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A paper prepared for presentation to the 15th NCVO/VSSN Researching the Voluntary Sector conference, The University of Warwick, September 2009

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INTRODUCTION

Talk of merger is now ubiquitous within the third sector. Indeed, with the onset of the recession, one commentator has predicted that “*2009 will be the Year of the Merger*” (Dearden-Phillips, 2008). Earlier academic and practice-based literature on the subject of merger addresses a range of issues including the drivers towards merger (Harris et al, 2002; Sargeant and Jay, 2002; Singer and Yankey, 1991), the challenges of managing a merger (Jacobs, 2008) and the factors which might contribute to successful mergers (Basinger and Peterson, 2008; Cowin and Moore, 1996; Harris and Hutchison, 2001; La Piana and Hayes, 2005).

Case studies have tended to focus on merger between organisations that have similar organisational characteristics: either in terms of the field of service delivery, organisational type or organisational size. Recent examples include merger within the HIV/AIDS field (Harris et al, 2002), mergers between associations (Pietroburgo and Wernet, 2007), and a merger between two relatively small organisations (Toepler et al, 2004). However, there has been very little dedicated research on mergers that ‘span’ these organisational differences, in particular merger between large and small organisations.

In order to contribute to this gap in the literature, this paper explores two research questions: ‘what challenges do organisations face when merger takes place between small and large organisations?’ and ‘how can these challenges be addressed?’

THE STUDY

To explore these research questions, the Institute for Voluntary Action Research (IVAR) carried out a case study of a large UK children’s charity that had merged with four smaller children’s charities over the last five years. In each case, the smaller organisation merged into the larger organisation and then ceased to exist as an independent charitable entity. Prior to merger the large organisation employed approximately 140 staff, while the merger partners were considerably smaller, each employing between one and seven staff members.

IVAR had also been involved with each of the organisations pre-merger, interviewing key staff and trustees in order to help them think through, and voice their thoughts and concerns about, the issues relating to a possible merger. This study is therefore a continuation of an earlier action research process, giving study participants an opportunity to reflect on their experiences of merger and the lessons learnt.

We interviewed two sets of people: trustees and staff from the large organisation who had been in post since before any of the four mergers took place, and trustees and staff from the four merger partners who had then transferred to the large organisation. Sixteen semi-structured interviews were carried out; quotations from the study participants are indicated in italics throughout this paper.

THE FINDINGS

THE CHALLENGES

The large organisation and the four smaller merger partners faced a number of challenges before and during the merger process. These related to their different motivations to merge, different governance arrangements, capacity issues and the desire to protect the unique value of each merger partner.

Different merger drivers

The large organisation was strategically interested in merger based on a business case for growth and diversification. For the smaller merger partners, organisational sustainability was the key issue. In each case, the smaller organisations were finding it increasingly difficult to operate in an environment characterised by competition for funding and associated financial difficulties. Increasing regulation and professionalisation of the sector also made it harder to compete with larger service providers.

Simply having a strategic 'interest' in merger, as was the case for the larger organisation, rather than a real need for merger, meant that they could easily have turned away from the merger if they felt they had nothing to gain: *"I didn't have a feeling of relief or non-relief, because we weren't under any pressure (to merge)"* (comment made by a study participant from the large organisation). Working towards overcoming these differences and acknowledging areas of commonality was a significant challenge.

Governance

In each case, two trustees from the small merger partners were invited to become trustees of the large organisation. Integrating the transferring trustees was challenging, given the difference in board culture and an associated shift in interpretation of the trustee role: trustees transferring from the merger partners had been used to more direct involvement in day-to-day operations than was the case in the large organisation. As one trustee from a small merger partner said: *"the involvement was very different"*. This sometimes led the transferring trustees to feel that they had little to offer the new merged organisation and that they were unable to use their skills. In addition, transferring trustees often saw their role as being an advocate for the small merger partner, which led some trustees to feel isolated from the board of the large organisation, particularly in the early stages of their new role.

Capacity

Planning for full legal merger involved a huge range of tasks and an increased workload for staff and trustees in both the large organisation and the small merger partners. For the latter, it included dealing with various staffing issues, addressing numerous financial matters, including those relating to pension arrangements, and, in some instances, soliciting signatures from former trustees. Staff and beneficiaries needed to be informed and the implications for them explored. Relocation to new offices had to be discussed and arranged. For the large organisation, residual capability and performance issues relating to staff transferring from the merger partners had to be addressed. The emotional impact and anxiety associated with the merger also had to be managed.

The amount of time, energy and capacity required was therefore substantial: *“I think it can be underestimated the amount of work that is involved”*. Limited staff capacity in the small merger partners meant that significant leadership and commitment was required of trustees who had to give their time voluntarily to deal with many of the practicalities associated with merging. This was essential to enable the staff to continue providing a service. As one staff member from a small merger partner commented: *“I had to put my head down and work for the (beneficiaries)”*. Capacity issues were compounded when staff and/or board members decided to leave the organisation.

Protecting the unique value of the merger partners

The small merger partners wanted the large organisation to recognise and protect some of their ways of working with and for beneficiaries, as well as particular projects that they had developed: *“we wanted to retain what we had that was good within the organisation”*. Some participants from the small merger partners were able to recognise, however, that the value of some of their initiatives was partly related to their size, including their ‘local’ feel.

The large organisation also had a vested interest in protecting the value that each merger partner could bring to the merged organisation, whether in terms of reputation; contacts and networks in the field; a wider range of services; or professional knowledge and expertise. The challenge therefore was to adopt an organisational structure that would protect and capitalise on the ‘assets’ of each merger partner.

ADDRESSING THE CHALLENGES

Throughout the case study there were examples of how the five organisations, both individually and collectively, addressed the challenges presented by merger. Their responses including identifying and acknowledging a shared vision, respecting and understanding ‘the other’, thinking seriously about the new organisational structure and welcoming facilitation of the pre-merger discussions.

Identifying and acknowledging a shared vision

The large organisation and the small merger partners wanted to ensure that they were appropriate merger partners: *“key to us merging was that they were a charity that was committed to being there for children and young people”*. A degree of affinity between the merger partners in terms of organisational values and approaches to service provision was also important. In making the final decision to merge, all parties were therefore keen to recognise and establish some commonality.

By identifying a shared vision, in this case the potential benefits that could be achieved for children and young people as a result of merger, the large organisation and the small merger partners were able to overcome some of their differences: *“if the prize is worth having in the long-term, then the disruption and confusion is worth it”*. Acknowledgment of this shared vision enabled the discussions to move away from ‘difference’, i.e. the different drivers for merger, towards ‘togetherness’. Having a shared vision also reinforced the fact that each merger partner, both large and small, had something to gain from coming together in merger: *“with all the best will in the world, we could not have done it alone”*.

Respecting and understanding 'the other' organisation

When staff and trustees from the small merger partners felt that the large organisation had respected their differences, and recognised their unique value, they were more positive about the merger. Participants from the small merger partners did not want to be made to feel that they had failed, and appreciated efforts to retain some elements of their organisational culture: *"they (the large organisation) have tried to keep some of the local feel and events."*

Successful integration of staff from the smaller merger partners was also enhanced when they felt that the large organisation recognised their knowledge and expertise, and when the values and ways of working of the organisation from which they came were in some way retained: *"some of the things that were important to us [the merger partner] have been kept which is good"*.

When the large organisation was sensitive to, and understanding about, the pressures and associated capacity issues facing the merger partners, it aided the merger process. In some cases, the large organisation provided interim management to the smaller organisations to replace staff who had left. As one study participant from a merger partner said: *"this was a bit threatening, but a chance to get to know the good bits about each other too"*.

Organisational structure

Following full legal merger, the distinctiveness of the small merger partners was retained in some form; in other words, their roots could still be distinguished. For example, their branding was often retained within the merged organisation for an agreed length of time. This demonstrated to the external world that the values of both merger partners were still alive; additionally it helped staff from the small merger partners to maintain a seamless relationship with their clients during the merger process. It also reduced the possibility of the large organisation alienating a new beneficiary base. Furthermore it meant that they benefited from the contacts and networks associated with the merger partners' brands.

In addition to retaining their branding, the small merger partners generally maintained their previous working practices, with some minor modifications, but with the benefit of access to improved organisational infrastructure and greater financial security. They either became a regional office of the large organisation or, in one case, their work was absorbed into a particular department. This helped the large organisation protect the value of the small merger partners, both in terms of their physical assets, such as a building in a particular locality, and their intellectual assets.

Over time, the distinctiveness of the small merger partners was reduced; this was viewed as a successful outcome of the merger process. As one study participant from the large organisation argued, a successful merger is *"when the merged parts assume the spirit and body of the whole"*.

Facilitation of the merger process

Most study participants considered that it had been useful to have an external organisation (IVAR) facilitate the pre-merger discussions because it provided an objective view of issues, helped defuse difficult situations and enabled each organisation to raise difficult issues with the other party. The facilitation process also helped to surface, describe and critique the vision driving each merger, and encouraged each organisation to acquire an understanding of 'the other'. This was

particularly important given the significant differences between the organisations, especially in relation to their relative sizes. One study participant from a small merger partner said that they would advise others to have a facilitated discussion: *“allow plenty of time and really put all your cards on the table and have a frank and open discussion about the benefits for you and the other organisation”*.

DISCUSSION OF FINDINGS

In summary, the findings show that merger between large and small organisations does present some distinct challenges. Different motivations for merger, different governance arrangements, capacity issues (particularly within the small merger partners) and the wish to protect the unique value of the small merger partners all presented challenges when it came to negotiating and planning the merger. However, in each case the organisations were able to overcome their differences by establishing a shared vision for the merged organisation; respecting and understanding their differences; adopting an appropriate organisational structure that enabled the merger partners to continue to deliver their value; and welcoming external facilitation of the pre-merger discussions.

Research relating to the particular characteristics of small organisations suggests that small and large partners coming together in merger will often have different drivers. The *liability of smallness* (Rochester, 2000), and a consequent focus on operational matters rather than longer term strategy, may mean that organisational sustainability is threatened and that small organisations are therefore more likely to consider merger. In contrast, large organisations may be more able to compete in the current environment, but may wish to increase their size and diversify. Current literature suggests that mergers will not necessarily work if entered into purely as a response to a financial or other crisis (Pietroburgo & Wernet, 2007). Different drivers, particularly when related to financial strength, can, as Campbell highlights (2008), affect the power balance between merger partners. Hence, it is very important that small and large organisations are able to discuss and address their different motivations for merger.

Another issue raised in this study is the need to understand the other organisation. Our research confirmed that the existence of a shared vision enabled the merger parties to perceive themselves as embarking on a ‘productive exchange’ (see Levine & White, 1961); with each partner providing something that neither organisation could achieve alone. This study also supports other research which found that: *“...the delicate merging of organisational cultures can be facilitated by paying attention to and preserving key cultural elements from each of the predecessor associations”* (Pietroburgo & Wernet, 2007, p13). Where there was respect, understanding and an effort to protect the unique value of the smaller merger partners, it led to a more positive merger experience.

Where there was a lack of full understanding of each other’s ways of operating, for example in relation to governance, it did cause some tensions. Indeed, current literature suggests that organisational size is one factor that can impact on governance arrangements (see Madden et al, 2008; Cornforth & Simpson, 2003). This study therefore raises the following questions: should trustees always transfer to the board of the large organisation? Should the role of ‘transition trustee’ be seen to evolve, developing from advocating on behalf of the vision for the merged organisation to gradually becoming more integrated into the board of the merged

organisation? Should this advocate role be located at board or subcommittee level? Indeed, when transferring trustees were invited to use their skills at subcommittee rather than solely at board level it did help them to feel that their contributions were valuable; this in turn aided their integration.

Our study also demonstrates the particular need to ensure that mergers are adequately resourced and carefully planned, and that sufficient consideration is given to the integration not only of staff but also of trustees. Other research has found that increased workload is one factor contributing to employee unrest following merger (Gutknecht & Keys, 1993). Being aware of, and actively managing, capacity issues during the merger process is therefore important, with the merger partners taking joint responsibility for ensuring that there is sufficient capacity to fulfil the vision driving the merger.

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