008). Social services leadership and organizations are continuously challenged in creating value and sustaining service. More recently, economic conditions, political forces and emphasis on improved service coordination including decreased competition within the sector have added more pressure (Schroder, 2009). Faced with these forces, social services leaders are choosing mergers and acquisitions as one of the opportunity paths on which they are driving their organizations into the future.

This literature review explores current knowledge related to mergers and acquisitions with a focus on improving outcomes. It also extends to the social services sector including consideration of merger and acquisition motivations and improving outcomes.

Mergers and Acquisitions

Mergers and acquisitions are familiar phenomena in the business world. The following review defines mergers and acquisitions, explores the motivations for for-profit organizations relative to mergers and acquisitions, considers the effectiveness of this approach and identifies variables that may improve the outcomes of merger and acquisition activity.

A merger is an arrangement made by two or more companies to combine their assets under the name of one of the firms with the other(s) dissolving (Conybeare & Kim, D., 2010). An acquisition is a purchase of another company either by mutual agreement with the management or offer to buy made directly to the shareholders. In nonprofit literature, acquisitions are described as the complete integration of one organization into another with the one organization relinquishing independent existence and becoming part of the other organization (Campbell, 2009). In either circumstance, there is a major shift in control, disruption, significant involvement of resources and substantial elements of loss and gain. Ahern and Weston (2007) propose that the definition of mergers and acquisitions be should expanded to include actions such as joint ventures, alliances and
restructuring; all associated with financial strain and organizational adjustments. The decision to merge or acquire is a key corporate decision that typically results in substantial organizational change and requires significant resources.

The literature indicates that there are many merger and acquisition motivators for companies. Turbulent economic times and other environmental forces are consistently noted as primary forces in merger and acquisition decisions (Connell, 2010; Harris, 2010; Lafforet & Wageman, 2009). During an economic downturn, some companies may experience decreasing revenue and seeking sustainability while others may seize opportunities for competitive advantage through growth including merging or acquiring resources of previous competitors. Looking deeper into economic motivations, decisions to merge or acquire access or control markets and/or address cost issues through scale and scope are aimed at increasing market share, increasing efficiencies and achieving synergies unmet as individual companies (Conybeare & Kim, D., 2010; DiGeorgio, 2002a). Finally, globalization is considered a key driver (Connell, 2010). Access to international markets has significantly increased merger and acquisition activity in the past decade (Connell, 2010). Thus, it is evident that there are a number of forces that influence merger and acquisition decisions.

Despite the increasing activity with over $1 trillion global merger and acquisition transactions in 2007, research indicates that few mergers and acquisitions meet intended goals and a significant percentage fail (Ahern & Weston, 2007; Connell, 2010; DiGeorgio, 2002a). Michael Porter, in a interview on competitive strategy, cautions that mergers are not a strategy; engaging in a merger is a logical step along the value chain or a “distraction” (Argyres & McGahan, 2002; p9). Additionally, Porter also warns that mergers have been directly linked with companies’ poor performance and mergers fail because the focus is on “big” rather than “unique” (Argyres & McGahan, 2002; p9). Furthermore, mergers and acquisition have caused large scale disruption and decreased satisfaction and increased insecurity for employees (Rafferty & Restubog, 2010). It is evident that a decision to merge or acquire does not in itself guarantee positive outcomes for a company. In spite of the poor record of mergers and acquisitions, companies continue to pursue those opportunities (Connell, 2010).

**Improving the Outcomes of Mergers and Acquisitions in the For-Profit Sector**

Over the past decade, many researchers have been studying mergers and acquisitions, identifying practices and processes that improve outcomes. A systems approach to successful mergers and acquisitions is recommended by DiGeorgio (2002a).
proposes a framework that highlights key merger and acquisition stages and variables essential to successful mergers and acquisitions in the private sector. Other authors approach the study of mergers and acquisitions similarly, studying the overall organization and its environment, structures, interrelatedness of people and processes (Chatterjee, 2007; Harris, 2010). Furthermore, authors consider mergers and acquisitions in terms of timelines from early considerations to post merger (Appelbaum et al., 2000; Benton & Austin, 2010; Thach & Nyman, 2001). This section reviews research on improving outcomes of mergers and acquisitions considering primary merger phases - pre-merger, integration/ transformation and post-merger and related internal and external systemic variables.

**Pre-Merger**

**Strategy**

The decision to merge or acquire is important and seen as different from other decisions that a company makes (Connell, 2010). Good strategy is identified as the foundation of a successful merger (Cookson, 2004; DiGeorgio, 2002a). Ultimately, a strategy leading to a decision to merge or acquire is planned with the intent to add or create value. Porter (1987) studied firms’ resources and capabilities and business linkages, identifying four corporate strategy types – portfolio management, restructuring, transferring skills and sharing activities. Greater value is achieved as the strategy moves from portfolio management to sharing activity strategy (Porter, 1987). Mergers or acquisitions that present clear opportunities for transfer of skills or shared activities strategies, exploiting economies of scope, have been most successful (Porter, 1987). He cautions, however, that to be successful, these strategies require a baseline of good industry structure and sufficient resources and capabilities to successfully implement the strategy (Porter, 1987). Furthermore, Porter (1987; p46) presents three “essential tests” to assess potential value – attractiveness, cost-of-entry and better-off tests. When considering a diversification strategy, Porter stresses that it must be structurally attractive or capable of becoming structurally attractive, that related costs should not capitalize future profits and lastly that competitive advantage should be gained (Porter, 1987). Building on Porter’s work, Grant (2005) stresses importance of rigorous strategic analysis of any diversification decision and application of analytical tools that clearly identify the potential, or not, of economies of scope in resources and capabilities noting that such an analysis has resulted in many companies shifting from a merger or acquisition tactic, to collaboration.
Kumar’s (2009) study reinforces the importance of sticking with mergers and acquisitions that match firm strategy. This study identified that the merger and acquisition activities of companies in developing countries were creating more value than those of companies in developed countries. Sticking to the company’s strategic goals when making merger and acquisition decisions, was identified as the key success variable in the pre-merger phase. Harding and Rouse (2007) also stress that successful mergers and acquisitions are backed by strategic rationale.

Diversification strategies that seek synergy through mergers and acquisitions between similar but different businesses are often presented, in the pre-merger stage, as the opportunity for increased revenue and decreased cost (Chatterjee, 2007). In a study of synergistic mergers, Chatterjee concluded that many of these mergers fail. To improve the outcomes of these types of mergers, this study recommended firms “avoid high-pressure deals” and take the time to gain insight into the merger or acquisition target. He also noted that same industry mergers are less risky. Finally, if the source of revenue increase is unclear in the pre-merger phase, the study noted that there is greater value in seeking synergies through contractual partnerships (Chatterjee, 2007).

Most strategies require new resources and capabilities. Merger or acquisition may not be needed to satisfy the firm’s strategic goals. Capron and Mitchell (2010) propose achieving strategic goals through the simplest way first - beginning with internal development of resources and capabilities, moving to contracting with other firms and, only if necessary, moving to the most complex option of merger or acquisition. This research indicates that firms tend to be dedicated to one way of acquiring resources and therefore are limited in skills and implementation capabilities. The study concludes that mergers are one source of resource acquisition and if repeatedly used to achieve strategic goals, the firm will increasingly limit its resource-acquisition capabilities. Finally, this study recommends mergers and acquisitions when a close relationship with a provider clearly adds value (Capron & Mitchell, 2010).

Mergers and acquisitions are a challenging path that requires clear strategy. The literature on successful outcomes identifies that good strategy, including rigorous analysis of internal, external and the target firm in the pre-merger stage can result in value adding and/or creating and objectively guide mergers and acquisitions decisions.

**Governance**

Behind strategy is the skill and knowledge of the firm’s governing body and leadership and these capacities are applied to assess the firm and environment as well as make assumptions about the future (Harris, 2010). Boards are ultimately responsible for providing the strategic direction. The lack of strategic rationale is identified as one of the
three main reasons for merger and acquisition failure (Cookson, 2004). Thus good governance is a significant factor in improving the outcomes of mergers and acquisitions (Cookson, 2004; Weir, 1997).

In recent decades, weak governance has been a concern of shareholders and government resulting in legislation and increased attention to board member roles and responsibilities. The literature identifies many risks to organizations with weak boards including rubber stamping recommendations of overly optimistic or self-interest agendas or priorities of executives, having insufficient information to make critical "fork in the road decisions" or complex political agendas within a board that create polarizing factions (Harris, 2010; Lovallo et al, 2007; Sonnenfeld, 2002). Cookson (2004) identifies that boards seeking detailed strategic rationale including information and due diligence on the target firm will reduce the risk of merger failure. Selden and Colvin (2003) stress that mergers and acquisitions are ultimately about customers. Details about customers and customer profitability inform decisions. Furthermore, to protect the firm, protect shareholder value and avoid risk and director liability, board members seeking the assistance of expert independent advisors to help evaluate complex mergers and acquisitions proposals are better positioned to understand and address merger decisions (Cookson, 2004). Additionally, documentation of board deliberations and analysis as well as increased involvement of audit committees improves outcomes (Cookson, 2004). Sonnenfeld (2002; p109) suggests that, in addition to attention to rules, regulations and detailed and independent analysis of pre-merger plans, the way boards work together, the “human element”, improves outcomes. Boards that operate in a climate of trust, foster a culture of open dissent and evaluate their performance add value for the firm and the firm’s strategies (Sonnenfeld, 2002).

It is evident that in the early stage of mergers and acquisitions, governance is a key variable. Boards play a critical role, independently and critically analyzing merger and acquisition opportunities and challenges presented to them.

Leaders

Leadership is consistently identified as the key variable in successful mergers and acquisitions (Harris, 2010; Laffore & Wageman, 2009; Lovallo et al, 2007). The leader or executive of the firm are usually the initiator of merger and acquisition considerations; identifying and leading premerger activities. DiGeorgio (2002a) notes successful mergers are linked to leaders who “do their homework” to select the right companies. The literature also stresses the importance of leaders conducting rigorous due diligence within the organization, in analysis of the target organization and in objective assessment of future opportunities and challenges should the proposed merger or acquisition proceed (Bower, 2001; Harding & Rouse, 2007). DiGeorgio (2002a) also
notes the importance of accountability, recommending that leaders and their planning team have their bonuses tied to measurable success targets. Furthermore DiGeorgio (2002a) notes that pre-merger planning is usually the work of a many managers and that leaders need to have processes in place to prevent burn-out, retain and motivate this planning team.

There is a growing body of literature on the psychology of merger and acquisitions and specifically leaders’ cognitive biases (Auster and Sirower, 2002; Bower, 2001; Lovallo & Kahneman, 2003; Lovallo et al., 2007). These studies point to leaders’ tendencies to react to waves of mergers and acquisitions activities, join the “feeding frenzy” without connecting to the firm’s strategic goals, to be overly optimistic and confident as well as underestimate cultural differences, time, money and resources. Studies recommend a “targeted debiasing” approach to making mergers and acquisitions more successful (Lovallo et al., 2007). This approach includes seeking out contrary opinions and evidence, learning about and comparing to other similar deals and application of best practices, conducting human due diligence, seeking independent advice and having back-up plans and alternate options.

The literature refers to characteristics of leaders that lead to successful mergers and acquisitions. In the pre-merger phase, these characteristics include being open to rational and thoughtful discussion about options, high level emotional and social skills in relating to people and capacity to focus on the demanding premerger activities as well as day-to-day work of the firm (DiGeorgio, 2002a; Lafforet & Wageman, 2009; Thach & Nyman, 2001).

**People and Processes**

In the pre-merger phase, studies are primarily focused on the overall strategy and data on merger and acquisition revenue enhancement and cost savings. Issues related to the bringing together of two or more organizational cultures are considered critical in the implementation stage of mergers and acquisitions (Schein, 2001). However underestimation of cultural differences in this early stage can cause problems (Appelbaum et al., 2007a; Lovallo et al., 2007). Harding and Rouse (2007) posit that most mergers and acquisitions depend on people not dollars. They recommend human due diligence prior to a merger decision including assessment of decision-making roles, culture, capabilities and employee attitudes of the target firm. With information on the target’s people and processes, the firm is better informed of merger risks and benefits and reduces risk of losing talent immediately after the merger is announced and ultimately decreases risk of long-term attrition. More immediately, this information may serve to reinforce the decision to merge or acquire, inform price or end the deal.
DiGeorgio (2002a) identifies that learning mechanisms in the pre-merger stage are linked to successful outcomes. These mechanisms include measurement systems and feedback loops that share and build knowledge and processes that integrate pre-merger knowledge with the next stage work. DiGeorgio recommends benchmarking and developing learning groups across firms and industries to develop meaningful best practices in mergers and acquisitions. Finally, this study notes that successful companies have involved an integration team, usually a part of the post-merger decision-making process, in the pre-merger stage. Integration teams help the pre-merger planners think through the merger or acquisition, an added-value practice that offers a deeper understanding of potential opportunities and pitfalls (DiGeorgio, 2002a).

Building on this practice of thinking beyond the merger or acquisition decision, researchers reinforce the importance of thinking ahead, noting that companies which develop “post-close” transition plans have better merger and acquisition outcomes, (Adolph et al., 2006). They recognize the potential complexity of two or more companies exploring coming together including keeping people engaged, different corporate cultures, management distractions, reluctance to share information or unwillingness to follow timelines. Working on a detailed plan following the merger decision prepares the companies for the integration/ transformation phase.

The pre-merger phase is about the decision. However, the analysis and planning informs the decision and prepares firms for successfully moving forward. The common message across mergers and acquisitions studies are that decisions to merge or acquire are best made after all other options have been explored. If concluding a merger or acquisition is the preferred tactic, early stage rigorous analysis of resources and capabilities sets the stage for a successful merger.

**Integration/Transformation**

Once the decision to merge or acquire has been made, the integration phase begins. Studies indicate that most mergers fail at this execution stage (Adolph et al., 2009; Appelbaum et al., 2007b). The top two internal reasons for failure are attributed to poor leadership and differences in organizational culture (Deloitte, 2005). The merger or acquisition is now bringing together differing corporate structures, management styles, cultures, employee expectations and policies and processes. After a time of uncertainty and ambiguity and with the merger or acquisition finalized, firms now shift to more micro work processes, integrating the efforts of two organizations and creating conditions for emergent change that leads to transformation of the firm (Lauser, 2010).
Strategy

Studies on the early stages merger or acquisition integration point to the importance of a well-defined and articulated strategy (Conference Board of Canada, 2005). The strategy provides the two merging firms and employees a unifying focus and a context for the work of integration. The strategic intent – why the firms are coming together, what is the degree of integration and what is the context of the merger or acquisition – gives meaning and direction to the work ahead for board, leadership and employees. Furthermore, studies point to the importance of early identification and communication of goals linked to the strategy in order to effectively lead the integration process (Thach & Nyman, 2001). Additionally, Adolph (2006) recommends the development of guiding principles linked to strategic intent. These principles then reinforce the reasons for the merger and how the firms will work together to integrate and transform.

Governance

The literature presents a number of key elements that governing bodies address in the integration/transformation stage. Harris (2010), in a study of the Deloitte and Touche merger, identified that critical “fork in the road decisions” made the governing body and leadership including recreating organizational strategy and culture to be responsive to the needs of clients as important steps to merger success. In the early integration stage, the board and key leader, initial planners of the change, develop the vision and mission for the new organization and make the critical future decisions. However, as the new firm organizes, governance and leadership support of transforming opportunities for “emerging change”, new and better processes to handle the work of the organization, leads to increased value creation (Lauser, 2010; p21).

If the leadership is shifting, selection of a leader will be a top priority for the board. The right leadership is viewed as critical to a successful merger (Adolph et al., 2009). In a study of leadership of organizational transitions, Appelbaum et al. (2008) identify that leaders with a transformational leadership style including building trust, promoting a high level of employee participation and establishing a caring organization structure, are more effective in leading organizations through transitions such as a merger. Furthermore, leader style does affect employee satisfaction with transformational leadership style having the strongest relationship to merger satisfaction (Covin et al., 1997). In addition to the selection or the leader of the merged firm, boards of both organizations must address governing body functioning including membership. While a potentially sensitive issue, the merger of two boards can result in securing skilled and knowledgeable board members (Carey, 2000). Additionally, communication of board and leadership roles is identified as a best practice in mergers and acquisitions (Conference Board of Canada, 2005). Communication with employees to provide
inspiration and vision for the new organization is valuable in supporting the work of employees and reinforcing the direction of the firm (Ahern & Weston, 2007). Finally, the literature stresses the board’s critical role in closely monitoring and evaluating this integration/transformation process including the leader’s performance (Ahern & Weston, 2007; Cookson, 2004).

Leaders

Throughout the literature, the skills, knowledge, traits, plans and actions of the leader are directly linked to the success or failure of the integration/transformation phase. Leading the integration/transformation process, making decisions about human resources, firm structure and business priorities, communication to customers, employees and external stakeholders, attending the day-to-day business and organizational culture are a few of the many identified tasks of leadership after a merger or acquisition (Thach & Nyman, 2001). This section on leadership and successful outcomes in the integration/transformation phase will begin with some core leadership best practices or successes noted in the literature. Specific critical variables including culture, communication, people and successful measurement will follow.

Critical first steps for success in this integration/transformation stage are the development/confirmation of an organizational structure, which may be transitional, and key senior leadership positions and roles defined and successful candidates selected (Conference Board of Canada, 2005). DiGeorgio (2002b) notes that these early decisions send strong messages to employees and stakeholders about the direction of the firm and “how things are going to be different”. While this is a very busy time for the leader and decisions have to be made quickly, firms that develop an open and objective recruitment process including the identification of core competencies for senior leadership of the new organization are more successful in mergers and acquisitions (DiGeorgio, 2002b). Early attention to key positions in the firm is a critical success factor (Thach & Nyman, 2001). Of note, is that fault lines in senior leadership lead to merger failure (Lafforet & Wageman, 2009). These authors stress the importance of building an aligned leadership team is an early priority. Additionally, in a period of ambiguity and uncertainty, senior leaders, managers and employees, generally, may be experiencing fear of job loss, if from the acquired or small merged firm, feeling inferior or experiencing loss of social standing and/or their commitment to the new organization fading. Lafforet and Wageman (2009) stress that taking too long to select and communicate positions and roles results in loss of key talent and higher attrition. Finally, DiGeorgio (2002a) notes a best practice for especially larger, complex and/or multiple mergers and acquisitions of an “integration manager” position. Applying integration best practices, an integration manager and team enables dedicated and knowledgeable
integration human resources to plan and oversee all merger or acquisition processes (DiGeorgio, 2002a).

Better outcomes result when leaders put in place strategies to integrate and engage people at all levels and provide clear expectations about responsibilities and accountabilities (Deloitte, 2005; Lafforet & Wageman, 2009). Several authors stress the value of a developing and communicating a roadmap with clear 30/60/100/120 day plans (Conference Board of Canada, 2005; DiGeorgio, 2002b). By having plans in place for the first day of the newly merged firm, leaders are communicating many messages about direction and priorities, beginning engagement with employees and reducing uncertainty (Thach & Nyman, 2001).

Employees need clear direction for mergers and acquisitions to succeed (Appelbaum et al., 2007b). Integration project teams also require clarity regarding objectives, accountability and overall vision (Conference Board of Canada, 2005). As well, leaders in successful mergers attend to the ground rules of the teams’ work including how decisions are made and how conflict is managed. Furthermore, the literature suggests that leaders achieve best results when they target the most important, priority integration actions early in the process (Lafforet & Wageman, 2009). With day-to-day work and competing demands, integration/transformation plans may become altered or neglected overtime. Leaders setting clear accountabilities with report back mechanisms for plans and closely monitor progress realize more successful outcomes (Adolph et al., 2006).

Studies note decreased productivity due to merger stress and anxiety (Carey, 2000; Schein, 2001; Thach & Nyman, 2001). Leaders who involve employees in more decision-making on employee-specific work issues, emphasize each employee’s value in the merger and encourage/respond to employee feedback on how to improve customer service, including opportunities for innovation and creativity, enable more successful integration/transformation (Conference Board of Canada, 2005; Thach & Nyman, 2001).

A key variable identified in the literature is the leader’s unyielding focus on the customer. Studies indicate that successful integration/transformation leaders pay close attention to points of customer contact, customer services and support and regularly seek customer feedback (Conference Board of Canada, 2005; Lafforet & Wageman, 2009). Ultimately, the leader is seeking uninterrupted service and, in the first days of integration, at least maintaining if not improving service quality.

Successful leaders also keep a close connection with all stakeholders (Adolph et al., 2006). With the announced merger or acquisition, the firms’ stakeholders may be
concerned. Stakeholders including suppliers and contractors may be concerned about their future relationship and impact on personnel. Leaders who have gained insight on stakeholder viewpoints and issues, developed early outreach plans or adjustment plans and have linked with these stakeholders help maintain critical business activity and reduce volume of negative responses to the merger.

Thach and Nyman (2001) present a leadership model for mergers and acquisitions. This model identifies six major skill categories to improve merger and acquisition leadership competencies. These categories are:

- Emotional acknowledgement – recognizing and effectively responding to and managing the emotional reactions common to mergers and acquisitions;
- Work and customer focus – keeping employees engaged in their work and responsive to customer needs;
- Communication cubed – stressing the importance of frequent, informal and formal communication, using a variety of channels and across the firm;
- Motivation and incentives – recognizing and effectively responding to the range of recognition needs of employees;
- Creativity and involvement – taking advantage of the unique opportunity in this integration/transformation phase to create or improve new processes; and
- Merger and acquisition savvy – a leader’s ability to appreciate and manage the dynamics and activities of a merger including their own personal reactions (Thach & Nyman, 2001; p147-149).

Throughout the literature on mergers and acquisitions, authors point to the need for speed - acting quickly and decisively - as a best practice in the early stages of integration/transformation (Conference Board of Canada, 2005, DiGeorgio, 2002b; Thach & Nyman, 2001). The rationale for this perspective includes minimizing periods of uncertainty, employee retention and signalling the real direction and energy of the newly grouped firm. There is emerging literature that suggests the contrary. Kanter (2009; p122) in a study of the “human side” of integration suggests a more successful, over the long-term, leadership approach to mergers. Leaders in this study are “welcoming hosts and eager learners” rather than sprinting into integration action on day one (Kanter, 2009; p125). The leaders in this study were described as valuing and facilitating relationships with strategies such as having both companies operating side by side to give employees a transition period, then begin to facilitate connections and finally creating a new business model for the emerging new company (Kanter, 2009). Kumar (2009), in a study of successful emerging third world business giants, indicates that their corporate leadership are not quick to disturb acquisition’s management structure, systems or people with the intent of supporting a smoother transition and giving
opportunity for synergies to emerge. These recent findings perhaps signal a shift in mergers and acquisitions strategy, changing economic circumstances and/or new approaches to managing the challenging aspects of culture.

Culture

Organizational culture is the shared values and beliefs that influence the way people work in their organization. Organizational culture is shaped by leadership, people, organizational structures and processes and the firm’s internal and external environment (Deloitte, 2005; Appelbaum et al., 2007b). Culture is a powerful force in individual and group behaviour and unique to each organization (Buono et al., 1985). Culture evolves over the lifetime of an organization shaping how employees perceive their organizational environment and organize and conduct their work activities and processes (Buono et al., 1985). The objective part of culture provides familiar symbols and subjectively, provides shared meaning (Buono et al., 1985).

Much of the work of mergers and acquisitions is about culture. Deloitte (2005) stresses that there is no true merger of equals and therefore understanding the dynamics of organizational culture and implementing strategies to effectively manage culture are critical to all mergers and acquisitions activities. In a study of merging companies, Malekzadeh and Nahavandi (1990) indicate that success of mergers is linked to proactive management of cultural aspects including the acculturation method best suited for the merger situation. These authors identify four methods for merging cultures (Malekzadeh & Nahavandi, 1990). These four methods for merging two cultures are:

1. Integration Method - most effective when the organizations are relatively balanced and there is a high likelihood of sharing of practices and comfort with different cultures.
2. Assimilation Method - wherein the acquired company supports the acquiring company’s culture, is the recommended method when the acquired company culture is weak.
3. Separation Method - merging companies remain distinct entities requiring different cultures.
4. Deculturation Method - one company imposing its culture on another; a method generally considered destructive for the acquired firm and offering little long-term value (Malekzadeh & Nahavandi, 1990; p.56-57).

Therefore, understanding the dynamics of organizational culture and the unique circumstances of each merger are important in achieving a successful merger outcome.
Culture is a key business resource and can be managed and changed (Schein, 2001). In the integration/transformation stage, one of the main roles of the leader is working through the cultural differences between the integrating firms often with the aim of transforming the cultures both “old” firms (DiGeorgio, 2002b; Thach & Nyman, 2001). Firms most successful in managing culture begin early to define elements of the desired future culture elements and reflect these in the new firm strategy, selection of leadership, organization structures and priorities (DiGeorgio, 2002b). It is noted that identifying gaps between the current and desired culture assist in targeting specific areas for attention (Deloitte, 2005).

Leadership sets the tone for the new firm culture. Schein (2001) identifies a range of initiatives and practices that assist in the management of organizational culture issues in mergers and acquisitions. These initiatives and practices include the following:

- Acknowledging that the firms may have been prior competitors and/or one firm larger than the other, leaders adopting a stance of “morale neutrality” on which side is superior or inferior, including close attention to subtleties of language as well as rejecting the “myth that we are all the same” (Schein, 2001; p5);
- Use of cultural audits and employee surveys to identify conflicts and track integration success including employee confidence;
- Recognize and leverage relational capital together with intellectual capital in both firms;
- Focus on negotiation, listening, empathy, coaching, mentoring and persuasion skills including training for managers;
- Cultivate mergers and acquisitions champions;
- Ensure human resources are working closely with operations;
- Communicate regularly with emphasis on face-to-face contact; and
- Find balance amongst conflicting goals and objectives by moving and helping others move from entrenched positions (Schein, 2001; p4-7).

The success of this integration/transformation phase depends on how organizations are brought together including communication, work processes and priorities (Deloitte, 2005). Each action or inaction communicates messages about the new culture and the cultures of the legacy organizations (Deloitte, 2005). To help strengthen the new organizational identity, Buono et al. (1985) recommend increasing opportunities for new shared experiences to hasten the creation of new symbols and shared meanings amongst employees. Furthermore, it is recommended that blending and maximizing the best of both organizations, honouring the legacies of organizations and addressing employee merger stress and anxiety are important steps in addressing culture (Schein, 2001).
In conclusion, organizational culture is a powerful force and source of influence in the integration/transformation stage. The literature stresses that understanding and leveraging culture are necessary to achieving successful outcomes in mergers and acquisitions.

**Communication**

In the integration/transformation phase, communication becomes a major variable (Lauser, 2010). In addition to communication strategies noted earlier, studies emphasize the need for forthright, honest and frequent communication with employees; including sharing bad news, realistic goals and expectations about the firm’s future and anticipated barriers (Appelbaum et al., 2007b; DiGeorgio, 2002b). DiGeorgio (2002b) indicated that people have grown tired of change and improvement initiatives in their workplace and are listening to hear what this means for them and, through the message communicated, receive signs that the merger is being well-managed. Communicating a realistic picture of current and future expectations builds trust, reducing misunderstandings and incorrect expectations. Studies stress that speaking the truth is essential to effectively addressing the emotional challenges of integration (Lafforet & Wageman, 2009). Additionally, Adolph et al. (2006) recognize that leaders have a natural tendency to withhold information, legitimately and often related to public disclosure. However, the authors’ research indicated that better outcomes resulted when leaders told employees what they could, what they couldn’t share at the moment and why and when they could tell them. Communication of messages that inspire, appreciate and respect the work of employees has also been identified of as an effective tool in maintaining morale and “avoiding paralysis” during challenging and time consuming integration activities (Carey, 2000; p153).

Studies indicate that communication in the integration/transformation stage requires planning and use of a variety of ways to reach people. Thach & Nyman (2001) highlight the value of informal and formal two-way communication channels, one-to-one connections through meetings and walking the hallways, frequent staff meetings, surveys, open door policy and communicating even no news as this is news. DiGeorgio (2002b) adds hosted forums, networking opportunities and the importance of reaching every employee to this list of possible communication strategies. Finally, DiGeorgio (2002b) cautions that actions are louder than words. The actions of the firm’s leadership will send strong messages to staff.

Customers may receive messages from outside sources such as a news story on the firms’ merger/acquisition, through interactions with employees and through formal firm communications. Thach & Nyman (2001) study stresses the importance of connections with customers to offer reassuring messages. Additionally, points of
employee/customer contact need to be supported and tracked and quality customer service be communicated to both customers and employees through the customer’s experience of the firm’s customer focus priorities as well as the support and engagement of employees in maintaining and improving this service (Thach & Nyman, 2001).

Communication with stakeholders is another key variable. Adolph et al. (2006) stress the importance stakeholder outreach in a successful mergers and acquisitions. With attention largely focused on employees and the many internal tasks of integration, it is important that the firm identify and communicate early and often with all stakeholders from suppliers to communities (Adolph et al., 2006). Again, as with employee communication open, honest and consistent messages, in words and action, help the firm’s goodwill and ultimately value.

**People**

Human capital is essential to mergers and acquisitions. In order for the integration/transformation phase to be successful, leaders need to secure the commitment of employees (Appelbaum et al., 2007b). Lauser (2010) stresses employee participation in this merger phase is critical. Thus the integration/ transformation processes and priorities initiated by leadership need to support the engagement and efforts of all employees. Studies indicate that employee participation in decision-making processes decrease resistance to change and increase employee willingness to consider and facilitate workplace changes (Appelbaum et al., 2007b). Furthermore, employing effective change management strategies, employee stress can be transformed into positive experiences (Appelbaum et al., 2007b).

Studies also emphasize that successful mergers/acquisitions are characterized by leadership that maintains an "unyielding focus on employees" (Appelbaum, 2007b; Conference Board, 2005). Simply put, by addressing employee concerns, employees remain focused on the needs of customers. It is important to renegotiate, with employees, performance objectives and follow-up closely on progress; providing leadership support and focus (Thach & Nyman, 2001). Research indicates that employees appreciate the extra attention from leadership. As well, opportunities for training and development and room for experimentation are effective variables in mergers and acquisitions (Thach & Nyman, 2001).

**Successful Measurement**

Monitoring and improving the quality of the mergers and acquisitions is an essential variable for success in this integration/transformation phase as well as into the post
merger phase. At the front end, identifying baseline information and setting of benchmarks, including financial, that can be tracked and related to both cost savings and revenue growth are suggested (Adolph et al, 2006). The following measures have been suggested:

- Talent retention;
- Speed to market;
- Customer feedback;
- Employee feedback;
- Service problems; and
- Product problems (DiGeorgio, 2002b; p 273)

DiGeorgio (2002b) also emphasized the importance of supporting a climate that encourages open sharing of issues and continuous drive to fix issues and improve.

The integration/transformation phase of mergers and acquisitions is a time of intense activity, high risk and increased anxiety. The literature indicates that careful attention to strategy, people and processes can lead to successful outcomes. Research in this integration/transformation phase leads to two overall mergers and acquisitions observations. Firstly, mergers and acquisitions alone cannot create strong companies (Ahern & Weston, 2007). It is the work of the leadership and employees of the firms that create strength and ultimately value. Secondly, mergers are all about relationships (Lafforet & Wageman, 2009). Identifying, building, maintaining, respecting and /or enhancing relationships in the integration/transition phase is a critical variable.

**Post-Merger**

The literature describes the post-merger phase of mergers and acquisitions as a time of stabilization, performance or assimilation (Benton & Austin, 2010; Lauser, 2010; Schein, 2001). The firm is at the stage of beginning to capitalize on success. These authors suggest that firms successful in reaching this phase have new culture is established, values and beliefs in place and there are adjustments being made to settle with the new culture and organizational elements. Key variables in this phase include governance, leadership, people, identity and quality, with organizational culture a fundamental element within all these variables.
Governance

At this phase, the literature suggests that merged boards need support in their reorganization (Benton & Austin, 2010). As the firm emerges, board members may need to review their fit with the firm including size, membership and committee structures. As well, the literature notes that boards may have lost members through the mergers and acquisitions and other board members may be ambivalent about the new firm. Attention to risk related to governance at this phase is essential for the retention of valuable board members and to ensure alignment with and oversight of the firm (Benton & Austin, 2010).

Leaders

Authors indicate leaders remaining focused on merger or acquisition priorities, with somewhat less intensity, are more effective in addressing barriers to success (Benton & Austin, 2010). In particular, attention to the employee concerns and tracking early outcomes of the merger related to human resources, enables leaders to identify and address issues that may not have been evident or are now just emerging with greater stabilization. Issues identified at this phase include continued competition amongst the previous firms’ employees/teams, skill or knowledge deficits, targets unmet and feelings of loss/mourning (Benton & Austin, 2010).

People

While the early stages of the merger or acquisition are over, employees may still be experiencing confusion and stress (Benton & Austin, 2010). In particular, managers may be most at risk as they implement new processes, encourage and support the work of teams/employees. Providing support and resources for managers and employees aimed at increasing job satisfaction and commitment to the firm are noted as essential practice. Best practice noted at this stage includes continuing to develop tools, processes and language that support the work and commitment (Ashkenas et al., 1998). Additionally, authors note providing training and education, supporting management exchanges across the firm and continuing to gather feedback from staff are also best practices in this phase. Finally, studies indicate that it is common for a period of mourning as the old firm disappears and the new one is in place. Acknowledging this loss and allowing opportunity to grieve lead to a stronger connection to the firm (Benton & Austin, 2010).

Identity

With the settling of the new firm, authors note people may have trouble transferring their loyalties. In particular, issues related to the size of the merging firms (one larger than
the other and more dominant) and the high or low status may influence employee feelings of inferiority or superiority, commitment to the firm and job satisfaction (Benton & Austin, 2010). Furthermore employees who remain with the firm and are dissatisfied with the merger or acquisition outcomes can negatively influence other employees. While some unrest continues during stabilization, the literature indicates that a stronger identification with the new firm is developed through opportunities to build quality relationships, ongoing communication, work opportunities and achievement and continuous support from the firm. As board, management and employees experience positive outcomes from their contributions to the new firm, their identification with and their investment in the firm grows.

Quality

In the post-merger phase, most processes are in place and being managed (Lauser, 2010). With most systems integrated, the literature indicates that successful firms move into continuous quality improvement (Lauser, 2010). With a focus now on results, leaders continue to focus on the customer, employees, processes and outcomes. Lauser (2010) cautions firms can become too comfortable and less flexible at this stage, missing opportunities for innovation and unprepared for the changes that may be necessary in the future.

Conclusion

Mergers and acquisitions are a common occurrence in today's business world. With growing knowledge around the success and failures of mergers and acquisitions, critical success factors are being identified. As governments and nonprofit leadership strive to improve service and transform organizations and systems, insight as to the merits and pitfalls of mergers and acquisitions in the business world may assist the social services sector in effectively responding to changing internal and external environments.

The Social Services Sector

The following review will provide a brief description of the social services sector and consider this sector's current environment. A review of mergers and acquisitions literature specific to this sector will be undertaken with a focus on improving nonprofit merger outcomes including identifying the differences, if any, between for-profit and nonprofit mergers and acquisitions.
Social services organizations, for the purposes of this paper, are nonprofit organizations primarily funded through government revenues to provide specific social programs for citizens at risk. These organizations provide services such as personal care, child welfare, income security, community development, day care and seniors’ services. Social services organizations are knowledge driven. Social services organizations tend to have a community focus and attention to specific populations (Barr et al., 2005). Anheier and Seibel (1990) stress that nonprofit organizations play important social, economic, educational, and political functions in society.

In 2003 there were 19,000 social services organizations with the majority being registered charities (Imagine Canada, 2006). Social services organizations are the third largest type of nonprofit and voluntary organization and tend to have more paid staff than volunteer human resources (Barr et al., 2005). In Ontario, there are 9,000 nonprofit social services organizations with government funding of $13 billion annually (Social Planning Toronto, 2010). The Ontario social services sector employees represent 28% of the provincial workforce and this sector’s volunteer contributions are the equivalent of 620,000 full-time workers (Social Planning Toronto, 2010). The contribution of the social services sector to the Ontario economy is estimated to be $7.6 billion in revenue (Social Planning Toronto, 2010).

Generally, social services organizations tend to have larger revenues than other nonprofit organizations however; similar to other nonprofits, they are challenged financially and with limited human resources to meet the demand of both clients and funders (Imagine Canada; Stowe & Barr, 2005). The literature also indicates that these organizations usually operate with few resources, are characterized as limited in management capacity, lacking fundraising capabilities, restricted in accessing best practice information, idealistic in service approaches and tied to structures and service interests that are no longer relevant (Austin, 2003). Thus, the social services sector is a significant part of Canada’s nonprofit resource pool, characterized by relatively larger revenues but limited in capacity.

The social services environment has been shifting. There have been significant changes in the in the nonprofit sector in the last decade (Eisenberg, 2005). These changes include reduction in government revenue, funding directed to project rather than core operations and increased challenges in recruitment and retention of qualified staff (Barr et al, 2005). The literature also highlights the growing public and government demand for nonprofit accountability and results (Eisenberg, 2005; LeRoux & Wright, 2010). Charitable organizations’ donors are increasingly interested in and often requesting a voice in how their donations are used. Furthermore, public confidence or
trust in nonprofits has decreased due to incidents of questionable use of public and donated funds (LeRoux, 2010).

Various community and health partners outside the social services sector have experienced significant changes in structures and responsibilities such as the regionalization in health care and shifts in municipal and provincial responsibilities (Elson, 2009). This systems change has begun in the social services. In Ontario, eighteen child and family services agencies have been requested by the government to consider amalgamations, mergers or new partnerships with neighbouring agencies (OACAS, 2011). Other Ontario social services organizations have been strongly encouraged to develop cross-sector partnerships and increase service integration under two recent government policy frameworks that call for greater service integration (Boydell et al., 2009).

The interdependence between government and social services in addressing the problems of the community has enabled beneficial collaborative efforts in addressing social concerns but has more recently stressed a power differential as governments move to change the client population and service delivery models (Golensky & DeRuiter, 1999). In addition to improved accountability at the individual organization level, governments have focused on the lack of service coordination, service fragmentation and duplication, service gaps, conflicting agendas, variation in services to address similar problems across organizations and regions and limited evidence of positive performance linked to public investment (Commission to Promote Sustainable Child Welfare, 2010; Field & Peck, 2003, NWLHIN, 2008; Ministry of Child and Youth Services, 2005). Issues of unconstructive competition amongst organization and parochial attitudes and behaviours were also identified as barriers to good service (Elson, 2009). Governments have also pointed to the public’s difficulty in securing and receiving timely service (Ministry of Child and Youth Services, 2005). Furthermore, in this period of economic downturn and increasing service demands, governments are pressuring social services organizations to demonstrate use of evidenced based practices, to show that the public’s investment is resulting in efficient and effective services and to closely collaborate or merge with community partners (Commission to Promote Sustainable Child Welfare, 2010; NWLHIN, 2008).

The intended outcomes expected, if these government priorities are addressed, include improved social services sector quality of care through integration and standardized service including consistent use of evidence based practice. As well, governments are looking for increased accountability through quality monitoring and improvement. Finally, with a cost saving agenda, governments are promoting these sector changes as the path to an improved financial and service picture; turning around the trend of
increasing service costs in order to sustain public service into the future (Elson, 2009). Current literature assessing the achievement of such objectives in the nonprofit sector suggests that there has been limited success (Elson, 2009; Field & Peck, 2003; Schroeder, 2009).

As a result, there are current pressures both internal and external to the social services sector. One of the most pressing forces is the emphasis on service collaboration and integration including mergers and acquisitions. Despite mixed reviews on the success of mergers and acquisitions in both nonprofit and private realms, pressure on leaders to transform service systems continues.

**Mergers and Acquisitions in the Social Services Sector**

The literature indicates that motivation to merge within the social services sector is similar to the private sector (Grant, 2005; Austin & Benton, 2010). These motives include survival, reduction of competition amongst service organizations, preservation of/or improved image, strengthening community visibility, expansion of services and acquisition of new resources. Over the past fifty years, human service programs have grown and wide range professionals and advocates have emerged to serve persons at risk (Agranoff, 1991). Challenged in improving service including reducing service gaps, providing comprehensive care and making the most of limited funding, there has been growing interest and recognized value in bringing human services together. Furthermore, funding sources are requiring greater accountability and pressuring organizations to demonstrate more cost-effective results (Giffords & Dina, 2003). Campbell’s (2009) study of leadership mergers and acquisitions motivations indicated that the rational for mergers primarily related to financial and/or service resources. In situations of environmental uncertainty and limited capacity to manage these uncertainties, leaders sought linkages with other organizations. Growth was identified as the primary motivator for larger nonprofit organizations (Campbell, 2009). Finally, Golensky & DeRuiter (2002; p170) propose that mergers in the nonprofit sector are driven by a “moral imperative”, the right thing to do for client service, the staff and organizational objectives.

Mergers and acquisitions continue to be proactive or required considerations for nonprofit leaders. The motivations to merge are similar to the for-profit sector with the literature suggesting two key differences. First, in the nonprofit sector, there is a real or perceived altruistic motivation driven by a mission to serve persons at risk (Golensky & DeRuiter, 2002). Secondly, the funding decisions and strategies of government strongly influence merger considerations (Benton & Austin, 2010; Shaw, 2002). Finally, similar to
for-profit firms, studies of nonprofit mergers and acquisitions indicate that they too have not realized the financial benefits predicted (Field & Peck, 2003).

**Improving the Outcomes of Social Services Sector Mergers and Acquisitions**

Researchers have studied the mergers and acquisitions in the nonprofit sector. This section reviews research on improving outcomes of nonprofit mergers, considering primary merger phases - pre-merger, integration/ transformation and post-merger. Building on the research earlier in this report, this section will seek to identify merger variables different from the for-profit sector or unique to the nonprofit organizations.

**Pre-Merger**

**Strategy**

The literature on mergers and acquisitions in the nonprofit sector focuses on internal and external pressures that lead organizations to consider a merger. Nonprofit strategy tends to address resource scarcity and environmental uncertainty and less emphasis on growth and expansion (Wernet & Jones, 1992). Initially, nonprofits tend centralize operations as a way to address resource concerns. Two other strategies, used by nonprofits are diversification, broadening the range of services offered to clients, or specialization, focusing their efforts on what they do best and targeting a specific client need (Wernet & Jones, 1992). Strategic alliances including limited integration are also common ways for nonprofits to address pressures and improve client service (Agranoff, 1991).

As with for-profit firms, a decision to merge or acquire is viewed as different from other decisions (Benton & Austin, 2010). Case studies on nonprofits mergers describe nonprofit mergers which are typically between neighbouring providers and similar service providers, suggesting a sharing activity strategy, a strategy considered most successful according to Porter (1987). The Golensky & DeRuiter (2002) study indicates that nonprofit mergers are most successful when merging organizations have complimentary services and have a history of cooperation and collaboration. In a recent study of knowledge intensive organizations, Zaheer et al. (2010), note that strong prior alliances lead to better merger and acquisition outcomes.

Throughout the literature, authors reference the nonprofit organization’s mission as the guidepost for decision-making (Connelly, 2004; La Piana & Hayes, 2005). However,
over the past twenty years, nonprofit organizations have grown in numbers, complexity and assets. Along with this growth there has been increased competition (Dolincar et al., 2008). Nonprofits have been changing from a strategic model of community participation to a corporate strategic model and competitive positioning. Connelly (2004) reminds that while developing strategy can cause tension between nonprofit missions of addressing human needs and fiscal restraint, there are opportunities. He suggests that boards can be very innovative and disciplined while remaining focused on the nonprofit’s social mission (Connelly, 2004). Thus nonprofits may have to address and balance the tensions of organizational missions with the competitive approach to funding when developing strategy.

As with for-profits, authors stress the importance of nonprofits conducting a strategic analysis, internal and external, to better inform decision-making and to identify the potential, or not, of economies of scope (Golenski & DeRuiter, 1999; Wernet & Jones, 1992). However, one of the challenges for nonprofits is limited resources to conduct thorough analysis (Agranoff, 1991). Furthermore, non-profits need to consider multiple stakeholders making the development of strategy somewhat more difficult (Brown & Iverson, 2004). One of the key stakeholders, government funders, underscores a complex and potentially conflicting interdependence that challenges strategy (Dolincar et al., 2008; Herman & Renz, 2004). Nonprofit organizations are funded by government to provide public services, having responsibility for delivering of services originating from government strategies. Another key stakeholder is the community/people the organization represents (Abzug & Galakiewicz, 2001). The challenge for nonprofits in developing and implementing strategy, especially when contemplating a merger or acquisition outcome, is the potential ideological conflict related to whom they represent – their constituents or themselves. Using legitimacy of their purpose to gain money and support may not be perceived as constituent focus. Thus nonprofit merger strategy is complex and potentially fraught with conflict. A strategy leading to a merger may be a reactive step largely driven by government or a proactive, autonomous step made by a nonprofit to better manage those external pressures.

Golenski & DeRuiter (1999), in a study of nonprofit mergers, identify focusing on results of an environmental scan, understanding that the merger is a developmental process, having a clear picture of financial implication and developing and following a strategic plan as good practice for nonprofits. Thus a strategic analysis is both challenging and critical in a merger or acquisition decision in adding value for clients of nonprofit organizations.
Governance

Initially, it is usually the nonprofit board that initiates and drives the pre-merger process and attends to the legal obligations of the organization (Benton & Austin, 2010; Golensky & DeRuiter, 2002). La Piana & Hayes (2005) suggest that nonprofit boards’ merger deliberations differ greatly from for-profits in this pre-merger negotiations phase. For-profit boards are focused on the bottom line and nonprofits seek financial rationale such as cost saving, solvency and shared resources. Golensky & DeRuiter (2002; p178) stress that when considering merger, boards enter negotiations “for the right reasons”, focusing on the mission. The mission is the boards’ driving force. If the merging organizations have similar missions and the proposed merger offers advancement of the mission, there is greater board support in negotiating a merger or acquisition.

Several other observations of authors indicate that national nonprofits are less likely to merge and a merger of a number of organizations is challenging as it is difficult to keep the partners together and committed (Campbell, 2008). Thus, the key success variables in nonprofit board consideration of mergers and acquisitions are compatibility of missions, relationship of trust and commitment of partner(s) are important variables.

As with for-profits, in recent decades there has been greater attention to nonprofit board accountability, roles and responsibilities (Connelly, 2004; Herman & Renz, 2004; Mwenja & Lewis, 2009). Added to the oversight of public funds and donations and moral responsibilities, nonprofit organizations have grown in size and complexity requiring board members to assume significant stewardship responsibility as well as expertise or access to expertise to address complex business challenges. Nonprofit studies indicate that organizations that strive to improve their performance including board governance contribute positively to good organizational performance (Brown & Iverson, 2004, Prybil, 2006). Prybil identifies the following characteristics of effective nonprofit boards:

- Corporate philosophy and policies that support governance structure and functions in the organization so that there are clear expectations, resources and oversight;
- Board and CEO roles and responsibilities are consistent are clear;
- Commitment of CEO in building strong governance structure and practices;
- Ongoing board development program including development and training that is responsive to changing needs;
- Ongoing access to key information and agendas that focus members’ time and energy and
- Core governance processes including regular board performance evaluation, CEO evaluation and quality service review (Prybil, 2006; p20-22).
Connelly (2004) adds that nonprofit governance is improved when the board member connection to the mission is strengthened and boards are focused on better defining and measuring mission success. Connelly stresses that developing board member appreciation of and skill in managing the nonprofit tension of balancing competing interests of mission and financial restraint shifts board attention from the narrow aspects of the organization to the broader internal and external issues critical for good governance. Connelly presents five critical success factors:

- Explicitly defining and measuring strategic success relative to the mission using indicators and benchmarks;
- Explicitly defining board responsibility and commitment to board development;
- Commitment to board diversity;
- Commitment to development of board culture and independent oversight and
- Focused and well organized board meetings (Connelly, 2004; p10-18).

In addition to core good governance practices, authors note that that boards need to find the right fit to best organize themselves in order to perform good governance (Herman & Renz, 2004; McClusky, 2002). McClusky (2002) indicates that nonprofit governance and leadership need to consider board, leadership and management roles in the context of the nonprofit’s situation. Variables to consider include organizational size, stage in the nonprofit’s life cycle, level of trust/confidence between the board and CEO, executive transition, organizational crisis and/ environmental factors including changes in funding or pressure to merge. Depending on these circumstances, levels of governance responsibility may shift such as engagement with staff in managerial levels while addressing complex challenges such as service collaboration or mergers. Finding the right fit for nonprofit board roles and responsibilities and gaining governance expertise within an environment demanding greater accountability challenges nonprofit board resource decision-making and innovation. With client service the organization’s funding priority; the organization’s social mission can present a moral conflict for board members considering investments in good governance. The literature emphasizes that investing in good governance leads to better organizational performance and provides a critical base of knowledge and processes for boards addressing complex merger decisions (McClusky, 2002).

Benton & Austin (2010) suggest that the proactive approach in nonprofit mergers and acquisitions results in better outcomes. A reactive approach implies deficiencies in governance and leadership decision-making and resources. Having studied elements of successful mergers, these authors recommend that boards be aware of the organization’s financial situation and take proactive steps rather than having to respond to a financial crisis. When organizations are not pressured to merge, the driving force
for mergers is the mission (Gazley, 2010). If boards select the option to merge, best outcomes result when boards establish goals that detail desired outcomes, select an organization with compatible mission, vision and values and plan sufficient time and resources for the merger and have a transition team and manager (Benton & Austin, 2010; p475). Finally, studies indicate that nonprofits may not fully appreciate the time, human and financial resources that need to be dedicated to mergers (Benton & Austin, 2010). Planning for this substantial investment and acknowledgement that the merger could take several years before there is a true blending of operations and cultures improves merger outcomes.

For best outcomes, researchers suggest that nonprofit boards enter into merger discussions as partners and interact as equals since harmful rivalries put the organizations at risk (Harris, 2010; La Piana & Hayes, 2005). Campbell (2008) emphasizes trust as a key variable when making a merger decision. The literature suggests that nonprofit boards seek expertise in the field of mergers and acquisitions including having a board member from business with merger and acquisition experience (La Piana & Hayes, 2005). Similar to for-profits, the literature stresses the importance of a rigorous due diligence process, including cultural assessment, when negotiating a merger (Benton & Austin, 2010). Given the interdependence of government and nonprofits, early discussions regarding mergers with government is essential to successful outcomes (Golensky & DeRuiter, 1999).

Governance of nonprofit organizations has grown in complexity. With increasing service and funding pressures, cross sector partnerships and even mergers are brought to the board table. As leaders in this process, the skills and knowledge of the board are critical in pre-merger deliberations and negotiations.

**Leaders**

The literature suggests that these are not times for “faint of heart” nonprofit leaders (Trimnell et al., 2010; p125). Individual leadership skills are important however environmental forces including rapidly changing systems, society and global situations are important variables for nonprofit leadership. The tensions and conflicts evident in the nonprofit sector are similar to and linked to the regional, national or global forces (Trimnell et al., 2010). The literature stresses the need for nonprofit leaders to encourage innovation, encourage honest conversation and to function within a complex and dynamic environment, both within and external to the organization (Austin, 2003; Trimnell et al., 2010). It is within this context that nonprofit leaders are considering and negotiating mergers and acquisitions.
Similar to leadership of for-profits in the pre-merger stage, the nonprofit literature identifies leaders having a key role in the success or failure of mergers and acquisitions (Benton & Austin, 2010). Leaders need to be knowledgeable of the implications and processes of mergers, most especially the cultural factors. The literature suggests that, in comparison to for-profit leaders, nonprofit leaders may have limited skills or experience required to lead a merger process (Giffords & Dina, 2002; Golensky & DeRuiter 2002). Nonprofit leaders may be more accustomed to informal approaches. Giffords & Dina (2002; p79) suggest that leadership of a mergers and acquisitions requires nonprofit leaders to take a more “business approach”. Leadership consideration of a merger must be made within the context of strengthening and maintaining the organization’s capacity to ensure reliable client service. Moreover, these authors emphasize the need for leaders to focus on the economic environment, taking into account the “nonprofit marketplace” (Giffords & Dina, 2002; p80). Golensky & DeRuiter (2002) suggest that since mergers are complex and uncertain, leaders need to take a broad systems perspective, the blending of internal and external factors, when considering the compatibility of organizations. This research indicates that leaders undertaking a mission-driven approach to merger deliberations advance a more effective merger processes.

Similar to for-profits merger and acquisition literature, authors have explored the characteristics and motivations of nonprofit leaders. Authors suggest nonprofit leadership merger “savvy”, balancing the rapidly changing environment without “selling your nonprofit soul” as a characteristic of nonprofit leaders (Giffords & Dina, 2002; p80). Gazley’s (2010) study suggests that nonprofit leaders base their attitudes on collaboration not only within the context of the current organization experience and environment but also on their background. These findings suggest that some leaders may be more or less predisposed to mergers and acquisitions considerations and may negatively influence organizational outcomes. Leadership motivations such as power, status, money and/or personal agendas compromise the quality of the rigorous analysis critical to effective merge decision making (Field & Peck, 2003). Research suggests that better outcomes result when leaders enter into merger negotiations with an approach of respect and willingness to work for the good of the mission (Golensky & DeRuiter, 2002).

Leadership in the nonprofit pre-merger phase is critical. The literature indicates that the skills, knowledge and experience of leaders as well as their values orientation have an impact on merger and acquisition outcomes. Finally, in comparison to for-profit leadership, merger knowledge and points of reference may be limited, causing some leaders to be unprepared for the complexity and challenges of mergers and acquisitions.
People and Processes

In the pre-merger stage, for-profit negotiations are usually kept confidential until a formal announcement. In nonprofit sector, government pressures and/or organizational responsibilities and accountabilities may make the pre-merger deliberations public knowledge. The literature indicates that communication with all stakeholders, most especially staff and volunteers, is essential (La Piana, 2005). Similar to for-profit, in the pre-merger phase analysis and planning related to key variables of people and processes, merging culture and leadership better informs the organizations of merger risks and benefits (Benton & Austin, 2010). Bringing together an integration team to work through the integration process is also consistent with for-profit mergers and acquisitions literature.

One general observation of differences between the two sectors is that for-profit mergers and acquisitions are often between large national of multinational businesses (DiGeorgio, 2002a). Nonprofit merger studies identify mergers between two or more small, compared to for-profit, organizations within a limited geographic area (Giffords & Dina, 2003; Golensky and DeRuiter 1999; Golensky and DeRuiter, 2002). This difference suggests merging nonprofits may have resource and familiarity issues which require greater attention to people and processes.

Stakeholders

While the for-profit literature notes shareholder and stakeholder considerations in the pre-merger phase, nonprofit literature on mergers and acquisitions suggest that nonprofit stakeholders are a key variable. Usually nonprofit organizations have a responsibility to a range of stakeholders with diverse expectations (O'Regan & Oster, 2005). Stakeholders include clients, employees, volunteers, funders, donors, patrons, public, communities (geographic, interests, needs), vendors, licensing bodies, professional associations, accreditation bodies and often multiple government funders (Basinger & Peterson 2008; Herman & Renz, 2004). Nonprofit stakeholders can present a significant challenge for nonprofit organizations as they often have diverse expectations (O'Regan & Oster, 2005). When nonprofit boards and leaders consider mergers, there is potential for barriers or opposition including clients fearing loss of service, professional associations advocating for specific professional groups within the organization, political or administrative government barriers and public opinion that may sway community support (Agranoff, 1991). Engagement with stakeholders is a good practice for nonprofits and government support in essential (Golensky & DeRuiter, 2002; Herman & Renz, 2004). In the pre-merger stage and throughout the merger or any transition process, studies indicate that leaders need to have processes in place for regular communication with key stakeholders in order to assess the potential effects of
the planned changes on these relationships (Basinger & Peterson, 2008). Research indicates that access to information or lack of access to information had a dramatic impact on how various stakeholders interpreted the process and outcomes of the change. Furthermore, secrecy and the lack of openness and exclusion of employees and other key stakeholders lead to poor change outcomes (Basinger & Peterson, 2008). Herman and Renz (2004) indicate that regular and on-going dialogue with stakeholders informs nonprofit organizations of changing needs and expectations of stakeholders as well as helps nonprofits inform and shape the expectations of stakeholders. Additionally, La Piana & Hayes (2005) note collaboration with stakeholders can help to improve the work of the organization, adding value and further the mission. Thus, in nonprofit mergers and acquisitions, engagement with key stakeholders is a critical variable in improving outcomes.

Integration/Transformation

With a decision to merge or acquire, the literature stresses the significant time and resources required of nonprofit organizations in the integration/transformation phase (Giffords & Dina, 2003). In the for-profit integration/transformation studies, the focus is on effective allocation of resources to realize cost-savings and increased revenue while the nonprofit literature identifies lack of resources to dedicate to this merger phase. The budget size of nonprofits and government limitations on the use of funds may place organizations at a disadvantage, with limited human and financial capacity to effectively address the stages of a merger (Gazley, 2010). Both for-profit and nonprofit studies agree that the integration/transformation of the organizations is time consuming and disruptive. As well, both for-profit and nonprofit studies show that merger failure is linked to organizational culture issues (Golensky & DeRuiter, 1999; Field & Peck, 2003).

Strategy

Similar to for-profit firms, the development of clear strategy and strategic intent linked to the mission best guides the organizations through the integration/transformation phase (Giffords & Dina, 2003).

Governance

Non profit governance studies on the integration/transformation phase focus on the role adjustments and cultural issues of newly merged boards. With increased organizational complexity and size, Giffords & Dina (2003) note that a traditional nonprofit board will need to shift orientation from internal, operational details to an outward orientation, considering resources, the environment and the future. La Piana & Hayes (2005) stress...
the important role of the board membership as models for staff and champions of the integration process. As nonprofit mergers tend to have boards merging, authors recommend that board membership be equally represented from the legacy organizations. Additionally, integration efforts are better served by recruiting new board membership to gain new skills and perspectives needed for effective governance of the organization. While honouring the old organizations, the board best governs but focusing on the new organization and its future (La Piana & Hayes, 2005). The mission is stressed as the key variable for board consideration and as the guidepost for the board, leadership and the organization (Connelly, 2004; Golensky & DeRuiter, 1999).

The literature indicates that attention to governing culture is important in this phase (Benton & Austin, 2010). Exploring and identifying the patterns, traditions and practices and desired governance culture early in the development of the new board help to engage the board and improve performance (Prybil, 2006). Prybil’s dimensions of governance culture include:

**Some Dimensions of Governance Culture** (Prybil, 2006)

<table>
<thead>
<tr>
<th>Low-Functioning Board</th>
<th>High-Functioning Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Passive &amp; reactive</td>
<td>• Intensely interested &amp; engaged</td>
</tr>
<tr>
<td>• Unclear priorities</td>
<td>• Sharp focus on well defined governance priorities</td>
</tr>
<tr>
<td>• Spotty attendance with low energy level</td>
<td>• High attendance &amp; enthusiasm</td>
</tr>
<tr>
<td>• Lot of listening/little discourse</td>
<td>• Extensive questions/dialogue &amp; deliberation</td>
</tr>
<tr>
<td>• Challenges &amp; disagreements are squelched</td>
<td>• Constructive dissent &amp; debate welcomed</td>
</tr>
<tr>
<td>• Decision-making is pro forma</td>
<td>• Decision-making enlivened</td>
</tr>
</tbody>
</table>

The literature on good governance of nonprofits including merging nonprofits suggests greater success and value when boards adopting a more corporate approach to governance. With increased size and complexity of nonprofit organizations, common business activities and focus including outward orientation and future directed, quality improvement processes, entrepreneurial initiatives, marketing and resource development are now being described as essential adaptations recommended for nonprofit organizations and their boards (Giffords & Dina, 2003). However, adopting entrepreneurial practices and paying greater attention to the “hard” issues such as monitoring and evaluating organizational performance may challenge board culture, create tension between the mission and external pressures and threaten the uniqueness of the nonprofit culture (Giffords & Dina, 2003; p71). This shift in nonprofit
governance likely reflects changing environmental forces and the life cycle of nonprofits (McClusky, 2002). Finally, in a recent study of best practices for nonprofit boards governing changing organizations the following practices are identified:

- Draw a line between board and management work to ensure that the board retains the ability to “see the big picture” and not involved in the day-to-day operations;
- Board members add value by developing other resources for the organization, including involvement in fund raising;
- Primary responsibility of effective boards is setting policy and general direction of the organization;
- Boards identify key financial objectives and ensures the budget is aligned, being accountable to the stakeholders who are not involved in budget development;
- Effective boards regularly evaluate the work performance of the CEO;
- Effective boards evaluate programs and services;
- Boards attend to membership recruitment, keeping members able, broadly representative and active;
- Boards broaden the base of community support, positively representing the organization and programs to stakeholders and the community at large and
- Planned and ongoing board training and education positively influences board functioning (Zimmerman & Stevens, 2008; p196-198).

Finally, studies indicate that board attention to the time and resources required to merge nonprofit organizations is also essential (Golensky & DeRuiter, 1999). Authors note that, compared to for-profits, nonprofit organizations have fewer resources available. With stretched schedules and budgets, governance oversight of resources and processes is valuable in supporting the merger work (La Piana & Hayes, 2005). Additionally, board participation in a steering committee to provide oversight is identified as a good practice (Benton & Austin, 2010).

**Leaders**

The quality of leadership in nonprofit mergers is the critical success factor in the integration/transformation (Cripps & Carter, 2007). Similar to for-profits, leading nonprofit organizations through this phase requires awareness of process and human elements (Benton & Austin, 2010). The authors caution that nonprofit leaders, while perceived to have more appreciation for the human side of mergers than for-profit counterparts, do not necessarily effectively address common merger issues such as staff morale, staff involvement and organizational culture (Benton & Austin, 2010).
The nonprofit literature highlights many leadership skills and characteristics that are similar to for-profit leadership in the integration phase. Critical areas of nonprofit leadership skill and knowledge include sharing an inspiring vision, effective communication skills and strategies, teamwork and development and monitoring of performance measures (Austin & Benton, 2010; Field & Peck, 2003; Golensky & DeRuiter, 1999). The leader’s capacity to champion change, address organizational culture, be trustworthy, have strong consultation skills, decision making capacity and maintain day-to-day operations while having an eye on strategic potential are considered strong nonprofit leadership characteristics vital to a successful merger (Cripps & Carter, 2007). Similar to for-profits, developing and implementing an integration plan is essential (Benton & Austin, 2010). Unlike for-profits, nonprofit literature again stresses the importance of the organization’s mission and the leader’s role in championing the mission as the driving force, linking integration/transformation activities directly to the mission (Gazley, 2010). In a study of hospital mergers, researchers found that mergers had better outcomes when staff believed that the merger would result in better care for patients (Shaw, 2002). In addition to highlighting the motivation of many nonprofit staff, these results reinforce the importance of both communications of the reasons for the merger, encouraging two-way communication including staff surveys and ultimately communicating the results of the changes.

Field & Peck (2003) caution that a leader’s language used to communicate merger integration rationale and processes is important. The language used to communicate some government strategies are value laden and provoke negative responses. Words such as “transformation” and “reform”, often used to describe changes may alienate rather than gain the needed support and participation of stakeholders.

Finally, a number of researchers point to valuable knowledge and experience of the business world as offering guidance for nonprofit leaders (Benton & Austin, 2010; Field & Peck, 2003). Nonprofit studies indicate that there has been little evidence to date that the advice and experiences of the business world has been heeded (Field & Peck, 2003).

**Culture**

As with for-profits, organizational culture is linked to failure of mergers and acquisitions (Field & Peck, 2003). Golensky & DeRuiter (1999) studies indicate that nonprofit organizations underestimate the power of organizational culture and the length of time required to develop a new culture. Researchers suggest that nonprofits need to realize that the integration/transformation phase is not “business as usual”, acknowledging the challenges of and need for change while appreciating the time and patience required when “creating an organizational soul” (Giffords & Dina, 2003; p80). In a merger study...
of four agencies, researchers emphasize a balanced approach to building trust and control through the change (Teram & Igra, 2005). They suggest that talking about culture is a process of “reality construction” that offers staff a way to see and understand events in distinctive ways (Teram & Igra, 2005; p46)

In a recent study on organizational culture, there was a positive relationship between cultural consensus and transformational leadership characteristics and negative relationship between cultural consensus and centralized leadership approaches (Jaskyte, 2010). These results suggest that transformational leadership practices in mergers and acquisitions may lead to greater cohesion around the new organizational values.

Benton and Austin (2010) recommend the following steps nonprofits can take to attend effectively to culture:

- Providing frequent, open and honest communication including enabling opportunities to build trust and respect;
- Involving staff in planning and building the new organization;
- Creating opportunities for staff to grieve the loss of the former organization and celebrate the new organization;
- Recognize organizational differences and similarities and employing activities specifically designed for blending cultures;
- Exploring methods to maintain job satisfaction through the merger process, building trust and motivation and
- Recognizing the strength of organizational identity and work to minimize status of dominance conflicts including seeing the merger as an opportunity to enhance identity (Benton & Austin, 2010; p475).

In the nonprofit sector, as most staff work directly with a vulnerable population, researchers stress the importance of focusing on the human relationships (Giffords and Dina, 2003). Staff satisfaction may have a direct impact on client services. Therefore, seeking and addressing the concerns of staff is critical.

On review of the nonprofit literature exploring mergers and acquisitions and culture in the integration/transformation stage, it is evident that nonprofit mergers face challenges similar to for-profit firms. The human experience is a primary focus of this literature.

Communication

Throughout the nonprofit literature the importance of communication in the integration/transition is noted, similar to the review of for-profits and integrated in within the governance, leadership and culture review. Unlike for-profits, however, is the
importance of effective communication with external stakeholders to successful outcomes in this integration/transformation phase (Golensky & DeRuiter, 2002; Herman & Renz, 2004). Effectively communicating with key stakeholders including government, clients and communities helps nonprofits to identify services issues during this phase as well as maintain support and resources critical to long-term development (Herman & Renz, 2004; Piana & Hayes, 2005).

Post-Merger

In the post-merger phase, the nonprofit literature draws largely upon the lessons of the for-profit sector including the attention to good governance practices and support for the reorganization, leadership focus on achieving the goals of the merger or acquisition and quality improvement activities (Benton & Austin, 2010). In a study of nonprofits mergers, authors noted that most organizations met merger targets within three years (Golensky & DeRuiter, 2002).

Researchers identified opportunities for nonprofit organization in the post-merger phase. The merged social services organization may now be resourced and organized for new strategies such as marketing (Golensky & DeRuiter, 2002). Additionally, with decreased competition for limited funds, merged organizations may be better positioned to improve the funding base (Golensky & DeRuiter, 1999). La Piana and Hayes (2005), in a comparison with for-profits, note that the economic rewards may not be the same for nonprofits however, successfully merged nonprofits in the post-merger phase benefit from an enhanced mission, reduced overhead and accessible resources.

Several post-merger challenges for nonprofits were identified in the literature. One concern identified by researchers is fear expressed by nonprofits about future pressures and in particular, the changing demands of government (Shaw, 2002). As well, with mergers in the nonprofit sector, the costs of the merger are more public. The expectations of public and staff, if unmet, may become an issue in the larger community as well as a political issue. Thus identifying and addressing the needs of key stakeholders including engagement and communication processes are important for nonprofit mergers.

Finally, the literature emphasizes the importance of monitoring and improvement processes. While the initial focus is about bringing people and resources together, authors indicate that the organization must shift to organization-wide dialogue on outcomes, results and quality improvement goals (Golensky & DeRuiter, 1999). In
addition to measuring how the organization is achieving the mission, authors stress that the importance of frequently communicating organization quality.

**Conclusion**

Nonprofit mergers and acquisitions literature identifies many of the successful processes and practices of the for-profit sector as applicable for nonprofits. Characteristics of nonprofits including funding sources, mission and relationships with stakeholders are noted as key nonprofit merger variables. The literature suggests that nonprofit leadership may not be aware of mergers and acquisitions best practices in the for-profit sector or may not have the resources required to effectively implement these practices. As well, the literature in the nonprofit sector generally emphasizes the human element, offering limited specific detail on practices for nonprofit leaders. Finally, the literature indicates that the success of these mergers is largely the responsibility of the leader and the strategies selected critical to the future of the nonprofit organization.

**Research Design**

This conceptual paper was developed through a comprehensive review of literature related to key areas of study including mergers and acquisitions, nonprofit and social services organizations, governance, leadership and strategy. The literature was primarily drawn from a timeframe of the past 10 years.

Specifically, this study looked at the current literature related to mergers and acquisitions in both the for-profit and nonprofit sectors. This review of mergers and acquisitions sought to identify lessons learned, best practices and any other aspects that offered insight to success or failure of mergers and acquisitions. The social services sector and more generally the nonprofit sector literature related to mergers and acquisitions, characteristics and challenges and opportunities common to this sector were explored. Finally, drawing upon the lessons learned from this study, a merger roadmap for the social services sector was developed.

Upon review of the literature, an analysis of the key mergers and acquisitions variables for social services sector was undertaken. Specifically, this section sought to identify essential processes and opportunities that would add service value and better position social services to respond in this environment of mergers and acquisitions. Completing this study was the creation of a social services sector merger roadmap that synthesized and applied effective activities and key priorities gathered in this study.
Analysis

The literature review highlights that mergers and acquisitions, in both for-profit and nonprofit organizations, are compelling, complex and disruptive undertakings requiring skilled and knowledgeable governance and leaders to achieve a successful outcome. The literature review on mergers and acquisitions recognizes both similarities and differences between the for-profit and nonprofit sectors. Emerging from the literature review, the following analysis will identify key considerations critical to effectively leading social services organizations through the three phases of mergers and acquisitions. A social services merger roadmap drawn from the literature review and analysis proposes key elements for nonprofits undertaking merger/acquisition activities (see Appendix A).

Pre-Merger Phase

Strategy

The pre-merger phase is primarily focused on the merger or acquisition decision. However, social services organizations experience government pressure to merge that may limit the organization’s ability to assess the potential value of a merger or consider less disruptive collaboration options. With the mission as the guidepost for decision-making, non-profit organizations are challenged in developing strategy that meets their mission of addressing human needs in a financially and politically pressured environment. However, innovative strategies may offer non-profit organizations options to both successfully manage merger pressures without compromising their social mission. In order to develop innovative strategies, organizations will need new processes, skills, knowledge and linkages that create opportunities to realize these strategies. A strategic analysis, critical to a merger decision, not only provides a clearer picture of merger implications, identifies potential problems and informs early planning but may also provide an early window to identify innovative opportunities. Furthermore, rigorous strategic analysis may provide valuable information that may offer leverage when negotiating merger terms with government.

Nonprofit mergers usually occur between neighbouring and similar service providers. Success of nonprofit mergers is linked to organizations with complimentary services and past cooperative and collaborative activities. While proximity and common service challenges and opportunities may result in cross-organization co-operation and collaboration strategies, the growing shift to competitive strategies amongst social services sector organizations may negatively impact the outcome of nonprofit mergers.
With a history of competition for limited resources, a strategy that includes merging two previously nonprofit competitors may be overshadowed by a history of mistrust and make current actions suspect. Thus, proximity and similar service variables do not necessarily lead to a successful merger outcome. Therefore, consideration of the history of relationships and strategies that lead to building of collaborative partnerships may offer valuable insights and opportunities to inform nonprofit strategic planning and promote long-term sustainability and service value.

**Governance**

Social services sector boards, unlike for-profit boards are more focused on the mission than the financial profitability of a merger or acquisition. Merging social services organizations, often geographic and same service neighbours, likely have similar missions but may not have a relationship of trust and early partnership commitments. If pressured to merge, these latter issues, likely arising from a history of competition, require early attention to increase trust, reduce rivalries and promote a mindset of partnership. A focus on the mission and desired outcomes may offer common ground. If the merger is a proactive governance approach to sustain and/or grow, aligning missions will be a key determinant in the governance pre-merger, decision-making phase.

The skills and knowledge of boards are critical in supporting successful pre-merger deliberations and decision-making. Prior investment in developing a solid base of good governance knowledge and practices prepares social service organizations to better manage the changing environment and the complexities of mergers and acquisitions. In the pre-merger stage, social services boards require critical information to inform and guide their decision including information on and implications of mergers and acquisitions, details specific to their organization’s operations as well as those of their potential merger partner, the position of key stakeholders and the probable impact on client services. With limited merger experience, social services boards’ access to expertise on mergers and acquisitions may best assist boards in identifying and securing this required information as well as objectively guiding boards in this early stage. While investments in strengthening governance and securing expertise on mergers and acquisitions draws on limited nonprofit resources, the successful performance of organizations is linked to good governance. As well, since more social services mergers and acquisitions are being planned or required, creating opportunities to share expertise, best practices and experiences across the sector may reduce investment costs and greatly expand knowledge and skills for individual boards.

While in this pre-merger phase and having made the decision to merge, both boards have an early opportunity to take steps to build stronger ties across the governing
bodies. Early efforts to build a trusting board relationship may help set a model for the merging organizations as well as help the boards to weather the disruptions inherent in mergers. One step that may help in relationship building is adopting a mindset of equal partnership in the premerger stage and looking for the best options rather than limiting to one or other organization’s governance approaches. Another important early step that may assist in strengthening trust as well as providing direction and establishing quality monitoring, is joint board setting of goals and desired outcomes. This collaborative planning process provides an opportunity to present ideas and concerns, share differing perspectives and, if successful, reach consensus on key goals.

Nonprofit boards usually have the responsibility of selecting the leader of the merged organization. The literature review stresses that a leader’s skill-set includes capacity to manage in a rapidly changing environment, the ability to manage the complexities of a merger and the day-to-day operations and skills in setting and achieving performance targets. Additionally, leaders of successful merged organizations have been described as mission-focused, innovative and have a high level of social and emotional skills. The for-profit literature indicates that a transformational leadership style which includes building trust, promoting a high level of employee participation and caring organization is more effective in leading organizations through mergers and acquisitions. This insight may help boards in candidate selection. Boards of merging social services agencies may be challenged in recruiting appropriately skilled leaders due to limited financial resources and resulting inability to attract more skilled leaders as well as the potential limited skill-set of the current leaders. Furthermore, unless one of the leaders of the organization is retiring, boards may be in a position of having to select one or other leader from the existing organizations. These potential scenarios stress the value of early individual board development and merging boards’ work to identify goals, in creating and setting in place values and processes that may offer objective guidance in this critical board decision.

**Leaders**

While there has been increasing pressure on government funded service sectors to adopt collaborative approaches, integrate and merge, leaders in the social services sector have had limited experience and skill in leading their organizations through the complexities and challenges of a merger unless they have garnered a number of previous leadership experiences. In the pre-merger stage, social services leaders have an opportunity to learn; gathering and integrating current knowledge on mergers, seeking and encouraging contrary opinions, scanning the external environment and analyzing their organization. In the early pre-merger phase, leaders of both
organizations are likely involved in merger deliberation and have experienced the growing external pressures. Participation in merger planning requires leaders to manage their personal future employment concerns along with the concerns of the organization. As leaders in the social services field, there may be more appreciation of a need for self-awareness and reflection on their motivations, values and personal priorities. Using the mission as the leader’s compass may best guide social services leaders as they negotiate through the personal and professional complexities of this early merger phase. Finally, the literature review stressed the value of a more business-like approach, suggesting that leaders learn from the lessons of for-profit organizations in order to add value to and strengthen social services as well as improve merger planning and outcomes.

In the pre-merger phase, one of the key tasks of leaders is undertaking a rigorous analysis of both organizations in order to best inform the board of risks and benefits. Conducting human due diligence is an essential part of this analysis so that leaders and boards can begin to identify the critical organizational culture risks and benefits of merging organizations. With limited resources and often public nature of merger pressures, leaders may be able to draw upon internal and external stakeholder expertise to assure depth of analysis and objectivity throughout this process. If early work is confidential, gathering a small team that includes a range of perspectives and expertise may best lay the groundwork for merger decision making and planning.

Once the merger decision is made, the literature stresses the value of developing a thorough and detailed merger plan. Again, with limited resources, social services leaders likely draw upon existing staff resources to create a transition team to develop and implement a plan. A leader’s early acknowledgement and plans to address of the stresses of balancing a merger with day-to-day work demands will help inform planning and expectations. Setting of realistic timelines and priorities in this phase may slow some of the 60/90/120 day targets recommended in the for-profit arena. However a steady pace and process aimed to assess, create and strengthen organizational culture and realize the benefits of coming together may not only reduce risk of loss of staff, costly errors and drain on resources but may also enable a more evolutionary coming together. With a growing body of knowledge highlighting the merits of a less aggressive integration approach, merging social service organizations may want to consider elements of this evolutionary approach to create opportunities for valuing and facilitating relationships, exchanging knowledge, identifying and developing improved work processes and best practices in a less forced environment.

Developing back-up plans, common in the for-profit sector, may help leaders and the team examine options not initially considered. The literature also indicates that
communication is a critical aspect of mergers. Developing a communications strategy emerges as fundamental in early planning. Leaders need to identify communication objectives and systems to foster understanding and gain support. Leaders also have an opportunity to create shared learning opportunities to gather and exchange knowledge; creating learning groups across the organizations as well as linking staff with others in similar positions across the sector. Leaders also have an opportunity at this stage to link the board goals and desired outcomes with merging planning and establishing essential measurement systems that will inform key stakeholders.

**Stakeholders**

While for-profit organization relationships with key stakeholders are important for successful business, the diverse and often service dependent connections between nonprofit organizations and their stakeholders are very important to the success of social services organizations. Prior investment in and establishment of a range of stakeholder engagement processes, better position merging social services organizations for the essential engagement of stakeholders in this early phase and throughout the merger. Early, open and on-going stakeholder engagement, critical in identifying and addressing expectations, needs and potential effects of mergers, may be best integrated within the merger plan, aligning all planning steps with stakeholder engagement. Attention to early engagement with employees, client groups and communities, government and other funders will not only improve the work of the organization and reduce risks but may also realize additional merger resources and increase awareness and greater support for the mission of developing new organization.

**Integration/Transformation Phase**

Social services organizations are characterized as having limited resources and capacity and mergers require new resources and capabilities. With additional time and resource demands required of nonprofits in the integration/transformation phase, merging social services agencies may be faced with difficult human and financial resource allocation decisions. Early planning, priority setting and building of trust amongst the leadership of merging organizations may enable identification of the best use of existing resources. Furthermore, early engagement of key stakeholders, including community partners and government, may lead to increased capacity through additional resources such as sharing of expertise and one-time funding to address merger needs such as legal technology costs. Finally, linkages with other merged
nonprofit organizations may offer access to expertise, tools and “lessons learned” at no cost.

**Governance**

In the integration/transformation phase, the literature review indicates that board members of a newly merged organization have key roles in setting direction and being merger models and champions. If the legacy boards have attended to relationship building and reaching consensus on shared strategic intent in the pre-merger phase, the social service board will be better positioned to address the important work of board development, mission, vision and strategic planning, internal and external communication and governance oversight. The literature review presents some specific steps that strengthen boards and improve merger outcomes. Equal representation from legacy boards will reduce the sense of superiority of one organization over another and promote a principle of equality moving forward. However, the literature suggests that attention to the quality of board membership including needed skills and new perspectives is most important for good governance and increased value creation over the long-term. As well, if prior boards had a largely internal operations focus, recruiting new board members could strengthen board capacity to govern a more complex and larger organization including assuming a more outward orientation that focuses on the environment, future and resources.

Social services board efforts to develop vision, mission, values and strategic plan for the new organization not only provides another means for strengthening the board, this process could provide an early opportunity for employee participation and external stakeholder engagement. This essential governance planning process may also enable a meaningful forum for both honouring the legacy organizations and helping board and employees focus on the future and transforming opportunities. Finally, development of the mission, vision and strategic plan provides a unifying focus and guidepost for the organization as well as an important governance message that can be used for internal and external communication.

Attending to board culture, as identified in the literature review, may serve as a model for the organization. Exploration and identification of patterns, traditions, practices and desired governance culture may sensitize the board to the potential culture challenges for the organization, reveal overall organizational issues and potential processes to address and/or reduce these issues as well as assist in evolving a new governance culture.

Board development and training is noted in the literature as a key variable in quality governance and improved board functioning. The complex characteristics of mergers
and changing social services environment serve to reinforce the need for board member development and improved board functioning. Investments in board development during this integration/transformation stage, while an added stain on limited resources, prepares the board for important oversight responsibilities and critical decision-making as well as reduces individual board member liability in an era of greater public scrutiny.

Throughout the for-profit mergers and acquisitions literature, emphasis on governance oversight is stressed. Nonprofit merger literature recommends merging nonprofit boards undertake similar monitoring and improvement processes. Assuming oversight responsibility may assist boards in building on early merger goal/outcome setting, monitor integration/transformation processes including the leader’s performance and provide information and updates for employees and key stakeholders as well as assist the board in efforts to broaden the base of community support. Results of monitoring and improvement processes may be used to demonstrate increased organizational accountability and celebrate successes.

Leaders

For-profit and nonprofit literature emphasizes the critical role the leader plays in the success or failure of the challenging integration/transformation phase of mergers and acquisitions. Nonprofit literature points to the leadership knowledge and expertise of the for-profit sector to guide social services leaders. Drawing on for-profit leadership knowledge and experiences, social services leaders need to address both the essential practices and processes that help to bring to organizations together and the critical human elements that support or derail the merger. Similar to the developmental needs of boards, supporting development of social service leadership may be a valuable investment for immediate merger requirements as well as for preparing for the continued and complex leadership challenges in the changing social service environment. Again, leadership training and development opportunities may be enhanced and less costly through cross sector shared education and development programs.

While the for-profit literature indicates the importance of developing an integration plan at this phase, leaders are likely better prepared coming into the merger with much of the integration plan prepared in the pre-merger phase and then monitoring and making improvements on the plan in this next phase. Critical elements of this plan include enhanced client focus, communication, early integration priorities/targets, strategies to integrate and engage all employees, performance measures and stakeholder engagement.
Another key task of social services leaders in this phase is developing a new organizational structure and selecting key senior leaders. While both for-profit and nonprofit leaders may face the difficult task of selecting leadership candidates across the organization and may experience pressure from legacy governing bodies, social services leaders may also need to balance the interests and requirements of stakeholders, most especially funders who may require a role in selection. Furthermore, social services organizations may not be in a financial position to support strategies that would provide disaffected managers the opportunity to leave the organization nor attract high performing leadership candidates. Thus, social services leaders are more likely relying upon existing senior leaders whose roles and responsibilities are reconfigured within a new organizational structure.

The key leadership practices and characteristics identified in the for-profit literature review are applicable to social services sector leadership. The non-profit literature stresses the importance of leaders championing the mission, the organizational and individual employee motivational core of quality client care. The for-profit literature adds to this approach, stressing an unyielding focus on the customer and identifying the need to attend to points of customer contact, customer services and support and recommending processes that provide ongoing customer feedback. Additionally, engaging employees in providing feedback on how to improve services for clients reinforces the merge’s client service values and provides ways for employee participation, identification of innovative and transformational opportunities and, as noted in the nonprofit literature, offers important information on the morale and engagement of employees who are serving a vulnerable client group. For-profit sector merger literature also provides guidance for social services leaders in the area of quality improvement, a more recent area of development in the social services sector. To improve outcomes social services leaders need to set clear accountabilities and performance measures, report back mechanisms and monitoring and improvement processes in this integration phase. Furthermore through this process, leaders are communicating priorities and progress, gaining valuable information on opportunities and challenges to be addressed and gathering information that can be used recognize the work of employees. Finally, for-profit literature foci on creating a merger work environment that promotes openness and sharing of issues matched with a continuous drive to improve is applicable to nonprofit efforts. Social services leaders seeking out and fixing issues are likely to increase employee and stakeholder confidence and gain credibility for the leader’s stated focus on the mission and employee participation in the merger.

Throughout the literature, communication is stressed as a key variable in the integration/transformation phase. Communication is repeatedly identified as the key
element in building employee trust, securing support for change, reducing stress and
improving service outcomes. A social services merger will likely involve communicating
with neighbouring organizations and even communities. Social services leaders and the
senior management may have limited experience in developing communication
strategies that reach beyond one office site or community. To gain understanding and
commitment of employees and community stakeholders, social services leaders may
need to expand their repertoire of communication skills and tools to reach different and
larger audiences and continuously monitor and improve the effectiveness of the
communication strategy. Additionally, with limited resources, leaders will need to
consider the audience, organizational needs and investments in communication tools
that best reach the audience and, are delivered in a manner that reflects the
organization mission and priorities. For example, expensive events organized for staff or
advertising campaign may create a negative reaction. Another challenge of
organizational and system change identified in the nonprofit literature is the use of
confusing or provocative terminology for employees and external stakeholders.
Government service change initiatives have included terms such as integration, system
change or restructuring. Social services leaders may improve communication and
increase positive responses through careful framing of the vision and issues and by
avoiding provocative or confusing terminology. Finally, both for-profit and nonprofit
literature offer specific and consistent guidance for social services leaders in effective
communications including sharing of an inspiring vision, use of multiple channels and
providing clear, continuous, open and two-way communication.

Culture

The literature on mergers and acquisitions in the for-profit and nonprofit literature
stresses the importance of attending to organizational culture in the
integration/transformation phase. Social services organizations may have a greater
sensitivity to the human experience of changes in life circumstances; however, the skills
and knowledge related to counselling and leading social services organizations is a
limited match with addressing the human experience of organizational change as
identified in the literature. Therefore, social services leaders may be at risk of
underestimating the complexities and power of organizational culture in a newly merged
organization. Since social services organizations are characterized as human services
providers, the knowledge and expertise of employees are the critical service or value
offering to clients and the community. Therefore, frequent, clear and open
communication and attention to employee satisfaction, concerns and participation will
be important in this phase. Additionally, the recruitment and development of the new
organization management team may be best be informed with consideration of
organizational culture issues and requirements in order to match management skill,
knowledge and characteristics such as negotiation and relational skills with cultural challenges and opportunities. Again, the pre-merger work of leadership including a cultural assessment and identification of gaps and desired future state will assist leaders in this phase.

Social services organizations may be challenged in achieving the truly integrated culture as described in the literature. The larger of two merging organizations and/or a more powerful merging partner may dominate either through assimilation or deculturation. Early assessment of organizational culture, identification of desired service outcomes and most effective method of merging the two cultures may support leadership identifying and selecting the most effective method of acculturation.

As integration work begins, the earlier assessment of gaps and opportunities, communication, work processes and priorities can be monitored and assessed in terms of movement toward the desired new organizational culture. The literature review indicates that while the merging of like organizations can improve outcomes, past competition, as is a more recent characteristic of social services organizations, may have a negative impact. Therefore, social services leadership may need to consider strategies that involve employees in decision-making, recognize differences and similarities, honour legacy organizations and celebrate the new, build trust and create opportunities for new shared experiences and learning. Finally, the experiences and research findings in the for-profit sector, as highlighted in the literature, offer nonprofit leaders many valuable insights and lessons that are transferable to nonprofit integration/transformation planning and implementation.

Stakeholders

While the literature primarily focuses on internal priorities of a newly merged organization in this integration/transformation phase, the nonprofit literature emphasizes the importance of focus on external stakeholders. Having met government expectations to merge, early and frequent two-way communication of merger progress with government may, at least temporarily, reduce external pressures and stress on the new organization. Early engagement with clients may reduce client service concerns as well as provide the social services organization with the valuable information about the client’s early experience of the new organization and future expectations. Furthermore engagement with the social services organization’s community service partners may reduce negative reactions and increase support and enthusiasm for the new organization. Another key stakeholder group for many nonprofit organizations is private funders. Continued communication with private donors in the integration/transformation
phase may increase awareness of the organization’s growth and progress, enable two-way communication and feedback as well as possibly link the organization to other needs resources known to the donors. Finally, the for-profit and nonprofit literature offers specific stakeholders strategies that may assist social services organizations including networking, building or reinforcing feedback mechanisms such as client and employee surveys and focusing on points of contact with stakeholders.

The integration/transformation merger phase is a complex and demanding phase for leadership. The literature review highlights the challenges of bringing two organizations together including addressing organizational culture and change as well as attending to the day-to-day operations of the new organization. The for-profit literature offers substantial insights and recommendations that may best guide social services leaders of new merged organizations.

**Post-Merger Phase**

The literature review indicates that the post-merger phase is a time of stability with merger targets met and a new culture established. As well, the literature suggests that it is this phase that organizations realize benefits of the merger. The for-profit literature suggests a greater urgency to reach this stage than the literature of the nonprofit sector that refers to timelines of up to three years to reach post-merger. This difference may reflect resource challenges of nonprofits, differing merger approaches or priorities between these sectors, the comparatively small size, in budget and location, of merging nonprofits and/or limited research on non-profit mergers compared to the for-profit sector. This longer period to reach the post-merger stage may benefit social services organizations if related to addressing processes and allowing for a more evolving integration/transformation processes or a detriment if the success of new organization is held back by a lack of resources or expertise which might delay the realization of some merger benefits.

**Governance**

As the new organization stabilizes, the literature stresses the value of governance attention to board functioning and composition to best support new organization opportunities and challenges and to provide oversight of the organization. As the social services sector has been characterized as undergoing significant change, a review of the strategic plan at the post-merger stage including a environmental scan and thoroughly detailed identification of the new organization’s resources and capacities
may best assist organizations in remaining proactive and responsive to internal challenges and opportunities and to the anticipated ongoing external pressures.

**Leaders**

In the post-merger phase, the literature review stresses that leaders continue to focus on the merger priorities and processes including communication and culture. Additionally, the literature places even greater emphasis on continuous quality monitoring and improvement processes and outcomes in this phase. Quality improvement activities require resources including expertise, systems, often technology investments, and cross organization awareness and education activities. Social services leaders may be challenged in securing resources or reluctant to redirect savings realized through a merger to organization operations rather than direct client service. However, the literature indicates that leadership of effective quality improvement processes in this phase leads to improved service and innovation. Furthermore, given the external pressures for greater accountability, a focus on continuous quality improvement provides valuable service information and convincing data for government. Finally, a leader's focus on and communication about quality may assist employees and the organization in remaining flexible and progressive in this shifting social services environment.

The literature also indicates that, as the organizations settles, new service delivery opportunities may emerge. The social services board, key stakeholders including employees and community groups and results of quality improvement activities may present innovative approaches or identify new service requests. Social services leaders may benefit from knowledge and expertise in the for-profit sector, to gain insights as to how to best leverage these opportunities and increase service value. For example, for-profit experience in marketing and project management may offer social services leaders new tools for improving service quality.

**Culture**

While the new culture is described as established in the post-merger phase, the literature indicates that continued attention to the stress and change that employees may be experiencing is needed. With the likelihood of ongoing change and innovation, strategies to support employees will be essential to improving job satisfaction and retaining valuable staff. The for-profit literature offers key strategies that include building of quality relationships, ongoing communication, new work opportunities and celebrating achievements. Emphasis on organizational culture throughout the merger and acquisitions literature indicates that merged social service organizations need to continue to make cultural issues a high priority long after the merger.
**Stakeholders**

The nonprofit literature recognizes the important relationship of nonprofits and their stakeholders. In the post-merger phase, ongoing stakeholder engagement and communication remains essential for service planning and improvement as well as risk management. At this phase, social services leaders have an opportunity to communicate merger successes and challenges, provide quality improvement information and share current priorities linked to prior stakeholder engagement. Additionally, engaged stakeholders may provide new ideas or raise new concerns that were not evident at an earlier phase of the merger. Learning from stakeholder engagement may assist leaders in service development, identifying new resources, managing competing expectations and addressing risk such as negative experiences or opinions in the early stages.

The post-merger phase is characterized as more stable and settled for the social services organization. However, the literature stresses that the work of boards and leaders continue to move the new organization towards improved functioning and responsiveness to the needs of internal and external stakeholders in order to realize the service value imagined in the early pre-merger phase.

**Limitations**

This analysis is limited to the field of mergers and acquisitions in the for-profit and nonprofit literature. Much of the literature reviewed is descriptive, with case studies of mergers and acquisitions. In addition, the recommendations for mergers and acquisitions found in the literature were based on studies of positive and negative outcomes. These limitations were consistent with Austin and Benton's (2010) recommendation of a comprehensive theoretical framework to guide merger research. Another limitation of this study is the paucity of merger research related to social services mergers in Canada and specifically Ontario. Finally, this study did not delve into the fields of change management, leadership and strategic management, areas of study that would add to future social service merger and acquisition research.
Recommendations

Having considered the implications of mergers and acquisitions in the social services sector, the following recommendations are proposed:

1. Build Capacity

Social services boards, leaders and organizations that have invested in knowledge and skills that prepare them to address the complex current and future challenges are better positioned, more resilient and have greater flexibility in managing the complexities and realizing the opportunities of mergers and acquisitions. It is recommended that nonprofits boards engage in ongoing education and seek knowledge and expertise on current best practices to maintain good governance. It is also recommended that social services organizations invest in leadership development to enhance capacity to forge ahead in a changing environment. Furthermore, it is recommended that social services leadership invest in quality improvement knowledge, skills and tools to best position the organization and support employees and clients in this shifting social services environment.

2. Explore Options

While social services organizations are increasingly pressured to collaborate and integrate, studies indicate that mergers and acquisitions have limited success. Organizations that identify alternative strategies and communicate and demonstrate a compelling picture of increased value for clients, communities, employees and government may gain leverage in this shifting environment. Therefore it is recommended that social services boards and leaders, when considering a merger, undertake a thorough strategic planning process including stakeholder engagement and rigorous internal and external analysis to ensure all options including innovative approaches and opportunities are explored and optimal service strategies pursued.

3. Make a Merger Plan

Throughout the literature, merger planning is recognized as an essential process for preparing, guiding, evaluating and improving organizational work through this complex undertaking. Therefore, it is recommended that leaders, in the pre-merger phase, develop, implement and communicate a comprehensive merger plan and regularly monitor and improve this plan along the merger phases.
4. Engage Stakeholders

Social services stakeholders including employees, clients, communities, other community care providers and government are critical to the success of nonprofit mergers. Given that stakeholders may have diverse expectations, ongoing two-way dialogue with stakeholders is essential to understanding and managing expectations as well as building valuable linkages and partnerships. Therefore, it is recommended that social services leaders identify and develop strategies that ensure stakeholder participation and input throughout the merger process.

5. Make Organizational Culture Critical

Organizational culture is consistently identified in the mergers and acquisitions literature as the critical variable in the success or failure of mergers. It is recommended that social services leadership undertake a cultural assessment including identification of gaps and opportunities in the pre-merger stage and place emphasis on organizational culture priorities and processes in the development and implementation of merger plan details.

6. Build Connections

Social services organizations have limited capacity to acquire the additional merger supports and resources. Furthermore, social services organizations have been operating in an increasingly competitive environment. In this shifting and complex environment, it is recommended that social services leaders seek and build collaborative connections with other organizations such as previously merged social services organizations, complimentary service organizations, universities and businesses that offer the merging organization knowledge, expertise, tools, funding and opportunities for creating shared value.

7. Apply For-Profit Knowledge

It is evident that for-profit sector merger and acquisitions experience and, more generally, expertise in the fields of governance, leadership, quality improvement and other cross-sector common interests offer social services organizations valuable insights and tools that can be applied to the leadership and management of nonprofit mergers. Therefore, it is recommended that the social services sector acquire and apply relevant for-profit knowledge and tools that improve and enhance the merger outcomes.
Conclusion

Mergers and acquisitions have been common approaches taken by the for-profit sector to address the forces of change. As economic, political, social and community pressures grow in the public sector, social services organizations have been turning to mergers and acquisitions as a required or proactive undertaking to sustain and improve service value. Most recently, the Ontario social services sector has been undergoing a system change including mergers of social services organizations. With limited merger experience, social services organizations, characterized as having limited capacity, are entering into very complex and disruptive organizational processes that require significant resources. The merger and acquisition lessons of the for-profit sector offer the social services sector valuable insights into processes and priorities that improve merger outcomes, most especially in the areas of governance, leadership and culture.

Nonprofit merger literature highlights two key additional variables critical to nonprofit mergers. The mission, the nonprofit life-force, and stakeholders, the often conflicting, potentially vulnerable and diverse body of expectations, add value and potentially more complexity and conflict to social services mergers. Therefore, merging social services organizations have the opportunity to draw upon the knowledge of mergers from the for-profit sector but must also address elements more specific to nonprofit sector experiences.

In this environment of mergers and acquisitions, change and unpredictability, social services leadership is challenged to develop and implement strategies that will sustain organizations and add service value. Moving forward, social services organizations can access and employ the knowledge of the for-profit sector, gain merger skills and expertise and build a body of merger knowledge specific to the needs of their sector. The strengths and strategies of social services boards, leaders and organizations applied to addressing the challenges of the current mergers and acquisitions environment, as strongly indicated in the literature, will have a significant impact on organizational capacity to transform and thrive in the future.
Appendix A – Social Services Sector Merger Roadmap

The following roadmap of the three merger phases outlines social services sector merger key variables and related identified critical success activities.

## PRE-MERGER PHASE

<table>
<thead>
<tr>
<th>Key Variable</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td>Entrance Assets</td>
</tr>
<tr>
<td></td>
<td>• To be proactive in this changing environment, maintain a process of timely organizational strategic planning to identify and set organizational priorities including innovative approaches through analysis of opportunities, threats, resources and capacities.</td>
</tr>
<tr>
<td></td>
<td>• Articulate a baseline of good organizational structure, resources and capabilities.</td>
</tr>
<tr>
<td></td>
<td>• Seek and maintain strategic partnerships, strong alliances and service collaboration.</td>
</tr>
<tr>
<td><strong>Assessment and Negotiations</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• When considering the possibility of a merger, assess the mix of services and the historic relationship of both organizations including past collaboration and competition strategies.</td>
</tr>
<tr>
<td></td>
<td>• Assess and identify strategic advantage(s) of merging.</td>
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<tr>
<td></td>
<td>• Ensure harmony of vision/mission and values and services.</td>
</tr>
<tr>
<td><strong>Decision to Merge</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Undertake a strategic analysis with consideration of multiple stakeholders.</td>
</tr>
<tr>
<td></td>
<td>• Identify and implement strategies that build trust between organizations.</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>Entrance Assets</td>
</tr>
<tr>
<td></td>
<td>• Investments in good governance issues/knowledge/tools including ongoing board development and evaluation as well as use of governance best practices.</td>
</tr>
<tr>
<td></td>
<td>• Maintain ongoing processes to measure strategic success in achieving mission.</td>
</tr>
<tr>
<td></td>
<td>• Delineate board and leader roles and responsibilities.</td>
</tr>
<tr>
<td></td>
<td>• When possible, undertake proactive approaches exploring merger potential.</td>
</tr>
</tbody>
</table>
options as service driven improvements rather than reaction to government pressures.

**Assessment and Negotiations**
- Assess and address board resource needs such as expertise in mergers and professional independent advisors.
- Conduct rigorous due diligence including detailed analysis of liabilities and assets, organizational capacities and culture.
- Identify investments required to complete the merger and measure against available resources and capacities.
- Undertake early communication with government to ensure awareness and to possibly secure government merger support resources in recognition of the organizations’ steps to achieve provincial strategies.

**Decision to Merge**
- Set specific goals and desired outcomes.
- Communicate reasons for and desired outcomes of the planned merger with focus on the service mission.
- Implement processes that build a climate of trust and commitment across both boards such that both board members perceive themselves as partners and treat each other as equals – adopting a mindset of equal partnership.
- Develop guiding principles for how the organizations will work together to integrate and transform.
- Assess and address board resource needs such as expertise in governance through a merger.
- Select a leader and identify measurable leadership accountabilities.
- Build a governance transition team with balanced membership.

**Leaders**

**Entrance Assets**
- Build knowledge and skill in mergers/managing change.
- Ensure history of cross organization collaboration and service partnerships.
- Seek and build leaders with transformational leadership characteristics.
- Ensure leader knowledge includes business approaches that may add service value and inform merger planning, processes and
opportunities.

- Assume a mission-driven approach while balancing changing environment.

Assessment and Negotiations

- Complete a rigorous internal and external, broad system as well as potential merging organization analysis to inform board deliberations.

- Develop a realistic picture of merger requirements including costs, additional resources needed and cultural factors, identifying potential impediments.

- Conduct human due diligence including decision-making roles, culture and capabilities.

- Seek out/encourage contrary opinions and evidence/targeted debiasing.

- Prepare and review with board a detailed merger risk assessment and options.

Decision to Merge

- Undertake an organizational culture audit.

- Develop a detailed and measurable merger plan including identification of priorities and timelines. Specifically, this plan should include a human resource plan, organizational culture plan including method of acculturation, communication plan, financial plan, roadmap for addressing merger priorities and back-up plans.

- Develop and implement early open communication and engagement strategies with employees/volunteers and external stakeholders.

- Create merger teams with clear accountabilities and support for teamwork processes.

- Develop learning mechanisms including measurement systems and feedback loops to share knowledge and monitor and improve processes and outcomes.

- Identify and put processes in place to support work of merger teams including recognition of the addition time and stress related to merger work.

Stakeholders

- Identify key stakeholders.

- Ensure on-going two-way communication with government and other funders.
• Seek opportunities for employee involvement early in the merger.
• Develop/enhance stakeholder engagement strategies to identify stakeholder merger concerns as well as opportunities.

**INTEGRATION/TRANSFORMATION PHASE**

<table>
<thead>
<tr>
<th>Key Variable</th>
<th>Activities</th>
</tr>
</thead>
</table>
| Governance   | • Strive for equal representation of both boards in the early stage.  
               • Identify and address board development needs.  
               • Create governance vision with consideration of a more corporate approach and outward focus.  
               • Develop board bylaws and policies.  
               • Review board membership including new skill-sets required for the new organization and recruitment strategy.  
               • Identify past, present and desired board culture and initiate processes for evolving a new governance culture.  
               • Develop vision, mission and values for the new organization with feedback of key stakeholders. Create opportunities to communicate the inspiring vision with employees and stakeholders.  
               • Undertake a strategic planning process.  
               • Communicate merger rationale and objectives – merger champions.  
               • Ensure processes in place such as board participation in a merger steering committee for oversight.  
               • Celebrate successes. |
| Leaders      | • Implement, monitor and refine merger plan with focus on key priorities.  
               • Implement new merged organizational structure.  
               • If the merger is driven by financial pressures that require cutbacks, address difficult human resource issues such as layoffs respectfully and early in the merger.  
               • Champion the mission and vision constantly and at all levels.  
               • Identify and use a variety of tools and channels to communicate merger vision, goals and progress for employees and key stakeholders. |
<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Maintenance of a client focus including implementation of client and employee surveys and other feedback mechanisms.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Set, communicate and track clear accountabilities as well as monitoring and improvement processes.</td>
</tr>
<tr>
<td></td>
<td>Implement processes to involve employees from across the organization in merger work.</td>
</tr>
<tr>
<td></td>
<td>Seek and encourage the identification of service improvements, innovation and organizational transformation.</td>
</tr>
<tr>
<td></td>
<td>Celebrate successes and recognize the work of employees.</td>
</tr>
</tbody>
</table>

| Culture               | Implement and closely the merger plan organizational culture priorities.                                          |
|                       | Provide training for managers on negotiation, empathy, listening, coaching and persuasion skills.                  |
|                       | Ensure organizational culture priorities are reflected in all merger activities. Specific activities to include: |
|                       | - creating opportunities to mourn the loss of legacy organizations,                                            |
|                       | - involve employees in creating new rituals for the organization,                                               |
|                       | - early in the integration/transformation phase, bring employees together for a shared event,                    |
|                       | - create teams with representation from both legacy organizations to promote new relationships and new shared   |
|                       | experiences (relational capital),                                                                             |
|                       | - repeatedly conduct employee surveys and encourage two-way communication to identify cultural conflict,          |
|                       | - cultivate merger champions.                                                                                  |
|                       | Be aware that all actions and inactions such as activities emphasized or changes in work activities and spaces or |
|                       | lack of response to certain situations signal the desired culture.                                              |
|                       | Build trust including addressing merger/change fears and providing honest communication about changes and challenges.|

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Maintain on-going engagement with stakeholders.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Create opportunities to engage with clients to learn about their experiences with the new organization.</td>
</tr>
<tr>
<td></td>
<td>Engage with community service partners, service area communities and other key stakeholders to increase awareness of the new organization, learn about expectations, communicate the merger</td>
</tr>
</tbody>
</table>
priorities and identify potential resources and valuable linkages.

- Communicate regularly with government regarding merger progress and to receive early information about issues or opportunities.

### POST-MERGER PHASE

<table>
<thead>
<tr>
<th>Key Variable</th>
<th>Activities</th>
</tr>
</thead>
</table>
| Governance   | - With greater governance stability and a transformed organization, reassess board functioning and composition.  
- Remaining responsive and flexible in the changing and complex social services environment, review/revise strategic plan including environmental scan and identification of current resources and capabilities. |
| Leaders      | - Emphasize continuous quality improvement emphasized at this stage to promote on-going service improvements and innovation as well as accountability.  
- Attend to emerging service opportunities identified by employees and other stakeholders.  
- Identify and address the development needs of employees and leader.  
- In addition to internal focus, maintain/enhance connections across sectors, including for-profit, in order to acquire knowledge, build linkages and identify trends and risks relevant to organizational sustainability and growth. |
| Culture      | - Continue to regularly assess and strengthen organizational culture.  
- Seek opportunities to improve job satisfaction including building of quality work relationships, new work opportunities, skill development and quality work life strategies.  
- Celebrate successes. |
| Stakeholders | - Review and identify key stakeholders as organizational transformation may have led to new stakeholders.  
- Review, revise and improve stakeholder engagement processes. |
References


