

Changing Organizational Cultures: The Challenge in Forging Successful Mergers

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ABSTRACT. This article addresses mergers in a nonprofit setting through a case study and a discussion of the literature. It addresses some commonly overlooked, though highly essential components of successful mergers: people.

Nonprofit human service agencies are fundamentally changing the way they do business. The environment on which they depend is evolving rapidly, forcing many organizational and cultural changes. Mergers of nonprofit organizations operate similarly to those in proprietary settings, particularly around employee issues. Oftentimes the beginning phase of mergers creates workplace ambiguities for workers. In a merger, the culture of each organization must advance a deeper understanding and respect for the other's differences before the staff of each organization can build trust and communicate effectively as one team and create its own new culture. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <getinfo@haworthpressinc.com> Website: <<http://www.HaworthPress.com>> © 2003 by The Haworth Press, Inc. All rights reserved.]*

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INTRODUCTION

This article addresses mergers in a nonprofit setting through a case study and a discussion of the literature. It addresses some commonly overlooked, though highly essential components of successful mergers: people. Based on the authors' hands-on experience and subsequent reflections on events related to a merger between two nonprofit human service organizations, the authors found that lack of attention to staff participation in the merger, closed communication channels, and insensitivity to the potential impact of the merger on line staff can adversely affect the immediate and longer term transition. Employee perception that 'one side' has 'taken-over' the other may lead to one group of employees seen as dominant or favored over the other group. Employees who experience these feelings are in need of support through the merger transition.

The authors were directly involved in the merger described in this article. One is the President and CEO of the merged entity; the other was a staff member during the planning stage of the merger and later a consultant to the CEO during the post-merger processes. The information used in this article is based upon the lived experience of the writers through many strategy meetings, as well as debriefings on the success and effectiveness of various steps taken to implement the merger over a four-year period. This experience is explored here using existing literature on mergers and includes valuable lessons derived from the multi-year process.

The term "merger" as defined here is the coming together of two or more separate organizations into a single organization. La Piana (1994) states merger "erases the separate identities of the would be partners, melding entities into one organization—warts and all" (p. 6). Merger is not right for every organization but it is an option that many nonprofit human service organizations are considering and undertaking. Mergers are successful only when stakeholders expend considerable time and effort to formulate and adopt a culture for the new (combined) organization.

Why Merge? Explorations and Considerations

Nonprofit human service agencies are fundamentally changing the way they do business. They have to. The environment on which they depend is changing rapidly, forcing organizations to modify how they sustain themselves. Government support to resolve social dilemmas

continues to wane and devolve to local communities. Managed care principles are impacting how services are delivered. Welfare reform is requiring agency redirections and new program products. Market share is threatened by invading for-profits. Competition among nonprofits for community support abounds. Funding sources are demanding greater accountability and more cost-effective results. In fact, Skloot (2000) recently raised the question as to whether nonprofits can exist in today's marketplace as they are currently structured or whether they are bound for extinction.

In a 1992 study, Dina found that agency directors from Long Island, New York believed that the nonprofit sector would inevitably shrink as public funding for services is reduced. This study also revealed that few of these directors, in spite of their predictions, had seriously considered merging or any form of inter-agency partnerships for their organizations. By 2002, "going it alone" has now become outdated. The paradigm has shifted. Forming alliances, collaborations, networks and mergers are becoming necessary in order to be competitive and provide better client services. In recent years, several publications have addressed a variety of topics that are essential to the discussion of alliances, mergers, and collaborations. Material that demonstrates the "how to" of merger is slowly accumulating in the literature (for examples see Dina & Mickulas, 1997; McBride & Weiss, 1998; McLaughlin, 1996; O'Brien & Collier, 1981; Greater New York Fund/United Way, 1981, p. 2). A studied focus on post-merger organizational life in nonprofit human services, however, is in its infancy.

Traditionally, merger outcome studies have examined "hard" organizational dimensions such as staff compensation, benefits and fiscal and product integration. Recently however, the literature has charged that "soft" organizational factors such as employees' attitudes toward change, job satisfaction, organizational culture and other human elements have been dismissed, understudied or largely ignored (Cartwright & Cooper, 1995; Olie, 1994; Taylor, Austin & Caputo, 1992). Undoubtedly, it is easier to quantify tangible assumptions such as whether a merger reduces overall costs and improves an organization's "bottom line." However, research must also help us to determine how internal human relationships affect the quality and success of a merger.

This is a relatively new area for the nonprofit sector to consider and provokes questions about the impact of mergers on staff and the organization's administrative functioning. For instance, do nonprofit human service staff who report they are happy with the merger respond more effectively to client need than those who report they are not happy with

the change? Does staff perception of the merger impact work-related outcomes such as tenure, and attendance five years post-merger? A main reason behind the decision to merge in the nonprofit sector is that the merger will produce a more effective and efficient organization in the community. Essential elements in achieving such a goal are the attitudes and morale of staff who carry out the daily functions of the organization.

The steps that two autonomous organizations must take in order to partner successfully are innately complicated. Once an agreement has been reached and the papers have been signed, the goal of then combining two disparate organizations into one entity with its own culture, requires attention to a myriad of internal and external tasks. According to McLaughlin (1996), three external merger goals for combined agencies should be achieving a stronger public position in the community; increasing the agency's response to community needs; and boosting professional recognition. McLaughlin also identified three internal goals. These are streamlining internal operations; increasing employee morale; and improving internal responsiveness to outside demands. Each of these goals is important for an organization to consider when planning a merger.

As the purpose of this paper is to focus on the human factor of mergers, the following discussion will address how merger impacts staff and how staff are crucial to formulating a culture in the new organization. This paper will also identify employee-related issues for administrators to consider throughout the process of combining two organizations through a discussion of the literature on the topic and from insights gleaned from the case presentation.

THE HUMAN RESPONSE TO MERGER IN NONPROFIT ORGANIZATIONS

Effects of Merger on Staff

Mergers of nonprofit organizations operate similarly to those in proprietary settings, particularly around employee issues. Oftentimes the beginning phase creates workplace ambiguities and uncertainties for workers. For example, initial rumors—even before anything is said officially—may cause employees to worry about job loss, job satisfaction and worker stress because of perceived changes to the organization and its culture.

In a merger between two Long Island, New York based human service agencies in 1998 (Children's House and Family Service Association of Nassau County), staff anxiety prevailed. The Executive Director of one agency retired and the new CEO of the partnership was the Executive from the other. Employees, who originated from the agency where the Executive Director retired, felt abandoned, threatened and most characterized the merger as a take-over. Compounding this was the general feeling among staff that the merger was not "needed." This reaction was in spite of a one-year study by a joint task force and sequential vote of approval by Board members from both agencies on the potential for positioning the merged entities to thrive—not simply survive—in a rapidly changing environment. Another primary reason for merging was the belief of both Boards of Directors that the combined services from both agencies would provide a unique continuum of care (from birth to death) that would better serve the multiple needs of clients.

At the outset, one problem with the merger was that relatively few staff were part of the task force's year-long process and subsequent decision and thus, staff were not prepared for its results. This teaches an important lesson: Even in the early stage of feasibility determination, there is a crucial need to inform staff that the option of merger is under investigation for specific, legitimate reasons. In addition, management needs to be open to hearing and responding to staff concerns in addition to involving them in the decision making process.

Integration of Personnel and Programs

To mitigate employee reactions, a management team was immediately created in January, 1998 representing lead staff from both organizations to consider ways of moving the merger forward. That team agreed on a series of "joint and common" projects to foster inter-agency work among all levels of staff. Also, agency wide events including activities such as open houses, a staff appreciation luncheon, and a picnic were held to foster introductions and bonding among employees from each "side" of the organization.

After an introductory phase, a management structure was in place by the Spring of 1998 to foster integration of the fifty programs from both sides of the merged agency by creating six "families" (divisions) of services. Roles and responsibilities for staff at all levels were also delineated, as was the construction of a common personnel policies manual. Some months into the merger, by the end of 1998, staff qualms began to recede. No jobs were cut (except through attrition), no programs were

eliminated (though some were consolidated), and fund raising results did not decrease as projected. In fact, they increased. In essence, none of the disastrous results prophesied by skeptics came about.

Also learned through this process is that the decision to merge is but the beginning of merging! One of the most important but subtle issues to be realized and faced up to is that *each organization's persona—its personality, style and beliefs, its very culture—is changed by merger*. Therein lies the challenge. Merger requires that a new culture be created. It cannot be achieved simply by combining the previous cultures of the two organizations.

Merging Organizational Cultures

Much of the literature explains that problems arising from trying to blend two separate organizations into one flow from the differences in each entity's culture. Consequently, 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. Schein defines organizational culture as "a pattern of basic assumptions—invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration—that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to these problems" (1992, p. 494).

It is also important to note that while each organization has its own unique cultural identity, it is made up of numerous individuals and groups who, in fact, function as an integrated network of subcultures (Elsass & Veiga, 1994). For example, an agency that has multiple programs will have multiple cultures, decision-making styles, values and expected behaviors. This was certainly a factor for the organization presented in this paper.

Many researchers believe that "culture fit" is what makes or breaks a merger. Fundamental differences among employees in their thoughts, behaviors and actions, may hinder implementation of goals (Olie, 1994). As the two entities merge, for instance, changes within reporting relationships may be met by resistance at all levels of staff—including management. Each group has a preconceived image or expectation of what the merged entity should look like or how it should function. The perception that one entity has "taken over" the other also results in feelings of loss and anger. This loss factor is usually underestimated in mergers (Behrendt & Klein, 1997; Olsen, 1996). Frequently employees

are expected to accept change immediately. The fact is that building trust requires time and experience together.

As noted earlier, this scenario was very much in play in the early stages of the Children's House/Family Service Association merger. Staff's feelings of loss and abandonment required much patience on management's part, including the need for long, hard listening and many meetings to interpret decisions and movements. "*Blend, don't beat*" (McLaughlin, 1996) was the operative mantra.

The management dilemma that arises in such a situation is the need to pay attention to "process" while giving shape to the merger through leadership. This essential task requires giving everyone a sense of belonging to one agency, and the feeling that together staff are moving forward based upon a common mission and a shared vision. There must also be allowance for individual styles and personalities at various levels within the organization ranging from line workers to managers. The difficulty is finding the right balance between fostering natural processes and providing solid leadership. This is particularly hard at first. Everyone has an opinion. Some say, the organization is moving too fast; others say too slow. Some say the organization is too mission focused despite the realities of the market; others say the organization is getting too corporate and losing its soul in the process.

There is no easy formula. As staff realize that the intent of the "marriage" is a true blend of what is good within each agency and not a hostile take-over of one partner over the other, they adopt a "wait and see" attitude and their outright hostility fades. Leadership should be cognizant of their individual reactions and their role during this adjustment process. As in most situations, management's actions speak volumes whether these behaviors are explicitly stated or communicated non-verbally.

Building Trust

In any social setting, trust is essential to consensus building and to fostering effective communication. Organizational settings are no different. Trust between organizations can be compromised by misunderstandings that flow from different organizational cultures; or trust can be fostered through the belief that both parties are being honest. Successful alliances respect differences and work through them productively as they develop *new* norms that meet everyone's expectations (McCambridge & Weiss, 1998). This is not easy. The process is time consuming and onerous. It is however, a necessary task in order to inte-

grate the existing cultures into a new one and to formulate a common value system and shared vision.

This is perhaps the contribution that the nonprofit sector can make to the for-profit world in our common task to understand more deeply the dynamics of mergers. People are not automatons. They will respond better and more positively the more that they believe they are brought into the loop, listened to, respected, and given time to adjust so that the true potential of the merger might be realized.

Communication

Communication is the “sine qua non” that helps employees adapt and create support for the merger. The leaders of each agency must learn to communicate clearly, and often with the stakeholders of each entity. Such groups include the Board of Directors, employees at all levels, clients and the community at large. The information provided to each needs to include “sensitive and important issues, give honest and clear answers and explain the rationale for decisions” (Conklin, 1994, p. 23). The new organization’s leaders must share information regularly and in multiple ways. Staff will maintain feelings of vulnerability as long as they feel uninformed. Lack of honest and forthright information germinates low morale, reduced productivity, and even sabotage (McCambridge & Weiss, 1998).

By the mid-point of the first year (1998) of the Family Service Association/Children’s House merger, a multiple strategy was devised to facilitate communication throughout this 25-site, highly decentralized organization of nearly 400 full time and part time staff. First, three staff groupings were formed, each with a distinct purpose: the Steering Committee of executive staff (7) that meets bi-weekly for business decisions; an Executive Team consisting of all who carry out an agency-wide function (14) who meet bi-weekly for coordination purposes; and the Management Council that consists of all program directors and the Executive Team (30) who meet monthly, primarily for communication and input.

Another valuable asset in heightening communication and participation has been the adoption of a 5-year technology improvement initiative. The development of local and wide area networks throughout the agency has allowed rapid e-mail communication to most all staff. The initiation of a monthly staff newsletter and a weekly computer generated Broadcast News has added to the organization’s efforts of intra-communication. In addition, the CEO holds “staff forums” on a quarterly basis at

various office locations to highlight major themes of the organization and to get staff feedback on issues. It is difficult to achieve consensus and to build a common understanding between two groups who have had little interaction. Olie (1994) defines effective integration in mergers as “the combination of firms into a single unity or group, generating joint efforts to fulfill the goals of the new organization” (p. 386). This takes a tremendous amount of work. There are no short cuts, clear roadmaps, nor easy answers. A management strategy must include staff needs and feelings if the merger is to achieve synergy among its staff and ultimately more effective services for its clients.

Developing a Shared Vision

In their study on the creation of the BJC Health Systems, Behrendt and Klein (1997) state that a crucial first step is creating a unified plan that all parties believe in. They suggest that adequate time and effort need to go into defining the mission, vision and values of the merger plan. After BJC developed a single governing Board from equal members of both entities, they created a new corporate name and identity. Additionally, eight priorities for the first year were identified and flowed from the mission, vision and values of the new combined organization. In order to implement this plan and manage the change to a new, diverse culture, they organized senior management into a single team.

The experience at Family and Children’s Association—the name of the Children’s House/Family Service merger—bears out much of this advice. Crafting a mission statement and a set of priorities was a crucial, soul-searching experience. Also, developing a single Board of Trustees with a strong committee system, and common priorities has resulted in less of a sense of “them and us” and more feelings of “we.” This was achieved through a careful strategic planning process. Helpful in this process early on was a two-day session for managers on achieving “cultural competence” (skillfully facilitated by staff from the Child Welfare League of America). This experience shed light on the wisdom of respecting differences and created a bond between participants in a powerful, new way. In addition to much time and energy on staff needs in the early months of the merger, a retreat facilitated by an outside consultant was held for the Board. This was warmly received, and though new to each other, Board members confirmed how much they shared in common. Such retreats continue but now focus on the results of the organization’s work and how it can improve what Family and Children’s

Association does for the community. This is in contrast to the earlier “getting to know you” gatherings. These “special moments” are formulating a new conversation, building a common language and shared value system.

Four years later, staff and the Board now talk about “the merger” less frequently. The Board is functioning as one unit. Its committee system is in place and working well. This positive sense of coming together has “trickled-down” to management and staff. Today, more emphasis is on where staff are going *together* as co-workers and colleagues. Even with many steps and stages accomplished, however, the merging process continues. A helpful infrastructure is in place. Staff is mingling, swapping resources, and together they have designed a system of wrap-around care to clients with realistic, quantifiable service outcomes. Critical to accomplishing this was the decision in 1999 to seek accreditation for this new agency through the Council on Accreditation for Services to Families and Children. That decision concentrated staff on meeting national standards within all aspects and functions of the new organization. This also focused staff on working as one team to meet objective, modern expectations and not those simply taken from one agency or the other.

Four years into this merger, people are now feeling “good” (or at least better) about the new agency. The agency is slowly forming a new culture—one that reflects the original hopes and goals of the merger. The foundation of this shared vision has strengthened as staff learn and develop a deeper understanding of one another. Increasingly, the results of the organization’s work—its impact on the lives of clients—is the agenda for discussion, not the details and processes used early on. However, like many mergers there are still challenges to resolve.

Finding the Right Mix

Differences remain about the speed of change vs. consensus building. Some employees and Board members continue to express a sense of loss of a “family” feeling as the organization continues to grow beyond its original doubling in size. Some also continue to search for how they can participate in the new work environment with satisfaction. Oftentimes in a merger (the organization discussed here is no different), discretionary authority is repositioned on the organizational chart. This may result in staff finding that their degree of participation in decision-making has changed. This shift may create a perception of mis-

treatment (O'Brien & Collier, 1991) and should be processed with these individuals whenever possible.

The strategy utilized at Family and Children's Association to mitigate the inevitable "human" responses to change has been to challenge staff and Board members to solve the daily challenges of merger through creative solutions. Since 2000, two years into the merger, the primary work for the year is agreed upon annually through a strategic planning process that identifies a set of agency imperatives for the collective agency. Task groups consisting of Board and staff develop strategies, and work plans for each imperative, and review them on a quarterly basis. Under the rubric of continuous quality and performance improvement, conversations focus on what can be learned from various results and how to arrive at solutions, rather emphasizing problems. This process has allowed for organizational growth, personal bonding and a sense of accomplishment that has begun to permeate the agency.

LESSONS LEARNED

There are important issues for a successful merger that allow managers to synthesize the human component of merging with the more tangible factors. While the particulars of each merger will be different, there will be common experiences throughout the process. After four years, insights abound from the authors' merger experience. Thus, the authors present "*lessons learned*" here in hope that this experience will offer a better understanding of some commonly overlooked, though essential components of successful mergers.

- Deciding to merge is but the beginning of merging. Signing on the dotted line does not automatically produce a well-oiled, single focused team. It takes lots of time and work.
- Merging is not just putting two agencies together. It is about creating a brand-new agency with its own style and systems (culture) that requires change from all during a multi-year effort.
- The initial focus on bonding, cross-agency teams, and communication—the process events—is necessary but ultimately must yield to agency-wide dialogue on outcomes, results and quality improvement goals of the new agency (that is, in truth, an endless process).
- Merger requires a more "business" approach to management due to the increased size and complexity of the agency. Balancing

mission with market—how to function in this rapidly changing, high-speed age without selling your nonprofit soul—is the perennial challenge in modern organizational life.

- The role of executive staff is to function as the “center,” not the top, of the organization. Their job is to gather the resources for and define the boundaries of agency life so that all others might function freely and fully in a mutually accountable manner. Leadership as an organizational trait must be the goal.
- The Board governance style must adapt too as organizational size and complexity increases. Members as trustees: outward oriented, future directed, and resource developers must replace the more traditional style of members as directors: inward oriented and mired in the details and management of the agency.

The authors’ findings are consistent with research that suggests that while pre-merger planning ranks high in respect to importance, the merger often takes on a life of its own. While it is crucial that key organization players engage in pre-planning, there are no guarantees that this planning will prevent problems from emerging. However, even those respondents that identified difficulties in combining their separate organizations, consistently reported the agency nearly accomplished all of its merger objectives three years after the merger (Taylor, Austin et al., 1992).

Dina and Mickulas (1996) suggest nonprofits that are considering merger must think about the decision to merge within a context of building and preserving the organization’s capacity to ensure reliable service delivery to its constituents. The decision to merge must also take into account the realities of the nonprofit marketplace in the current economic environment. They explain that mergers are not magic nor a panacea. Mergers are about change. Increasingly the role played by people in their organizational cultures is gaining more attention in the study of mergers (e.g., see Elsass & Veiga, 1994; Ollie, 1994; and Cartwright, 1998).

Traditionally, each organization possesses its own complexities and uses a different theoretical approach toward administration to achieve its means. When organizations merge, “business as usual” will be anything but usual. Adjustment to change of this nature is frequently hard. Concerning the merger between Children’s House and Family Service Association, perhaps two years from now the old ways will have faded fully and given birth to a firmer sense of Family and Children’s Association as a single entity. For sure, some things cannot be rushed. Much time and patience is needed when you are creating an organizational “soul.”

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