LYNN EAKIN
& ASSOCIATES

MERGER?

CONSIDERATIONS
FOR BOARDS OF DIRECTORS

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INTRODUCTION

There is considerable discussion occurring among funders, both government and charitable donors and agency boards of directors regarding the need for, and possibilities of, different associations between agencies. Serious consideration of new administrative arrangements in the not-for-profit sector is a recent development brought about by shrinking resources and increases in the demand for services. Moreover, since the not-for-profit service sector operates so differently from the corporate sector there are no ready models to adopt.

Boards of Directors are in a reality public stewards of the funds they receive with a responsibility to dispense those funds in a way to provide maximum benefit to the consumers they are mandated to serve. This responsibility has traditionally been carried out by directors ensuring that their organization was well managed and efficient. Now, as funds to provide services continue to shrink Directors find themselves being challenged to look outside of the agency and beyond to ensure that the organization itself is the appropriate vehicle capable of providing the most effective and efficient service to the consumer.

This provides a dilemma for many members of Boards of Directors who have a long attachment and loyalty to their organizations. Moreover, the agencies themselves have distinctive service philosophies that make them unique from one another. These factors make considering organizational change and service rationalization difficult. On the other hand, the service system has many small agencies whose administrations struggle to cope with the sophisticated demands of modern day not-for-profit management. While growing pressures on their budgets leave the smaller agencies with little room to maneuver.

A key factor that makes it difficult for Directors to consider merging their agency is the limited view and understanding we have of not-for-profit organizational arrangements. We automatically think in terms of current agency structures and functions. Key to restructuring the social service system will be our ability to be able to search for new models of organization which preserve the strength and diversity of the current system while providing advantages of economies of scale, service continuity and modern management techniques.

There are many questions as Boards of Directors struggle to balance shrinking budgets and maximize service delivery. When should an agency consider merging all or part of its organization with another organization? What would be the advantages and what are the risks?

MERGER IS A STRATEGIC DECISION

The key for Boards of Directors in considering their options is to establish clear objectives for the service and then to select the appropriate strategy. There are times when service collaboration with other agencies may be the preferred option, for example, if the other organization has a significantly different mission then collaboration between the two organizations might best strengthen and protect the integrity of both programs. At other times, a collaborative strategy may not accomplish the economies and integration needed to provide enough service flexibility and a merger with another compatible agency might be the strategy of choice.

Each organization needs to undertake strategic planning to determine agency priorities and options. If a merger is to be explored the Board needs to identify what they hope to achieve through a merger and to identify, for their organization, what they would like to ensure is protected. For example: an organization may decide that a merger should provide administrative savings but also must ensure that the philosophy of the service is not lost in the merger process.

THE NEGOTIATION PROCESS

Once the organization decides to explore a merger then compatible organizations can be identified and preliminary talks and information sharing begun. How an organization proceeds with this stage of the process is very important. A number of potential mergers have foundered because one organization saw the other as wanting to "take over" their organization. Since not-for-profit mergers are voluntary agreements of the organization's Directors, "takeovers” tend not to be successful and can lead to discussions falling apart prematurely. Other common difficulties involve Directors getting themselves locked into negotiating positions too early before being able to fully explore the needs of both organizations and find solutions to the areas of difficulties. The successful merger is one in which the Boards of Director view as in the best interests of service delivery. In this context there is the motivation to resolve difficulties and differences.

Negotiating difficulties usually occur because an agency has not undertaken the strategic planning necessary prior to entering merger discussions. In addition many Boards of Directors get involved too early in direct talks with another agency without sufficient back ground information about the other party and without the assistance of a broker/consultant to help facilitate communication and the resolution of differences.

Boards of Directors should engage an external consultant to assist with merger negotiations because their senior managers will be constrained by the impact such discussions may have on them directly. Additionally, while funders can assist mergers by being supportive and flexible with agencies, they are, in a real sense a party to the discussions with their own objectives and therefore are not free to facilitate the process. Since the future of an organization's services and staff are at stake, merger discussions should be approached carefully and systematically.

COMMON BENEFITS OF MERGERS

Provide increased flexibility for service provision. The increased size of the staffing base in the merged organization permits more flexibility to meet challenges whether it is restructuring to meet a new needs, entering into a collaborative program, or cutting back to balance the budget. More staff across a greater number of programs provides more options.

Gives economies in administration. One not two payrolls, one personnel policy, one benefits administration; for many administrative tasks the merging of agencies eliminates the need for duplication and adds only an incremental volume to tasks. This can free up resources to provide more depth in other areas of the agency.

Ensures more flexibility and depth in management. Currently with many small agencies the loss of a senior staff creates a serious crisis for the agency as the organization has little or no management depth. Increased agency size provides greater management support to staff across programs.

CONSTRAINTS AND CAUTIONS

Mergers will not always result in *cash* financial savings for the funders. It would be a mistake to assume that mergers will permit funders to reduce their contributions. Initially there will be extraordinary merger costs until the operations are streamlined. Additionally there may be some service and salary realignments that will have to take place which may improve and strengthen service but not necessarily result in cash in hand. Many agencies may be in a deficit position entering a merger so just maintaining services may be an achievement.

Not just any merger will do. Mergers must be evaluated individually on their merits. Some agencies may not have compatible philosophies; others may yield little financial/service gain. Some may cause more service problems than they solve. It is crucial to find the right partner. Merging agencies must be done thoughtfully and with careful evaluation and study.

The stakes are high for the agencies. Whether merger discussions succeed, fail or do not occur at all, there are implications for agencies. There is no such thing as an easy merger. Putting organizations together is complicated and inevitably there will be areas where the Boards of Directors of the organizations will have different perspectives. The role of an independent third party is important to facilitate and structure the merger discussion process to ensure the necessary information is available and to help the organizations come to an agreement.

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