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An Analysis of Mergers and Acquisitions in Non-Profit Organizations

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Abstract

This paper hypothesizes that poor planning of merger or acquisitions will lead to increased issues within the organization. To effectively examine the hypothesis, the paper provides an overview of mergers and acquisitions. The paper highlights the process and considerations of a merger and acquisition and uses examples to provide insight on successful and unsuccessful partnerships.

Keywords: merger, acquisition, implementation, process improvement, nonprofit, not-for-profit

An Analysis of Mergers & Acquisitions in Non-Profit Organizations

Nonprofits are increasingly facing economic and operational issues that drive them to seek creative solutions to continue operating. The top economic issues faced by nonprofit organizations revolve around reduced federal and state funding and the threat of reductions in tax credits for philanthropists providing private donations (Foster, Cortez, & Smith Milway, 2009). The top operational issue faced by nonprofit organizations is the inability to expand services. These struggling organizations are turning towards mergers and acquisitions as a strategic solution.

It is important for organizations to consider the full spectrum of partnerships. The primary types of partnerships outside of mergers and acquisitions are collaborations, consolidations, and designations. The next section will provide descriptions of each type of partnership.

Types of Partnerships

Collaboration

A collaboration includes partnerships involving two or more organizations in which the entities collaborate on a project(s) (La Piana & Harrington, 2008). Throughout the partnership all entities maintain organizational autonomy. An example of this type of partnership is the relationship between UK HealthCare and Shriners Hospital.

Consolidation

A consolidation includes partnerships involving two or more organizations in which one or more items between the organization is combined to increase effectiveness or efficiency (La Piana & Harrington, 2008). Examples of items that could be combined between organizations include: co-management of a program or initiative or co-management of an administrative function. Examples of this type of partnership is the relationship between UK HealthCare and Central Kentucky Management Services and the relationship between UK HealthCare Children's Hospital and Cincinnati Children's Heart Institute.

Designation

A designation includes partnerships involving two or more organizations in which one or more of the organizations is responsible for a program, initiative, or administrative function (La Piana & Harrington, 2008). Examples of this type of partnership is the relationship between University of Louisville and the University of Louisville Foundation.

Merger

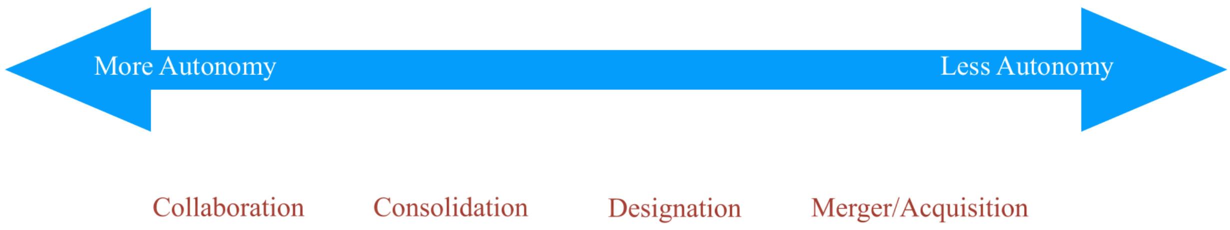
A merger is when two or more organizations are merged into one; this results in the creation of a new organization where all functions are combined (La Piana & Harrington, 2008). An example of this type of partnership is the merger of Seguin Services and the United Cerebral Palsy Association for Greater Chicago.

Acquisition

An acquisition is the absorption of one or more organizations into another; this provides the acquirer with all assets and liabilities of the absorbed (La Piana & Harrington, 2008). An example of this type of partnership is acquisition of Parent Connection by Arizona Children's Association.

When determining which partnership an organization should continue with it is important for all entities to understand that each relationship may or may not affect the level of authority of each organization involved. Figure 1 illustrates the relationship between the type of partnership and the level authority (La Piana & Harrington, 2008).

Figure 1: Type of Partnership vs. Level of Authority



Mergers and Acquisitions

While there are many different types of partnerships, mergers and acquisitions are becoming the most popular amongst the for-profit and not-for-profit communities. This type of partnership is sought as a solution to funding threats and the need to expand services. In continuing with this partnership, nonprofit organizations must realize that poor planning of a potential merger or acquisition may lead to increased issues within the organization. This paper hypothesizes that poor planning of merger or acquisitions will lead to increased issues within the organization.

Successful leaders of mergers and/ acquisitions estimate that the average length of time for this type of partnership to be fully implemented is 15 to 28 months (Butzen, 2009). Given the time it takes to implement this type of partnership, leaders of nonprofit organizations must think of these strategies as quality improvement tools that are meant to be carefully analyzed. To ensure all elements of the strategy are fully realized, the interested organization should go through three organized phases

1. Plan
2. Implement
3. Monitor

Plan, Implement, and Monitor

Phase 1: Plan

The first phase of a strategic merger and acquisition is to plan. The planning phase allows both organizations the ability to complete internal and external research, determine what type of merger and/ acquisition will be sought, negotiate details of the new relationship, and develop plans to efficiently implement and monitor the new partnership. This phase is most important as it lays the foundation for the other phases of the strategy. The planning phase will aid in determining if the organization of interest is a good fit.

The first step of the planning phase is to develop a taskforce. All implementation strategies need a leadership team; by designating employees to lead the process, both organizations are ensured that the process is appropriately led. The taskforce should be developed once leadership (of the interested organization) has approved the investigation of a merger and/ acquisition.

The taskforce should include diverse employees from all levels throughout the interested organization. According to Harvard Business Review's *Why Diverse Teams Are Smarter,* "diverse teams are more likely to constantly reexamine facts and remain objective" (Rock & Grant, 2016). When examining information provided by both organizations, it will be important to have a diverse team that is able to digest information and make decisions that aren't swayed by groupthink behavior which might otherwise be seen in less diverse teams. In addition to ensuring information is examined in a thoughtful manner, proper representation of the organization will ensure decisions made about the new partnership include those from leadership, management, and lower levels of the organization.

The second step of the planning phase is to complete preliminary research on the organization of interest. When completing preliminary research the taskforce should look for the following:

- Mission, values, and vision statements
- Financial, audit, and operational reports
- Public relations and marketing tools used
- Publicly available articles that discredit and/ credit the organization

The taskforce should review the mission, values, vision statements. The mission statement "…describe[s] the essential what and why for an organization – what it intends to do and why that matters" (Fawcett, 2018). The value statement defines core values of the organization which should reflect top priorities and expectations from employees. The vision statement defines attainable goals of the organization**.** Examining these statements will immediately provide the taskforce insight on if the organization of interest aligns with their organization or has the potential to align.

The taskforce should review financial, audit, and operational reports. The financial reports will provide the taskforce with an idea of how diverse the organization's funds are and a clear understanding of the organization's spending habits. These reports will also communicate information related to pension plan administration and options. The audit reports will provide the taskforce with an understanding of areas of weakness and strength; having historical audit reports will allow the taskforce the ability to see if previous auditor recommendations have been adopted.

Operational reports include standard operating procedures and outcome data. Standard operating procedures will allow the taskforce to understand what is expected of the employees. Outcome data will provide the taskforce with an understanding on if the organization is reaching its short- and long-term goals, client statistics, and basic employee statistics.

Following the statements and reports, other important elements include how the organization communicates to the public and news or scholarly articles that either discredit or credit the organization of interest. Both elements will aid the taskforce in understanding basic information related to organization's brand, reputation, and public identity. While the interested organization may not be focused on the popularity of the organization of interest, they may raise concerns if the organization doesn't have a prominent image in the community that is recognized by its intended audience.

The third step of the planning phase is the completion of internal research. It is essential that the taskforce analyzes its own organization to determine if the organization is prepared to engage in a merger or acquisition partnership. Items that should be examined include style of leadership, organizational culture, legal issues, ongoing implementations, and reserve/project funding. It is important that the interested organization has solid leadership with a leadership style that compliments the organization of interest. Organizational culture within the interested organization should also be reviewed; internal issues relating to organizational culture may lead to an increase of employees not complying during the implementation phase. Legal issues, ongoing implementations, and reserve/project funding issues will impact the interested organization's ability to move forward with the partnership or may extend timelines.

The fourth step of the planning phase is discussions with both parties' governing body and leadership members. In-person discussions will allow all parties the ability to talk through major areas of concern and ask questions. These discussions will also allow parties to share their ideas of the advantages and disadvantages of the potential partnership.

The fifth step of the planning phase is additional research on the organization of interest. Once the discussions have occurred, the taskforce should have access to more documents which should be examined. During this step, the taskforce should consult with their legal counsel to ensure legal jargon is interpreted correctly and to be advised on questions regarding legal matters. This will help the taskforce to fully realize any legal issues and other potential issues that may impact the perceived benefits of the partnership.

The sixth step of the planning phase is monitored and documented negotiation. During this step legal counsel from both parties should be present. Leadership members of both parties should be present to negotiate and complete final documents to be submitted to governmental offices.

The seventh step of the planning phase is the development of implementation and monitoring processes and schedules. During this phase the taskforce should develop a comprehensive and realistic plan for implementation and monitoring of the new partnership. This plan should be reviewed multiple times and should be vetted through both leadership teams.

The final step of the planning phase is communication to employees of the intent to implement the merger and/ acquisition strategy. The taskforce needs to ensure a communication plan is in place to ensure employees are aware of the new partnership. Forums need to be considered to allow employees the ability to ask questions. These forums will also include employees in the process which may increase their acceptance of the partnership.

Phase 2: Implement

During this phase, the taskforce leads the implementation of the new partnership. Depending on the size of the implementation, the taskforce will move forward with hiring a temporary project manager who shall monitor the project budget, construction, and/ office movement.

Phase 3: Monitor

Throughout and after the implementation, the taskforce (and the project manager) shall monitor the implementation. Items that should be monitored include expenditures, timelines, and organizational culture. Throughout this phase it is also important for the taskforce to consult with an internal or external auditor to ensure new policies and procedures are being followed by new and existing employees. Any signs of unwillingness to follow new policies and procedures may be the result of organizational culture or communication issues which should be addressed during this phase.

Major Concerns

While mergers and/ acquisitions are becoming popular among the nonprofit community, there are many concerns associated when engaging in these types of partnerships. Major concerns may be found in the following areas: impact on staff, organizational culture, personal disillusionment, and autonomy.

Impact on Staff

Due to the size of staff in comparison of the taskforce, leadership team, and governing body, the staff will impact the partnership. According to Giffords and Dina, staff left out of the partnership process will have negative views of the partnership and the process (2003). It is crucial that staff be included in the process as it will provide staff with the ample time needed to accept the new partnership and may improve organizational culture as staff are included in a major process.

Organizational Culture

Organizational culture is an important determinant in understanding if an organization will mesh well with another. The organizational culture of an entity will be realized before, during, and after the partnership. Giffords and Dina note that "…it is important to understand the concept of culture in order to develop a deeper awareness of how culture determines individual and social behavior within organizations" (2003, p.74). Combining organizations that are not culturally fit will inevitably end in an unsuccessful merger or acquisition. This is due to fundamental differences among employees hindering implementation of goals (Giffords & Dina, 2003).

Personal Disillusionment

The level of success of a merger and/ acquisition will affect the leadership team and those involved in the daily process. Unsuccessful mergers and acquisitions may lead to personal disillusionment. Gabriel and Marian note that "failure to achieve economic stability and financial gains […] can lead executives and staff to leave the organization" (2017, p. 442). The disappointment of the leadership team and those involved accelerate the failure of the partnership (Gabriel & Marian, 2017).

Autonomy

Autonomy is a major component that impacts all employees and governing bodies. The shift of control of certain functions or programs may result in personnel layoffs or changes. While some mergers and acquisitions maintain the identity of the acquired/merged, others choose to integrate the organization within its brand or rebrand the organization as an initiative. This shift in autonomy may cause employees to leave or directors of the acquired/merged to feel powerless.

Examples

To understand how planning may affect a merger and/ acquisition strategy, three examples of partnerships are being examined. The first example is of a nonprofit merger between two nonprofit organizations. The second is an example of an acquisition of organizations. The third is an example of a merger and/ acquisition that was unsuccessful.

Example 1: Seguin Services & the United Cerebral Palsy Association for Greater Chicago

Seguin Services and the United Cerebral Palsy Association for Greater Chicago (UCP) merged to create the United Cerebral Palsy Seguin for Chicago. The two organizations merged to expand their capabilities; Seguin Services had key advantages in facilities, while UCP had key industry advantages in technology (Haider, 2017). The outcomes includes the organizations being able to "…achieve greater organizational strength and industry growth…" (Haider, 2017). In this example the leadership team of both organizations effectively identified key components that would enhance the ability of the organizations to build on their strengths; this is achieved through constant communication between both organizations and the development of preliminary trust and partnership to ensure both parties are successful in the end.

Example 2: Arizona Children's Association & Others

Arizona Children's Association (AzCa) acquired Parent Connection (1999), Child Haven (2000), Las Familias (2002), Golden Gate Community Center (2004), New Directions Institute for Infant Brain Development (2006), and Southern Arizona Center Against Sexual Assault (2008).

The organization acquired the six different organizations to improve service outcomes (Butzen, 2009). The outcomes includes the organizations being able to maintain their identities within AzCa; each organization is a division of AzCa; each organization has two to four seats on the AzCa board; and the total annual budget of AzCa grew from $4.5M to $40M (Butzen, 2009). In this example, AzCa recognized the need to maintain public identity to ensure the acquired organizations were able to maintain and build on their success. This approach positively affected the organizational culture within the organization as the structure of the acquired organizations weren't manipulated. See the Addendum for more details on this example.

Example 3: Arizona Children's Association & Child and Family Resources

Arizona Children's Association sought to merge with Child and Family Resources. The organization failed to merge with Child and Family Resources due to internal issues; the new CEO of AzCa presented that the merger would be viable and the leadership team as well as the board of AzCa disagreed with claims. The board of AzCa ended the investigation of the merger. The outcomes included reduced trust amongst the board, leadership team, and the CEO and the subsequent resignation of the CEO (which may or may not be directly related to the failed attempt at the merger). In this example, personal disillusionment might have occurred due to the inability to implement a major change within an organization. See the Addendum for more details on this example.

Evaluation of Examples

In evaluating mergers and acquisitions, most parties who pursue mergers and/ acquisitions are limited because of their lack of planning (Haider, 2017). In the examples noted in this paper, it is evident that the initial planning by organizations is a determinant in the level of success in mergers and acquisitions. Arizona Children's Association (pre-new CEO) carefully acquired one organization at a time rather than acquiring all at once. Seguin Services and the United Cerebral Palsy Association for Greater Chicago identified key advantages that would enhance both organizations. Arizona Children's Association (with new CEO) was unable to effectively plan due to internal issues which ultimately suggested that the organization needed to improve internally prior to partnering with another organization.

Conclusion

In understanding mergers and acquisitions, it is important to carefully plan out the process to ensure all advantages and disadvantages are accounted for. In addition to this interested organizations must understand that their internal environments must be examined to ensure they are well equipped to merge with another organization. The lack of planning may not immediately negatively affect the organizations, but may cause issues throughout the phases of the merger and acquisition process.

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Addendum

The Arizona Children's Association (AzCa) has remained the top servicer of Arizona in providing children and family health and mental services. Originally established to provide a home to orphaned and neglected children, the once Arizona Children's Home Association, expanded in scope over a 20-year period to better reach its mission to protect children, empower youth, and strengthen families.

Shortly after its inception, AzCa began making strides to better serve its community. In 1926, the organization increased its capacity to provide medical attention to children. In 1941, AzCa expanded to provide educational services. Soon after, the Association began providing regional services to the state of Arizona (Arizona Children's Association, n.d.).

In the 1992, AzCa brought on Fred Chaffee as Executive Director – soon he would serve as President and Chief Executive Officer. Chaffee sought the opportunity to work with community agencies and focused on turning AzCa into an organization that provided prevention services (Arizona's Children Association in Touch, 2011). He quickly realized the limitations of his organization – once citing that AzCa "[…] didn't have the brand awareness; the contacts nor the contracts in [certain service] areas" (Foster, Cortez, Smith-Milway, 2009). Once Chaffee realized the limitations that existed, he moved to acquire organizations to ensure AzCa could protect kids and preserve families.

The Successful Acquisitions

Chaffee believed an expansion strategy should be implemented at AzCa. He noted, "[…] the idea was to buy an existing entity that had good brand awareness, good funding sources and the people in place at a level that was relatively small but upon which we could build" (Foster, Cortez, Smith-Milway, 2009). Once Chaffee identified the organizations that would fit in AzCa's culture, he moved forward with multiple acquisitions:

- 1999 – Parent Connection
- 2000 – Child Haven
- 2002 – Las Familias
- 2004 – Golden Gate Community Center
- 2006 – New Directions Institute for Infant Brain Development
- 2008 – Southern Arizona Center Against Sexual Assault (Butzen, 2009).

By 2008, AzCa's $4.5M annual budget increased by $6.5M, making their annual budget $11M; soon they would have a $40M annual budget due to the increase in services (Butzen, 2009). While the financial growth of AzCa was incredible, Chaffee credits the success of the acquisitions to the process used to determine what organization was selected and if the organization would be a great fit for AzCa. Since the first acquisition, Arizona Children's Association has developed and expanded their processes for evaluating organizations that could potentially merge or be acquired by AzCa. The process includes a 10-question evaluation that examines the service expansion possibilities; the geography; the compatibility with the AzCa brand; the compatibility with AzCa's organizational culture; and the financial feasibility (See Figure 2). Chaffee's process was critical to AzCa's 6 mergers because of the following reasons:

Public Identity – Chaffee was keen on maintaining the identity of all organizations

acquired. He noted " […] by acquiring these providers and keeping their names, we immediately had credibility in those services and in the communities in which they operate" (Cortez, Foster, Smith Milway, 2009). The maintenance of the identity not only helped the organizations keep their names in the communities, but allowed the organizations to change very little about their structure or brand; AzCa even maintained the logos of each organization.

Arizona's Children Association's Key Questions for Initial M&A Evaluation

Strategic fit with services

1) Does it fill a gap in AzCA's continuum of services?
2) Does it allow AzCA to become involved in services that meet the emerging needs/trends of the agency?

Strategic fit with geography

3) Does it provide critical mass in a rural area?
4) Does it enhance AzCA's critical mass, whether in urban or rural areas, by adding substance to vulnerable programs?

Strategic fit with AzCA brand

5) Does it enhance AzCA's marketability, our reputation, and our branding efforts?

Organizational fit

6) Are the missions, visions and cultures of the agencies compatible?
7) Does it strengthen AzCA's Board?

Financial impact

8) Is the merger/acquisition fiscally viable?
9) Does it enhance AzCA's ability to fundraise?
10) Does it post a short/long-term financial risk to AzCA?

Figure 2 (Cortez, Foster, Smith Milway, 2009)

Organizational Culture – in AzCa's 10-question evaluation they determine if the prospect is compatible with AzCa's mission, vision, and cultures; this inclusion of such a criterion suggests that Chaffee wasn't only concerned with the financial profile of the prospect, but wanted to ensure the organizations' cultures could fit together. The ability for cultures to come together limits the disturbances experienced during organization-wide changes and makes the transition from organization A to organization B more seamless.

Slow Implementation – Chaffee chose to acquire one organization at a time; he even cites that M&As take 15 to 28 months to complete (Butzen, 2009). This slow implementation ensured that Chaffee could carefully plan, implement, and monitor each acquisition using his evaluation processes.

The Failed Acquisition

At the beginning of 2012, Chaffee stepped down as President and Chief Executive Officer, soon after Michael Coughlin replaced Chaffee as head of AzCa. Immediately after filling the role of President, Coughlin wanted to examine a potential M&A with Child and Family Resources. Child and Family Resources was virtually the same size as AzCa (Smith Milway, Orozco, Botero, 2014). While AzCa's board of directors knew this potential M&A would be the largest one for AzCa to undergo, they authorized Coughlin to move forward with research. Soon after Coughlin's leadership team would share concerns to the board regarding the viability of the M&A. Coughlin continued the support the M&A, but his team and now the board opposed him. After much opposition, the AzCa board ended the investigation of the M&A.

While Coughlin's process incorporated some elements of planning, key reasons that caused the potential M&A to be a failure include:

<u>Trust</u> – Coughlin attempted to undergo a M&A too early in his career with AzCa. At this time in his career, he did not yet establish trust with the board of directors or his leadership team Trust is critical in ensuring internal affairs are in place, any tension or major personnel issues among leadership need to be resolved prior to a M&A.

<u>Internal Communication</u> – The lack of internal communication stemmed from the lack of trust. Coughlin did not communicate with his leadership team to understand their apprehensions regarding the M&A. Additionally, the opposition between Coughlin, his leadership team, and the board suggested internal communication issues that should be resolved prior to an M&A.

<u>Personal Disillusionment</u> – while not a reason for the failure, it was clear that Coughlin overestimated the success of the M&A when he went against his leadership team in suggesting it

would be viable. This overestimation of the success of the M&A indirectly caused personal disillusionment as Coughlin would soon leave AzCa after only 1 year of service.

Conclusion

While the AzCa faced a major failure in investigating a potential M&A, the successful acquisitions made by Chaffee continue to be known in the state of Arizona, making AzCa one of the top premier services in the child and family industry. Due to Chaffee's careful planning and understanding of the importance of public identity, organizational culture, and timing AzCa has been able to protect kids and preserve families.