Nonprofit Strategic Alliances Case Studies:

Lessons from the Trenches

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Strategic Alliance Project

The Mandel Center for Nonprofit Organizations, founded in 1984 at Case Western Reserve University, is a university-wide academic center and a partnership of the Mandel School of Applied Social Sciences, Weatherhead School of Management, School of Law, and the College of Arts and Sciences. Its mission is to enhance the effectiveness of nonprofit leaders and managers and the organizations they serve through education, research, and community service.

The Mandel Center is engaged in a four-year program (started in 1998)—supported by a grant from the W.K. Kellogg Foundation—to build bridges between the academy and the community. This program has enabled the Center to expand its scope and build its capacity in each of its three functional areas: education, research, and community services. The Strategic Alliance Project is one of the Center's success stories in accomplishing its bridge building objectives. Project-related activities have built new bridges between the Center and nonprofit leaders and managers, between the Center's three functional areas, and between the Center and the Mandel School of Applied Social Sciences.

The Mandel Center's Strategic Alliance Project is directed by Dr. John A. Yankey, the Leonard W. Mayo Professor at the Mandel School of Applied Social Sciences. He has been most ably assisted from its beginning by Barbara Wester Jacobus, who participated in designing project activities, provided day-to-day coordination of project work, and co-authored project publications. Amy McClellan has played a pivotal role in stimulating thinking about strategic alliances and planning project activities, as well as assuming major responsibility in developing a series of case studies on nonprofit strategic alliances. Other team members from the Mandel Center have included Ann Lucas, Susan Freimark, Martha Hatcher, Kate Kerwin, Amber Pritchard, Jenny Richland, and Fumi Sakamoto. All have been important contributors.

The Strategic Alliance Project has been greatly strengthened as a result of its close collaboration with colleagues at the Mandel School of Applied Social Sciences. Dean Darlyne Bailey and Kelly McNally Koney were studying strategic alliances among health and human service agencies as a part of a book they were co-authoring for Sage Publications. Their work also included the development of case studies. David Campbell, a student in the school's doctoral program, focused his dissertation on four case studies of strategic alliance formation. When approached to collaborate, these colleagues enthusiastically embraced the notion. Following completion of her work on the book for Sage Publications, Kelly McNally Koney became an important consultant to the Strategic Alliance Project. This collaboration between the Mandel Center and the Mandel School has served both partners well, adding significantly to the quality

and quantity of productivity and learning.

During the past three years, the Strategic Alliance Project has:

- Conducted a comprehensive literature review of strategic alliance development in both the for-profit and nonprofit sectors,
- Carried out a national study of 65 nonprofit organizations' experiences in establishing strategic alliances,
- Developed in-depth case studies of selected strategic alliances,
- Provided current information to update and refine curricular offerings,
- Conducted a nonprofit leadership roundtable focusing on the similarities and differences between nonprofit and for-profit strategic alliances, and
- Developed and offered workshops on strategic alliances to professional and lay nonprofit leadership in various cities throughout Ohio.

Much of the work of the Center's Strategic Alliance Project is reflected in the following four publications:

Nonprofit Leadership Roundtable on the Similarities and Differences Between Nonprofit and For-Profit Strategic Alliances

Nonprofit Strategic Alliances Case Studies: Lessons from the Trenches

Merging Nonprofit Organizations: The Art and Science of the Deal

Additionally, *Strategic Alliances Among Health and Human Services Organizations: From Affiliations to Consolidations,* written by Dean Darlyne Bailey and Kelly McNally Koney, was published in 2000 by Sage Publications.

The Strategic Alliance Project staff is most grateful to all the people who, during the past three years, opened their organizations and shared their experiences about strategic alliance formation. It is hoped this collective body of work will prove useful to nonprofit leaders in the future as they consider the pursuit of strategic alliances.

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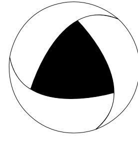


Introduction

Strategic Alliance Case Studies

For years, nonprofit organizations have collaborated with one another. Whether at the behest of funders, in compliance with government mandates, or out of a sincere desire to combine forces around a particular effort, organizations have entered interorganizational relationships in greater numbers. As the nonprofit sector has changed, so too have these kinds of relationships. They have become more purposeful and formal and, in turn, are beginning to influence the changing landscape of the nonprofit sector.

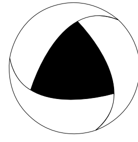
As nonprofit organizations move beyond traditional collaborative activities and into legally-structured alliances such as mergers and consolidations, they often have few real-life examples of the considerations that go into these arrangements and models of how they are implemented. The six case studies collected here feature organizations that have completed a merger, consolidation, or some other kind of legal alliance with one or more organizations. The case studies illustrate:

- The driving forces that influence organizations to consider strategic alliances;
- How they chose or came to know their partners;
- The timeline and process they used to form the alliance;
- The hurdles or obstacles they encountered along the way;
- The evaluation or outcomes of the alliance; and
- The lessons they learned from the entire experience.

These case studies are descriptive. Following the general outline above, they describe the alliance formation from the perspectives of their participants. They do not represent a formal analysis, nor do they seek to illustrate a particular theory or research question. They are simply records of formative events in the lives of these organizations and their participants. They are intended to provide insights to those who may be considering similar activities or those just interested in the general structure and management of nonprofit organizations.

The information was collected through personal interviews with executive directors, leadership staff, and board members, and supplemented by archival materials and documents submitted by the organizations. The organizations were selected for this case study collection based upon their familiarity to the research team (often having been introduced by a third party), as well as their interest in sharing their experiences with a broader audience. Some of the case study

organizations participated in a national study of strategic alliance activity between nonprofit organizations conducted by two research teams representing the Mandel Center for Nonprofit Organizations and the Mandel School of Applied Social Sciences at Case Western Reserve University in Cleveland, Ohio. These case studies are an extension of that research and provide a more in-depth look inside the makings of the kinds of strategic alliances that end up changing the lives of organizations and the people that they serve.



Case Study 1

The Alliance for Nonprofit Management

Washington, D.C.

Background and Overview

The Alliance for Nonprofit Management (the Alliance) was formed in 1997 from a merger between the Nonprofit Management Association (NMA) and Support Centers of America (SCA). The Alliance is a professional association of member organizations and individuals devoted to helping nonprofit organizations increase their effectiveness and impact. Its array of systems and services include networking opportunities, an Online Resource Center, a Career Bank, print and online membership directories, a bi-weekly electronic newsletter, and periodic reports on the salaries and benefits of management support professionals. Members of the organization are management support professionals, academic centers, nonprofit sector advocates, and associations organized around management and governance categories and specific missions. Members also include brokers of volunteer services, for-profit consulting and technical assistance firms, publishers, and grantmakers.

The Nonprofit Management Association was formed more than 20 years ago to bring together practitioners of management support organizations. NMA wanted to build a body of knowledge centered on the nonprofit sector, facilitate peer networking, and encourage the sharing and development of cutting-edge training and consulting strategies to build nonprofit capacity. With an annual budget of $30,000, NMA's greatest strength was its member network of 150 management support organizations and professionals who paid annual dues. The organization, in turn, provided highly successful annual conferences as an opportunity for members to sharpen skills and interact with colleagues. NMA also produced a directory of members for referrals and networking, and a quarterly newsletter as a vehicle to exchange ideas. NMA's culture was collegial, informal, and friendly. It had strong volunteer leadership and personal connections among members. NMA employed one part-time administrative director, and an informal committee was responsible for the conference.

Support Centers of America was founded more than 25 years ago as the national organization for the Support Center system. Based in San Francisco and with an annual budget of $100,000, SCA was the nation's largest management support organization with ten branch offices and four affiliates serving communities across the United States. SCA's mission was "to build a strong, collaborative network of

nonprofit management support organizations, while asserting new leadership in the nonprofit sector around management and governance issues." SCA's culture was businesslike and formal. Its strengths included experience with a highly networked system of local support centers, substantial intellectual property and materials, and strong core staff and volunteer leadership.

NMA and SCA shared a history. The founder of SCA was one of several founders of NMA. In the mid-1970s, they hoped the organizations would conduct a joint annual conference. The organizations disagreed, however, about the qualifications of technical assistance providers; NMA refused to become accredited as such, leaving SCA to establish its own annual conference. But, whatever past disagreements existed, they were not stumbling blocks to the current merger by the leadership of either organization. NMA and SCA had maintained a good relationship over the years and shared common members, and the original players were either gone or neutral about the past.

The spirit of the relationship between NMA and SCA is reflected in the way in which the two organizations came together in 1997. At the time, they wanted to move quickly toward some kind of alliance. A consolidation – in which both organizations are dissolved into a new organization – was their legal alliance structure of choice. Until the Alliance for Nonprofit Management could realize this, which required extra time to secure financial arrangements and obtain legal filings such as IRS 501(c)(3) tax status, they operated through SCA. For some time after the alliance had been formalized, the Alliance for Nonprofit Management looked like a merger because NMA had dissolved itself but SCA still operated as the Alliance's fiscal agent.

Driving Forces

The forces driving the merger for the Nonprofit Management Association were predominantly internal. NMA's desire to form an alliance dates back to the early 1990s when its board president invited NMA leadership to a conference in New Jersey and took them through a process of identifying 27 possible partners for alliance consideration. At the same time, the executive director of Support Centers of America was invited to join the NMA board.

Later, under a new board president, NMA underwent a strategic planning process and identified the following goals:

- Provide learning opportunities to enhance core competencies for management support professionals and organizations,
- Create products and information to enhance the service delivery of management support professionals and organizations with products and information,
- Increase diversity of the management support profession,
- Grow and improve the status of the management support profession,
- Develop sufficient human resources and systems to support programmatic goals,
- Develop sufficient financial and in-kind resources to support programmatic goals and administrative systems, and
- Increase membership through recruitment of new members and retention of current members.

After finalizing its strategic plan, NMA realized there were too many initiatives to accomplish alone in its current configuration.

The forces driving merger consideration for SCA were also predominantly internal. Prior to the decision to merge, SCA had undergone strategic planning from which emerged a significant strategy shift. It decided to spin-off its operating units (local Support Centers). This decision changed its organizational purpose from supporting other nonprofit organizations to being a support center for other Support Centers. SCA wanted to become more of a voice for technical capacity building and industry best practices. It identified the following goals in its strategic plan:

- Support and facilitate the sharing of knowledge, materials and best practices throughout a network of affiliated management service organizations (MSOs),
- Lead in the development and codification of knowledge in nonprofit management,
- Create regular opportunities for professional development for the staff and volunteers of member MSOs,
- Increase the capacity of MSOs to provide and deliver training and consulting programs to regional nonprofits,
- Develop an accessible information/knowledge system to provide the nonprofit sector with a reliable source of nonprofit management information,
- Lead in the development of standards and measures of effectiveness for MSO programs,
- Reduce the short term cash flow problems of affiliate MSOs,
- Exercise sectorwide leadership on issues that will impact the effectiveness of the nonprofit sector,
- In the absence of local management support programs, organize and coordinate network resources to offer management support services to nonprofit communities through national training contracts and national corporate sponsored programs, and
- Build a network of affiliate centers.

SCA's shift in strategy left its strategic plan looking a lot like NMA's. The timing appeared fortuitous for both organizations to look at strategic partnerships. SCA once had an obligation for the viability of its affiliates, but they had been released from national oversight and were now independent organizations. NMA hosted a yearly conference but felt it had a responsibility to the nonprofit sector to provide more substantial services. Both questioned their future responsibilities to the sector, and neither organization had the strength to make a large impact alone.

Partner Formation

The board president of the Nonprofit Management Association and the executive director of Support Centers of America were good friends and had considered interorganizational partnerships with similar national organizations for some time. In the fall of 1995, NMA's board president discussed with the former president of its board, and now a Ford Foundation grant officer, the possibility of the Ford Foundation funding an Alliance Summit at which similar organizations could discuss possible synergies. A grant request soon followed and was funded, with some caution. The grant officer wanted to make sure that the timing and content of the summit were right for the participating organizations.

Meanwhile, with SCA's new strategic plan that included the decision to spin-off its operating units and NMA's decision to increase its capabilities and extend its reach, both organizations were on a remarkably similar path. The executive director of SCA (who also served on the board of NMA) believed in alliances and saw a fit between the two organizations. In June 1996, the executive director of SCA set up a conference call with the board president and key board members of NMA to accomplish three things: share candid thoughts on the notion of a NMA-SCA merger or other possible relationship; if sufficient interest existed, determine the next steps for exploring the matter with the organizations' wider constituencies; and identify next steps.

Following the conference call, the executive director of SCA wrote a memo to NMA's conference call participants and described his observations. They were based on key assumptions that both organizations may be unable to achieve their strategic plans and that either organization could go out of business or, at the very least, not reach its desired potential to serve the sector. The following points were highlighted in that memo:

1. The mission, purpose, and values of our organizations are incredibly similar:

- The strategic plans speak for themselves

2. Benefits to members could be greatly expanded:
   - Increased opportunities to access benefits of a network
   - Greater clout on national issues and in national leadership forums
   - More opportunities for program evaluation and self-assessment
   - Direct technical assistance for program development
   - Funding/program opportunities through national initiatives, and opportunities for local staff to participate in national and international programs
3. Long-term viability would be enhanced:
   - Better position to compete for funding for nonprofit infrastructure
   - Larger membership
   - Good opportunity for one organization to fill an important niche
4. It would bring together two very reputable partners, each bringing its own – and complementary – strengths to the new venture.
5. With a consolidated, new organization, start-up would be easier:
   - Major start-up funding is more likely
   - A merged organization could begin serving members immediately, and thus demonstrate its case faster to members
   - The new organization would probably have a shorter “start-up” phase

The Alliance Summit was convened in San Francisco in August 1996 with NMA, SCA, Technology Resource Consortium (TRC), and National Council of Nonprofit Associations (NCNA). These organizations came together because they shared a desire to support the infrastructure of local nonprofit organizations. They all worked to improve the effectiveness of their members and nonprofit constituencies at the community level. The purpose of the summit was to explore organizational agendas, initiatives, and long-term goals in order to determine areas of common ground for potential partnerships that better meet the needs of local nonprofit organizations.

Two board members and one staff person from each organization attended the summit, which was facilitated by a representative from the Amherst H. Wilder Foundation. The facilitator guided the group through a three-phase process:

- **<u>Phase I:</u>** Getting acquainted, building trust, and sharing information, including mission, values, operating principles, primary and secondary markets, current activities, and strategic plans.
- **<u>Phase II:</u>** Discerning areas of vulnerability and needs and strengths, finding common ground, and prioritizing areas and issues where the participating organizations could work more closely together.
- **<u>Phase III:</u>** Prioritizing areas where coordinated and collaborative projects would be more fruitful than working alone, developing action plans, and introducing the concept of merged organizations and exploring possibilities of merger(s).

For two days, the summit proceeded smoothly and participants were even ready to leave a half day early. Instead, the facilitator urged participants to push themselves by considering the risks and rewards of looking further outside the proverbial box. This request prodded participants to admit a sense of powerlessness to accomplish their goals. They realized that partnering would enable them to increase capacity-building within the nonprofit sector. The four organizations also realized that they had overlapping members, common programs, and the ability to accomplish a tremendous amount on relatively small annual operating budgets. They also realized that their small budgets limited them from fully addressing their strategic plans and that serious strategic alliances would produce opportunities for

greater accomplishment and efficiencies.

Outcomes from the summit included decisions that TRC would merge with NMA; NMA and SCA staff would pursue joint projects, one of which would evaluate the impact of capacity building on nonprofit organizations; and all four organizations would jointly host the NMA conference in Atlanta that year. The group followed through on their commitments. TRC merged with NMA, and the group convened a joint conference. Furthermore, the executive director of SCA worked with NMA's director on a $50,000 evaluation project, funded by the Packard Foundation; they viewed this project as a test to see if the two organizations' cultures could merge on a project, and they were pleased with the results. The final outcome of all of this activity was a heightened sense of trust among the organizations and the realization that their core programs and concerns were similar.

The following year was difficult for NMA. The board felt the strain of too many administrative demands and insufficient administrative capacities. Having realized a $10,000 deficit due to lack of centralized and consistent oversight, NMA was at a point of heightened tension. A new board president saw the same strategic alliance potential as her predecessors, but the full board was not yet ready to concede to a merger.

By this time, SCA had spun off its affiliates and was providing some of the same services as NMA. Some NMA board members felt threatened and distrustful, while others saw the similarities as an opportunity. The NMA board also felt that the executive director of SCA's service on the NMA board constituted a conflict of interest, so he resigned from the board. SCA decided to leave San Francisco and re-establish itself in Washington, D.C., with a new executive director and staff. Its board became smaller and proved more nimble for making decisions.

SCA and NMA realized, after working together at the leadership level, that they shared a vision to influence and support nonprofit management in order to make the sector more effective. The executive director of SCA and the board president of NMA together called on The Rockefeller Brothers Foundation and Surdna Foundation in New York City in April 1997. Both funders noted that they were not interested in funding separate organizations with similar activities and asked them to return after a merger. In June 1997, almost a year after the San Francisco summit, NMA and SCA formed a Merger Feasibility Task Force.

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Process and Timeline of Alliance

During the summer of 1997, the Merger Task Force, consisting of three representatives of each organization, held a number of conference calls. The Merger Task Force did not follow a formal process for analyzing the two partner organizations or create a formal checklist of necessary merger activities. Instead, they identified next steps based on a joint sense of what those should be and learned as they went along. At this point, the process moved quickly, and the group trusted the direction they were headed and that their reports and "to do" lists would be enough to get the job done.

In September 1997, the Merger Task Force met in Washington, where, with the help of a facilitator, it discussed due diligence issues. At this meeting, the group also spent a great deal of time getting to know one another and sharing personal information. Support Centers of America board members began to understand that warmth, camaraderie, and a sense of family were important to Nonprofit Management Association and that SCA had always operated with a more businesslike attitude and formal approach. In turn, NMA realized that a more businesslike approach could be beneficial to many of its operations.

As the two organizations learned from and about each other, they began to understand how their different organizational cultures might successfully blend together. The Merger Task Force was ready to recommend merger to their full boards. The Task Force left the meeting with the following key initiatives:

- To be a national voice for nonprofit management professionals,
- To publish information about, and be a model for the nonprofit sector,
- To strengthen and broaden the national network of MSOs,
- To create a speakers' bureau of national experts from its members,
- To convene regional and national conferences for membership, and
- To provide Internet capability, a nonprofit loan fund, and mapping of the nonprofit sector.

With the recommendation for merger from the Task Force, both NMA and SCA began to elicit feedback from their constituencies. NMA held two membership forums and several individual meetings to identify key concerns. While the conversations were positive, members cautioned against losing the strength of NMA's network. NMA's constituents were also concerned about the ability to blend the two organizations' cultures, maintaining NMA's commitment to inclusion and outreach to diverse populations, board composition, and the location of the new organization.

SCA convened a network meeting to discuss the future of SCA and the merger with its affiliates. The board president outlined four broad SCA aspirations:

1. To support affiliates/members,
2. To develop and provide a strong national voice for the field and the sector,
3. To coordinate consulting, training, and information services in underserved areas, and
4. To develop funding to support these areas.

The discussion was future-oriented and emphasized that the merger would leave behind the former SCA and NMA ways of doing business. The group expressed concern about preserving SCA's core values and keeping the new organization out of direct competition with its members.

In October 1997, the executive director of SCA gave notice of his intent to accept a job offer in the for-profit sector and the NMA part-time administrative director's contract expired. The senior staff positions in both organizations were vacant. Still without a formal agreement to merge, SCA and NMA conducted a joint search for an executive director to lead an as-yet undefined, merged organization.

In November 1997, at an NMA board retreat in Atlanta, NMA board members focused more intently on the advantages of an alliance; by the end of the retreat, the NMA board voted to merge with SCA. SCA's Merger Committee joined the NMA group in Atlanta to discuss the mission, goals, and structure of this new professional association for nonprofit management.

Board Issues

One of the issues critical to SCA trustees in their decision to merge was getting the right executive director to lead the new entity. Believing in the vision of the alliance, an SCA board member went so far as to personally guarantee to pay a portion of the executive director's first year salary, if necessary. Other SCA board issues centered on generating interest from donors and funders in the merger process and its outcomes, and having enough cash to pay for the merger. SCA trustees were not concerned about losing individual seats on the board.

The issues most critical to NMA leadership centered on autonomy and the fear of getting swallowed up by the larger SCA. They also feared a loss of collegiality, which they highly valued, and fewer board seats. They worried that past history between the two organizations would undermine the merger's potential success.

Trust

NMA and SCA leadership felt that trust was critical to a successful merger. The long courtship, involving a number of facilitated meetings that explored each organization's motivation to merge, helped cultivate trust. Board and staff members made time to develop personal relationships and learned to appreciate their different operational styles – whether more informal and family oriented, or more businesslike. Toward the end of the process, shared trust and understanding had developed through an increased depth and breadth in communication. Both organizations worked hard through their obstacles toward a shared vision of serving the sector more effectively as a unified force.

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Implementation

The first step to implementing the merger was hiring the new executive director in December 1997. Respondents acknowledged that this step was premature since the merger was not complete. However, leadership believed the new executive director (and only paid staff member) was critical to establishing and implementing the operation of the new alliance. The new executive director was considered extraordinarily bright, articulate, and competent and was described by one board member as an "action verb."

A Board Composition Task Force was formed and charged with mapping out the long-term governance structure of the new organization. It was asked to recommend a board profile, nominating procedures, potential candidates, a slate of officers, and an appropriate committee structure. The Board Composition Task Force recommended that the Merger Task Force be converted to a founding board and act as the new organization's governing body for the first year. The Board Task Force also recommended that the founding board consist of 12 members: one-third NMA board leaders, one-third SCA board leaders, and one-third new board members.

By January 1998, the articles of incorporation and bylaws were approved and filed and the first meeting of the founding board convened. Organizational members submitted more than 50 suggestions for a new name for the merged organization. In February, the winner received a free one-year membership when the board chose the name, "National Alliance for Nonprofit Management." In February 1998, the National Alliance for Nonprofit Management offices were established in Washington, D.C., and an administrative coordinator was hired to assist the executive director. In July of that year, NMA formally dissolved any remaining assets into SCA, the surviving organization, but now known as the National Alliance for Nonprofit Management (the Alliance).

In April 1998, an Alliance board planning retreat, funded by the Rockefeller Brothers Fund, was organized at the Pocantico Conference Center in Tarrytown, New York. According to merger documents, founding board members wanted the retreat to be a "gloves-off, open-ended, and perhaps messy process," where "ideas were thrown on the table," and where no one was "expected to have all the answers." The group wanted their thinking challenged in order to get the best ideas on the table. At the beginning of the retreat, a panel of "provocateurs," representing a range of sectors, was invited to offer new ideas and challenge the group.

With the help of a facilitator, the board spent the remaining time developing those ideas, sharpening and packaging the message, and devising a plan of products, services and benefits to membership. This work ultimately formed the basis of the organization's four-year blueprint for action:

- **Mission:** To provide leadership in the enhancement of a civil society by challenging and strengthening those who deliver management and governance support services to nonprofit organizations.

- **Goals:** (1) Build financial strength, (2) Build recognition and membership, (3) Improve and expand management support organizations and professionals, (4) Build and transfer knowledge, and (5) Be a voice about and influence the future of the nonprofit sector.

The new executive director was given the task of developing an operational plan for accomplishing these goals.

Communication

The Alliance was formally introduced in July 1998 at the annual conference in Atlanta, which was jointly sponsored with the National Council of Nonprofit Associations. The conference planning committee built into the conference program a variety of opportunities to share information about the Alliance. They also scheduled an Alliance business meeting that included the entire board and all conference attendees; more than 100 people participated. At this business meeting, a participant questioned the wisdom of using "National" in the organization's new name. She suggested that the word limited the reach of the Alliance, which could potentially extend not only into neighboring Canada and Mexico, but into other countries as well. The board unanimously decided to make the change in the name to the "Alliance for Nonprofit Management."

Before the Alliance's formal introduction in Atlanta, the executive director began a multifaceted strategic communications campaign that included personal contact with several industry leaders and key SCA and NMA members. She also convened a meeting of all Washington-based capacity-building organizations to update, brainstorm, and cultivate future partners. Additional communications included appointments with leading funders and daily electronic, phone, and fax contact with constituents.

Outcomes

While the merger between the Support Centers of America and the Nonprofit Management Association was never formally evaluated, respondents felt the merger achieved its desired outcomes. The founding board used the five goals established at the Pocantico retreat as the benchmarks upon which to base this assumption. The Alliance for Nonprofit Management achieved its fund-raising expectations, due in part to a revitalized interest in capacity building that they had helped generate among funders.

Interest in the annual conference also increased considerably. It used to be difficult for NMA to find conference presenters, but the 1999 request for papers yielded 65 submissions for only 20 slots. Further, several of the papers were from well-known nonprofit academics and practitioners who had not previously paid much attention to the conference. The Alliance worked hard to accommodate presenters so as not to turn anyone down.

A year after the merger was finalized, the Alliance estimated that it needed to increase its efforts to communicate to and build relationships with its membership, since the immediate focus had been on fund-raising and product development. However, the leadership felt that its strong executive director and the support of board members would help the organization articulate its mission and goals effectively to generate greater interest in and support for the organization's work.

Lessons Learned

Several themes emerged from the leaders of NMA and SCA as they reflected on the lessons they learned in the merger experience. Key lessons included:

- ***Understand the behavior of your organizations' membership.*** Organizational members can be testy during times of change, no matter how much preparation or how many opportunities for buy-in they have been given. Leadership needs to be vigilant about anticipating and dealing with

members' fear and anxiety. Fear of change, which cannot be denied in these situations, is neither pretty nor rational.

- ***Develop a common vision.*** Respondents noted that a cohesive vision shared by all partners helped guide their organizations through the difficult times leading up to and during merger formation.

- ***Listen.*** The needs raised in all corners of an organization require careful listening. Respondents pointed, in particular, to the importance of listening to human resource, political, structural, and vision needs.

- ***Don't underestimate the value of trust.*** Trust is pivotal in making complex interorganizational alliances happen.

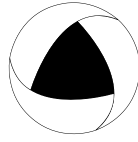
- ***Understand clearly the elements of risk.*** Risk is an essential part of any merger. These two organizations had to face risk early in order to take the necessary steps toward an alliance. In order to manage the risk, develop contingency plans throughout the process and try to eliminate surprises.

- ***Use a facilitator.*** Respondents noted the importance of a facilitator, if not for the whole process, at least at key points.

Conclusion

The merger that formed the Alliance for Nonprofit Management highlights the possibilities when organizations relinquish turf battles and undergo honest self-assessments. Both organizations came to similar conclusions regarding their futures after they completed strategic planning processes. They realized, virtually at the same time, that they needed to achieve higher levels of operation in order to be more effective and that some kind of alliance would facilitate achieving their goals. Both organizations were relatively healthy at the time of the merger so they came to the table as equals. Neither organization had to merge to stay viable, and neither would lose its position in the sector without a merger. By working together, they also raised the profile of capacity-building organizations and captured the attention of national funders.

In addition, strong relationships had developed between the two organizations over the course of many years. Before the merger, the board president of NMA and executive director of SCA (who also served on the board of NMA) were good friends. Through the joint activities between SCA, NMA and other similar organizations, many of the players knew each other personally and professionally; they were familiar with each other's organizations, which also had overlapping memberships. From the beginning, these kinds of relationships seemed most important to building trust and cemented a commitment to make the merger work.



Case Study 2

Applewood Centers, Inc.

Cleveland, Ohio

Overview and Type of Alliance

Applewood Centers, Inc. is a behavioral healthcare organization that provides a full continuum of services to 9,000 children, adolescents, and families annually. Applewood's programs include family day care and outpatient counseling for children, teens, and families; residential services; foster care and specialized foster care; research, evaluation, and training; and an alternative high school, to name just a few of the many services delivered throughout Cuyahoga and Lorain counties in Northeast Ohio.

Applewood Centers, Inc. was formed in January 1997 through the merger of Children's Services, Inc. and The Guidance Centers. Children's Services had evolved over the course of 119 years from the roots of two community organizations: the Cleveland Human Society founded in 1876 to care for indigent children and the Jones Home, an orphanage for 85 children built in 1903. In 1966, Children's Services (formerly the Cleveland Human Society) and the Jones Home merged to form Children's Services, Inc. At the time of the merger with The Guidance Centers, the mission of Children's Services, a voluntary, nonsectarian organization, was "to nurture, care for and protect our community's children in need."

The Guidance Centers was founded in 1924 as the Child Guidance Clinic of Cleveland. It was the sixth "demonstration child guidance clinic in the United States," established by the National Committee for Mental Health and the Commonwealth Fund of Boston. At the time of the merger, the mission of The Guidance Centers was "to provide quality outpatient mental health services to children, adolescents and their families; training and consultation services to youth, parents, guardians, professional and community groups; and applied research and program evaluation services."

When The Guidance Centers and Children's Services merged, the surviving organization was Children's Services and it chose "Applewood Centers, Inc." as its new name. Applewood's mission is "to work with children, youth, and families to manage life's challenges." The vision statement is "to be an outstanding leader in provision of high quality, cost effective solutions for the behavioral health and social service needs of children and families in Northeast Ohio; assure multiple public and private funding; integrated service continuum; diverse highly skilled staff; recognized for service innovation, research, and program excellence."

This case study describes the merger between Children's Services and The Guidance Centers, two of Northeast Ohio's oldest and most experienced providers of behavioral healthcare services for children and families. It illustrates the strength in service provision gained when two organizations with complementary programs become one. It also highlights the importance of strong leadership and an established leadership succession plan in bringing together two organizations.

Driving Forces

The primary forces driving the merger between Children's Services and The Guidance Centers were the need for each organization to improve service options for their constituencies and diversify their funding streams for long-term survival. While these characterize both the philosophical and practical underpinnings of the organizations' rationale to merge, the rise of public system managed care was the single most important external factor that precipitated the actual timing and completion of the merger.

Prior to the merger, both organizations had identified the need to provide a more comprehensive continuum of care for families and children, and both organizations served those constituencies in different ways. Children's Services primarily served children who had been removed from their homes through adoption, foster care, and residential treatment. The Guidance Centers provided outpatient counseling to children and families who remained in home settings, training and consultation in mental health services, and evaluation and research. The organizations realized that, by combining these services, they would expand consumer options, improve the quality of care, and better survive the advent of managed care.

An Applewood vice president explained why the potential impact of managed care was so strong for these organizations. "In the mental health social services field, there is an increasing premium on organizations providing comprehensive, integrated services. Managed care companies favor that kind of organization." A managed care company and the organization to which it refers clients can realize economies of scale since a referral can be made to one organization for a variety of service needs. As a result, an organization that provides "one stop shopping" for a wide range of needs is likely to see an increased number of contracts, which in turn is expected to provide a strong, diversified funding base for the organization.

Partner Formation

While managed care provided the external push for the merger between Children's Services and The Guidance Centers, a strong relationship between the two organizations had existed for many years. In fact, the two organizations had broached the idea of a merger more than ten years before the more recent discussions began. In the early 1980s, the director of The Guidance Centers approached the director of Children's Services about the possibility of a merger. The two directors were not only colleagues in the field but also friends, and they both understood the potential benefits of a merger. Even then, managed care was looming on the horizon; they realized that the two organizations were a good match because of their complementary, nonduplicative services.

In the 1980s, the boards of directors of the two organizations were positively disposed towards one another and were willing to explore working together. They began a partnership by swapping board members in order to strengthen the relationship between the organizations and to learn more about each other. Meanwhile, the two directors continued their merger discussions until the retirement of the Children's Services director in 1988. After his departure, merger discussions paused while a new director for Children's Services was hired and given ample time to become familiar with his organization and the Cleveland community.

In looking back on these early discussions and relationship building in the 1980s, the current CEO of Applewood and former director of The Guidance Centers suggested that a merger was ultimately too much for his counterpart at Children's Services to

consider in the context of his pending retirement. He speculated that the emotional attachments and legacy that the director of Children's Services had developed as its long-term leader hindered full completion of a merger at that time. Even though the former director of Children's Services had been supportive of a merger, he may not have wanted a merger to be his final accomplishment after a long and successful tenure with the organization.

By 1992, a new director was in place at Children's Services. Soon familiar with the history of merger consideration between his organization and The Guidance Centers, he welcomed the opportunity to resume those discussions. The external environment that had prompted these discussions in the 1980s had not changed. The emergence of managed care, the importance of developing a continuum of services, and the necessity for a variety of funding streams brought the two organizations back to the table in earnest.

At various times in the past, both organizations had considered different kinds of alliances and, in fact, had participated in mergers in which they were the surviving agency. They each had a history of embracing the benefits of strategic growth in programs and revenue streams through mergers. In addition, leaders from both organizations noted that they respected the other organization's competencies, programs, and values (especially their treatment of clients). However, the compatibility of the two organizations' missions (they both served families and children), the complementary and nonduplicative services they each provided, and the previous track record of merger discussions sealed the partner selection.

Timeline and Process for Alliance Formation

The merger discussions between the directors of Children's Services and The Guidance Centers resumed more purposefully in early 1995. The directors met periodically during an almost yearlong period, turning over different issues related to a potential merger and building an understanding and sense of trust between each other. By early 1996, they realized that the merger had a high probability for success and began informal discussions with board members. In June 1996, they brought a proposal to merge to their respective boards. The boards voted to proceed, establishing a deadline of January 1, 1997 for the merger. According to participants, this six-month merger implementation time frame was adequate. The former director of Children's Services, however, thought more time could have been spent up-front bringing the two staffs together and melding the two agencies' primary perspectives – child welfare (Children's Services) and mental health (The Guidance Centers).

Facilitation

Leaders from both organizations indicated that each organization came to the table equally; neither was the aggressor nor pursuer. In fact, one senior staff member commented that the CEOs maintained a "level of responsibility, visibility, and authority and truly shared the power in decision making." The two organizations formed a Merger Committee comprised of four representatives from each board of directors. The Merger Committee charged the two agency directors with developing a detailed, six-month work plan outlining the steps necessary to complete the merger. The two directors were the primary and equal facilitators of the merger formation process, using the plan to help them keep the process on track.

Outside consultants were brought in only to address specific areas related to the merger. A consultant facilitated the development of new mission, vision, and values statements. Another helped the directors and staff of the organizations prepare for the internal impact of the merger and manage the inevitable changes. After the merger, yet another consultant facilitated team-building activities with the entire staff.

The Workplan

The two directors created a detailed workplan that motivated and steered the activity of the Merger

Committee, staff, and other key participants during the six-month merger development process. The work began in June 1996 and ended January 1, 1997, though many activities occurred simultaneously. The plan included the following components (generalized and listed in the approximate order in which they were addressed):

- **Inform Funders:** Garner support and approval from grantmakers and government contractors.
- **Public Relations:** Announce to staff, develop public relations plan, announce to public;
- **Business Planning:** Review development of business plan.
- **Development:** Secure funding for merger activity, consolidate development plans, coordinate joint fund-raising.
- **Governance:** Develop new governance structure, plan for and conduct board training for new organization, determine board selection criteria, and recruit and retain board members.
- **Facilities/Housing:** Review all facilities, space needs and planning.
- **Personnel:** Draft organizational chart, develop personnel consolidation plan, plan staff retreat, review and develop new benefit plan, estimate costs.
- **Finance:** Review liability insurance plans, solicit bids for consolidated plans, develop financial protocols, complete annual audits, choose banks and consolidate bank accounts.
- **Program:** Consolidate and publish clinical protocols, gain board adoption of new clinical protocols.
- **Legal:** Establish new corporation; dissolve one or both organizations; develop new bylaws; secure approval from each board; transfer assets to new corporation; register new name, tax identification number, etc.

This workplan served as the merger implementation plan for the two organizations. The work of actually merging the organizations during the six-month process was carried out through the decisions and activities engendered by the plan. Some specialists were used throughout the implementation of this plan as needed, particularly in areas such as legal and financial assistance (attorneys and CPAs, respectively) and board and staff training and development.

Staff Involvement

With the exception of senior management staff, most staff members were not directly involved in making decisions about the merger or the work of the Merger Committee. In partnership with their standing board committees, some staff worked through certain issues related to their functional areas, such as fund-raising, finance, personnel, and programs. Staff involvement at these points focused primarily on offering input in their areas and finalizing new systems and procedures. For example, senior program staff were involved with decisions related to programs and services, such as recommending a common intake process for clients.

Remaining staff members, particularly direct-service or line staff, had a more limited involvement in the merger formation process. They received periodic written updates, called "Merger News," and attended informational meetings. All staff members were invited to participate in a "Name that Agency Contest." Employees were given naming parameters and their suggestions were submitted to the Merger Committee for consideration. Staff also participated in mission/vision/values development and team-building activities.

Board and External Stakeholder Involvement

The Merger Committee was made up entirely of board members (four from each agency) and met monthly during the six-month merger implementation process. The Merger Committee carried out the bulk of the work outlined in the workplan and approved recommendations from the other board standing committees when necessary.

A consultant was contracted midway through the six-month merger process to conduct an audit of the board members' opinions toward the merger. The audit also surveyed board members' future commitment to the merged organization and elicited their suggestions about the size, governance structure, and primary responsibilities of the board of the new organization. Even though the decision to proceed with the merger was unanimous by both boards, this tool enabled the Merger Committee to evaluate more closely board member opinions. The survey also allowed board members to identify and define their future participation with the new agency.

Other stakeholders external to the organizations were involved primarily through communications efforts in the first two months of the merger formation process. A few private foundations were approached to provide transition funding during the merger formation process. The organizations also contacted the local United Way Services and the County Boards of Mental Health to garner their early support and approval for the merger. Other courtesy information exchanges occurred with the Department of Children and Family Services and the departments of mental health of some local hospitals.

In retrospect, staff and board respondents indicated that they would not change the way staff and board members were engaged in the process. While some staff noted that senior management might have been involved earlier in the merger discussions, they also acknowledged that involving too many people too early in the process would have been messy and cumbersome. The two agency directors kept their respective management teams fully informed of the discussions and decisions. Respondents also noted that the short time frame was indicative of the effectiveness of the preceding months of groundwork accomplished by the directors through their own planning and trust building.

Due Diligence

The organizations retained an outside audit firm to conduct due diligence activities to identify potential liabilities for the new organization. The due diligence list directed the outside counsel and gave the agency directors and the Merger Committee a guide for their own review of each organization. The due diligence list used for this merger included the following categories:

While some staff noted that senior management might have been involved earlier in the merger discussions, they also acknowledged that involving too many people too early in the process would have been messy and cumbersome.

- **Document Review:** Corporate documents, financial statements, tax matters (IRS Forms 990, determination letters, etc.), litigated matters, loan documents, real estate, material contracts, employee benefits, intellectual property, miscellaneous reports and licenses.

- **Litigation Concerns:** Description of any pending litigation, federal or state action or inquiry; description of potential malpractice exposure and statement from each agency's insurers about any reserves related to malpractice exposure.

- **Operations:** Interested transactions (description of business or relationship existing between either agency and any trustee or employee); employee relations (including statements about employee relations in general, information about average annual percent wage increases, status of involved labor organizations); insurance.

- **Financial and Related Information:** Budget process and revenue sources (including investigation by any federal or state agency concerning Medicare/ Medicaid fraud or abuse; description of the nature and use of any government or foundation funding for expenses, patient care, or capital improvements

during the past five years; statement of patient service revenue by source; nature of restrictions on fund balances; statements of unrelated business income).

- **Governance Information:** Review that all trustees are duly elected and that recent agency actions were properly approved and enacted; review of board minutes; certificate of good standing from the secretary of state.

- **Environmental:** Permits; notifications filed under the Comprehensive Response, Compensation and Liability Act of 1980; environmental agency inspection reports and audits.

The due diligence review did not uncover any deal breakers, questionable activity, or negative issues affecting either organization. The areas that did turn out to be most challenging to resolve were those related to human resource policies – most notably benefit plans – and completion of construction projects. As suggested by the due diligence checklist, the agencies reported on their own and reviewed each other's human resource policies. The agency directors eventually worked through the differences and decided to incorporate the best options from each agency in the human resource policies for the new agency. These options were often the ones most favorable to the employee and most expensive for Applewood to maintain.

Obstacles to Merger Formation

The merger between Children's Services and The Guidance Centers encountered few, if any, outright obstacles during merger formation. However, some concerns were foremost in the minds of the participating leaders and a few challenges needed attention. One of the most critical issues for this merger was determining which of the CEOs would lead the new organization. In this case, the two directors had worked through the issue very early in the process, even before they approached their respective boards with the formal merger recommendation in June 1996. They realized that the absence of a firm succession plan could be an insurmountable obstacle down the road.

The director of Children's Services planned an early retirement at age 62, which was 18 months into the life of the new organization. The directors signed an agreement that the director of Children's Services would be the first chief executive officer of Applewood and the director of The Guidance Centers would be chief operating officer (COO). At an agreed upon date, the Applewood CEO would retire, and the COO would take over leadership of the new agency.

The agency directors acknowledged other concerns that were not, but could have, been problematic in the merger formation process. The director of The Guidance Centers pointed to the importance of ongoing, sincere support from each agency's board of directors. While board votes to proceed with the merger had been unanimous, the director was concerned about the potential for cold feet or harmful doubts once the merger process was underway. The Guidance Centers' director was also concerned about successfully integrating two staffs and about getting outside support to fund the merger transition. Neither of these concerns became serious obstacles, though a few respondents noted some ongoing, post-merger disconnectedness with staff that manifested itself in an "us vs. them" mentality.

The loss of individual agency autonomy was an issue for the top leaders at both organizations in their consideration to proceed with a merger. Both organizations had long histories of service in the Cleveland metropolitan area and were well respected for the leadership and services they provided in the social welfare and mental health fields. They were worried about whether funders and the community at large would buy into the merger and continue to support the new agency.

While autonomy seemed most important to the two agency directors and their boards, the issue was rated as only "somewhat important" for senior management staff. These staff members acknowledged that the issue was important for others, but they seemed to embrace

the reality that identity loss is inherent in any merger. One vice president commented that the issue of loss of identity actually seemed stronger after the merger than during the decision-making or formation process itself. The vice president noted that the terms “your agency” or “the other agency” became more prominent after the merger and that staff seemed worried about the identity and values of their organizations dissipating or being subsumed by the other.

The primary concerns for board members also included issues of autonomy and finances. The boards' perspective on autonomy was related particularly to the external community: Would the new agency be recognized and supported for its work? On one hand, the boards were willing to create a new identity for the organization – a new name and a new set of services to compete in a new healthcare environment. On the other hand, board members acknowledged the potential difficulty in building a new organization's identity to the level of support and recognition previously enjoyed individually by the two merging organizations.

Board members also worried whether the merger would result in a strengthened financial position or an organization too large to deal deftly with inevitable, periodic financial difficulties. One example of a positive resolution of these concerns about finances and autonomy was the successful combining of special funds held previously by each organization without restrictions tied to their former organizations.

Staff Issues

In addition to issues of loss of individual agency identity, particularly after the merger was complete, staff members' primary concerns were:

- Job security,
- Loss of authority and their placement within the organizational hierarchy, and
- Compatibility with new supervisors and colleagues.

While job security topped the list of concerns for staff members, out of a combined agency of 230 people, only two duplicative administrative positions were

Board members also worried whether the merger would result in a strengthened financial position or an organization too large to deal deftly with inevitable, periodic financial difficulties.

eliminated due to the merger (a finance director and a fund development director). These positions were consolidated prior to the merger's implementation, and no other positions were eliminated after the merger. One of the directors acknowledged that “We had some hard stuff to do up-front” in the early stages of planning and decision making, well before the merger formation process actually began.

Once the merger was complete, some staff still harbored a fear of the unknown, particularly concerning the pending leadership transition. The former staff of Children's Services were concerned about the long-term leadership of Applewood since they would eventually work for a CEO they did not know after their CEO retired. The joint leadership structure of the future CEO holding the position of COO was thought to have alleviated some of these fears.

Trust

Trust was a very important ingredient in the organizations' decision to proceed with the merger and throughout the merger process itself. Because he had been with The Guidance Centers for 20 years prior to the merger and had long-term relationships with board and staff members at Children's Services, the director of The Guidance Centers felt he commanded a high level of trust. The two boards were also very familiar with one another since they had shared board members over the years as an outgrowth of their early merger discussions. As a result, most of the initial trust-building efforts were concentrated on the two directors since the director of Children's Services was still relatively new to his agency and Cleveland.

The eight to 12 month period that the two directors spent in discussions prior to the final decision to merge was critical to building a close working relationship and the level of trust necessary to implement a successful merger. The leaders also pointed to the joint Merger Committee as an important vehicle that cultivated trust. With equal representation by board members from the two organizations, this committee's work, particularly the process of revealing financial and programmatic details to one another, helped build a greater sense of understanding and trust between the organizations.

Senior managers in the organizations confirmed that trust was very important in this merger. One respondent commented, "you are opening your books to a potential competitor in the field of behavioral healthcare...you are giving trade secrets and you are trading information that could be used against you if the merger or partnering doesn't come to fruition. So the element of trust is very important." Joint meetings between managers of the two organizations during the merger formation process helped cultivate trust at the manager level, as did team-building activities facilitated by an external consultant for all staff members.

Staff members noted that their ability to trust the competence and good will of their future colleagues was a critical issue. One senior staff member noted that the level of trust was probably stronger higher up in the organizations' hierarchy. The boards, directors, and senior managers had more opportunity to interact with and get to know one another. Line staff were less involved and more likely to not trust the outcomes of the merger process; they were more anxious about how they would be affected and whether they could trust and be taken care of by the new CEO.

Outcomes

The merger between Children's Services and The Guidance Centers is considered a success by both internal and external stakeholders. While no formal evaluation criteria were established to measure the success of the merger, staff leaders point to several outcomes as indicators of success: financial stability and the successful merging of programmatic services into a continuum of care for children and families chief among them. Both organizations brought to the table different sources of revenue, of which Applewood has been able to take advantage as one agency. Connected to the diversified funding streams is an umbrella of services now available to the community and an organization better able to operate within a managed care environment.

Despite some of the staff concerns previously outlined, participants pointed to overall satisfaction among staff members as another indicator of the success of the merger. Out of 250 employees, only one or two staff departures after the merger could be attributed directly to dissatisfaction because of the merger itself. One staff member described Applewood as a "smoothly running, effective, yet larger organization," which they also considered an indicator of success.

According to respondents, external stakeholders – such as the County Mental Health Boards, the Department of Children and Family Services, other funders, and even Applewood's competitors – respect Applewood and consider the merger a "really good deal." In fact, the CEO of Applewood is often approached by other organizations considering a merger for advice, due diligence lists, and other merger materials.

Phases in Process Critical to Success

The staff leaders pointed to the eight to 12 months that the two agency directors spent getting to know one another and determining their organizations' compatibility to merge as one of the most important phases in the merger process. The trust and mutual respect built between the two directors well before the merger process began helped the rest of the staff feel comfortable about pending changes. One senior staff member noted that even if strong differences existed at times or difficult decisions were being worked through, the two directors always modeled professional and respectful behavior, which encouraged the rest of the staff to do so.

Staff leaders also noted that early, unanimous approval by both boards of directors, as well as the work of the joint Merger Committee and the strength of the board members serving on that committee, were critical to the merger's success. The due diligence process and the resulting work to combine financial and programmatic systems were also noted as important phases in the merger process.

Unintended Consequences

Unintended consequences of the merger fall in both positive and negative categories. The combined benefit plan for employees was more expensive to maintain than anticipated. The directors understood that choosing some of the most favorable benefit options from each organization would cost them money, but the reality of how much was more than predicted. Because they considered this a crucial issue for employee satisfaction, they implemented the benefit changes and worked hard to obtain additional financial resources to cover the costs. The merged organization realized some cost savings in other areas, such as renegotiating insurance contracts based on the economies of scale achieved with a larger organization.

A major capital improvement project underway at one of Children's Services' landmark facilities also proved to be more costly than projected. The funding necessary to complete all phases of the three-phase building project had not been raised. The situation was not revealed to The Guidance Centers until the two organizations' development efforts were merged, and it became clear that commitments were insufficient to meet construction costs. As a result, Applewood had to contend with a sizable debt until additional funding and a mortgage were secured.

Staff respondents pointed to positive consequences, particularly in service provision, that may have been intentional yet evolved even more strongly over time. One staff member commented that the merger resulted in a better overall vision of services and delivery. The existing programs were not only integrated effectively, but new ones also emerged from unforeseen combinations of program offerings. One senior staff respondent also noted an improvement in many programs and departments as a result of healthy internal competition among managers to shake up and streamline systems that may have been inefficient.

"You are opening your books to a potential competitor in the field of behavioral healthcare...you are giving trade secrets and you are trading information that could be used against you if the merger or partnering doesn't come to fruition. So the element of trust is very important."

Approaches for Future Alliances

The current CEO of Applewood (and former director of The Guidance Centers) contends that he would approach future mergers or other alliances only if they fit into and support the continuum of care of Applewood Centers. The mission and programs must be the primary motivating factor. He also noted that if future mergers or alliances affect human resource policies, he would not necessarily incorporate the most favorable employee benefits because they can be the most expensive to maintain. He would also look more closely at any capital improvement projects to ensure that these cash-intensive activities are fully funded to completion.

A senior staff person observed that the merger process seemed to very successful, with few if any changes necessary for future merger activity. The staff member did note, however, that more could have been done earlier to inform and engage middle managers and line staff in the merger process in order to encourage a better understanding of the two organizations' cultures and how they could fit together to create "one seamless organization."

Within the year after the merger was final, the first CEO of Applewood (and former director of Children's Services) compiled a series of questions to help determine if merger is a viable option. His list of questions to ask a potential merger partner are included in Exhibit 1.

Lessons Learned

The following themes emerged from respondents as they reflected on the lessons learned in this merger process:

- ***Mission compatibility.*** Respondents noted that mission compatibility does not necessarily mean

Exhibit 1:

Questions to Ask a Potential Merger Partner

1. What is the agency's mission?
2. What is the agency's vision for the future?
3. What are the agency's core values?
4. What is the status of the last strategic plan?
5. Does the agency have an active, committed board?
6. What is the relationship between the board and the executive director?
7. What is the status of the executive director?
8. What are the staff's strengths and weaknesses?
9. What are the program strengths and weaknesses?
10. How developed are support and administrative services, such as quality improvement, utilization review, personnel, and administrative support?
11. What is the state of the financial accounting system?
12. How is the agency funded?
13. What is the status of personnel systems?
14. How strong (or weak) is the agency's development program?
15. What resources does the agency have, such as property, location, and equipment?
16. What factors in the agency's history bear on its future?
17. What is the agency's reputation in the community?
18. How effective is the agency's internal communications network?
19. How flexible and innovative is the agency in response to community needs?
20. What is the agency's name?

Four more questions to ask about the community:

1. What direction are funding bodies going?
2. What forces in the community support mergers and affiliations?
3. What organizations provide the same or similar services?
4. What are the communities' unmet service needs and priorities?

And finally:

1.Have you considered other options?

having the same mission. However, the organizations' missions must at least complement and enhance one another; and the merged organization's mission must be sustainable within the community, both programmatically and financially.

- ***Determine leadership succession up front.*** The former director of The Guidance Centers acknowledged that this can be a deal breaker, or at least a very tough issue, unless the leaders have made a firm commitment from the beginning about their respective post-merger roles.

- ***Obtain sufficient financial support for the merger process.*** Mergers cost money to implement. From the costs associated with the merger process itself (such as consultants, attorneys, accountants, filing fees, etc.) to the hidden costs due to changes in employee benefits or other organizational modifications, mergers are more expensive than organizations may think. Some organizations may be able to handle these extra expenses internally, but most will probably need outside funding.

- ***Communication.*** Some respondents, particularly below the CEO level, noted that communication could have been better with the staff and should be an important part of any merger process. They spoke of the need for more openness at staff levels – not necessarily in actual merger decision making, but in immediately communicating those decisions and their rationale to staff, before they have a chance to read about them in a newsletter or hear about them from colleagues at other organizations.

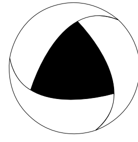
- ***Pay attention to differing organizational values and cultures.*** The former director of Children's Services noted that, because internal compatibility between staff members is challenging, it should be cultivated early in the merger process. Other senior staff members also noted the "us vs. them" mentality that existed after the merger, but all acknowledged that many of these sentiments were inherent in this kind of relationship and would probably evaporate as the new organization matures.

- ***Mergers (and other alliances) are beneficial.*** All respondents spoke to the success of the Applewood merger, particularly the benefits that accrued for clients. Even though the merger was ambitious, the resulting advancements in service delivery were worth the extensive time and effort.

Conclusion

The merger between Children's Services and The Guidance Centers was the result of long-term relationship building and merger discussions, not a brief match-making game. The exact timing of the merger itself may have been dictated by external factors, such as the emergence of managed care, but both organizations invested a tremendous amount of time and energy preparing themselves for that exact moment. The long history between the two organizations and the careful, methodical manner in which the two organizations' leaders worked through important issues very early in the process helped the merger unfold smoothly once it was approved.

The ease with which the merger was planned and implemented was also the result of only a few cooks in the kitchen – with a small board-based Merger Committee and two agency directors completing the majority of the work and making most of the decisions. This somewhat insular approach to merger formation, however, may have fostered some later resentment by staff members. The merger also cost the new organization financially since Applewood chose more expensive benefit options in order to avoid taking benefits away from some employees. Nevertheless, the merger accomplished its goal of providing a more comprehensive continuum of care for children and their families than either organization could have achieved alone.



Case Study 3

Catholic Charities Services Corporation

Cleveland, Ohio

Background and Overview

Catholic Charities Services Corporation (CCSC) is the health and human services delivery system of the Diocese of Cleveland. It is the largest multi-service system of integrated health and human services in Northeast Ohio. It has 23 agencies encompassing more than 100 programs and services focusing on four service groups: children and families, older adults, persons with disabilities, and persons with emergency and transitional needs.

Until 1996, these 23 agencies operated as a loose network principally connected by funding from Catholic Charities. Each had independent, community-based service delivery with separate administrations. To outsiders, CCSC appeared to function like a United Way or Jewish Federation, distributing money raised through the Catholic Charities appeal to its network of community agencies and providing diocesan oversight. Catholic Charities agencies had their own local advisory councils, made their own service and practice decisions, and signed their own contracts with outside providers. But, these agencies did not have their own governing boards of directors and could not make independent policy decisions in such areas as human resource administration and legal matters. They operated under the overarching governance structure of CCSC and its board of directors and a membership triumvirate of the Bishop of the Diocese of Cleveland, the Secretary for Social Concerns, and the CCSC board chair.

In late 1996, CCSC launched an initiative to integrate this network of independent agencies into a comprehensive "system of services." This plan aimed at integrating service delivery and some administrative supports for all agencies considered part of Catholic Charities. The changes initiated by the service integration plan may seem subtle to outside observers, but they had a notable effect on how CCSC's network of agencies relate to one another. While all agencies retained their local advisory councils and continue to make their own service-delivery decisions in response to the distinctive needs of their clients, those decisions and practices are now centrally coordinated through CCSC. In this manner, CCSC can more easily connect and integrate the services offered among and between its agencies; this ensures that agencies do not compete with each other for resources and that all agencies benefit from shared program practices and strategies to better meet community needs. An example of this centralized oversight and coordination

at CCSC is a new policy requiring the president or executive vice president of CCSC to sign all service contracts involving any of its agencies.

Against this backdrop of more comprehensive service integration, Catholic Charities and Parmadale Family Services, one of the largest residential service providers for troubled children, formalized a plan to merge Parmadale with a more integrated CCSC. Prior to the merger, Parmadale was considered one of Catholic Charities' "Sustaining Affiliated Organizations." These affiliated organizations have yet a different status from, and in fact are more autonomous than, those agencies in Catholic Charities' integrated network described above. Parmadale, for example, had its own governing board of directors, endowment, and human resource policies. As a result, CCSC's service integration with an agency such as Parmadale required a more formal alliance, such as a merger or consolidation. In fact, the idea of a formal merger between Parmadale and CCSC had been under close consideration for several years.

This case study describes the merger between Parmadale Family Services and Catholic Charities. This merger formally connected two organizations that operated independently from one another, even though they were related through an affiliated system. This case study also highlights the importance of trust, communication, and understanding the cultural differences between two organizations united under the same religious umbrella and with long-standing personal relationships between the leadership.

Driving Forces

Changes in the external, service-provision environment (precipitated by shifts in public policies) provided the primary driving forces behind the Catholic Charities and Parmadale merger. CCSC faced the dual challenges of the emergence of managed care and new welfare and Medicaid reform initiatives. To address these demands, the organizations had to construct an integrated behavioral health system that cut across four service areas: children and families, older adults, people with disabilities, and persons with emergency and transitional needs. While doing so, the leadership was adamant about creating a menu and system of service delivery based upon the needs expressed within the communities and in keeping with the teachings of the Church, upon which Catholic Charities' mission is based.

The mission of the Catholic Charities Services System is "to continue the mission of Jesus by responding to those in need through an integrated system of quality services designed to respect the dignity of every person and build a just and compassionate society." The desire to maximize the intent of Catholic Charities' mission within a changing service-delivery environment was central to the initial discussions concerning the merger. Strengthening the intent of the CCSC mission proved to be an untouchable mandate throughout the merger process.

In order to fully implement its mission, Catholic Charities wanted to create a more formally integrated continuum of care. The various agencies already affiliated with Catholic Charities provided a variety of programs to address a wide range of health and human service needs. They found that true integration of such services was challenging within such a loose affiliation. Each individual organization's ultimate survival was its own responsibility; as the availability of funding declined, the organizations seemed to compete with each other for limited dollars. For example, Parmadale pursued foster care funding, as did Catholic Charities through one of its neighborhood centers. The necessity to eliminate this kind of competition between "family members" was self-evident. Additionally, the organizations sought greater economies of scale in order to better serve people in need.

Partner Formation

The long-term relationships between the presidents, senior staff leaders, and some board members of Parmadale and Catholic Charities were key to the identification of these two organizations as merger partners. Merger conversations between the two presidents began informally in the late 1980s. The then-president of Catholic Charities, a long-time

mentor and colleague to the president of Parmadale, saw the potential for gained efficiencies and better service provision if Catholic Charities' agencies affiliated more formally. These very early merger discussions, and the long-term familiarity – both personally and professionally – between the top leaders of both organizations, helped seed the idea for serious consideration, once the timing was right.

The service integration process between all CCSC agencies provided the right timing to implement the merger with Parmadale. Six senior staff leaders representing both organizations created a "Catholic Charities Services Transition Plan." They presented the plan to the president and CEO of CCSC, who also served as Secretary for Social Concerns of the Diocese. The plan outlined the driving forces behind the need to integrate all CCSC programs "from a system of agencies to a system of services." It also specified a merger between Parmadale and CCSC as an important component of achieving this integrated system.

The Bishop, Secretary for Social Concerns, and boards of Parmadale and CCSC approved the Services Transition Plan, including the merger between the two organizations. Because the membership structure of Catholic Charities defines the Bishop, the Secretary for Social Concerns (now the Secretary for Catholic Charities Health and Human Services), and the board president as the three sole controlling members of CCSC and every Catholic Charities agency, all decisions ultimately reside with them. Consequently, the merger decision, once made, was essentially unequivocal. This left the merger partners with the task of figuring out how to make it happen as smoothly as possible.

Against this familial backdrop, both organizations quickly pointed out that the inherent compatibility of their missions was a key factor in partner formation. The organizations admit that they gave consideration to, and continue to do so, a variety of possible alliances with organizations not affiliated with the Catholic Church. But the immediate kinship to the moral and ethical directives of the Catholic Church, and its social teachings on caring for those in need within the Catholic healthcare arena, was crucial to the initial merger conversations. Indeed, the mission and moral grounding of the two organizations formed the philosophical foundation guiding the merger formation.

While the similarities in philosophy and mission were essential for partner compatibility, the differences in specialties and program services were a strong motivation for merger consideration. Parmadale was a specialty residential service provider that focused on the needs of troubled children and their families. Catholic Charities was a general community service provider that offered a variety of services, from emergency and transitional care to the needs of the elderly. As a merged entity, the two organizations could provide a continuum of care addressing the needs of people of all ages.

Timeline and Process for Alliance Formation

The alliance formation process began in June 1996 and culminated in the merger between Parmadale and Catholic Charities on January 1, 1999. According to participants, this two and a half year time frame was adequate to construct and implement the merger. Between June and September 1996, a six-member committee comprised of representatives from both Parmadale and CCSC developed the Services Transition Plan. After the plan was approved by the Bishop, the Secretary for Catholic Charities Health and Human Services, and the organizations' respective boards in November 1996, the director of Parmadale and the executive vice president of CCSC defined the merger agenda by December and merger activities began in earnest in early 1997.

Facilitation

Choosing not to use an external facilitator, the organizations assumed equal roles in the merger process. For example, the director of Parmadale and executive vice president of CCSC defined the merger agenda and developed an integrated Administrative

Support Services Plan linked to the service integration plan being developed simultaneously for all of Catholic Charities Services. The director of Catholic Charities Children and Families Services, who had previously been president of Parmadale (and would later become president and CEO of CCSC), chaired the System Service Integration Team. He was the primary internal facilitator for the merger process. Participants described this staff facilitator's role and style as a negotiator and extremely inclusive (he will be referred to from here on as president of CCSC). Because he had spent 25 years at Parmadale but was brought into Catholic Charities a few years prior to the merger, he was considered somewhat of an outsider to both organizations. The facilitator's insider/outsider identity served the process well. He brought a rare insight into the workings of both organizations without the perception of a strong affiliation with one or the other.

Staff Involvement

A time line for the merger process was established that included Administrative and Board Integration Plans. The Administrative Integration Plan was developed to encompass the six months leading up to the effective date of the merger on January 1, 1999 and included the four categories of action described below:

- **Inform** (prior to August 31, 1999). These activities included developing key message points for staff, introducing CCSC staff leaders to Parmadale administrative staff, and defining the upcoming integration process and time lines to administrative staff of both organizations.

- **Assess** (September 1-30, 1999). CCSC staff leaders met with administrative staff of Parmadale to evaluate their current roles and responsibilities using a customer service model. They also examined Parmadale's facility and maintenance needs. Using the findings from these assessments, staff work teams presented recommendations for changes to the chief operating officer of CCSC.

- **Design** (October 1-31, 1999). Work teams developed and presented two administrative integration models to the administrative leadership of CCSC, who then refined and selected one model for final approval by the Secretary for Social Concerns. The approved model was presented to all CCSC administrative and Parmadale management staff.

- **Implement** (November 1, 1999). The recommended reporting relationships were implemented, and education and training were conducted for all staff on the changes in administrative structure in the merged organization.

The organizational leaders were very strategic about the timing and manner in which they engaged various staff and board members in the merger process. They also carefully decided which issues to put on the agenda and when they should be considered. For example, a series of merger matters were presented regularly to the staff of Parmadale and CCSC. These included benefits design, leadership structure, wages and hours, payroll, union, administrative services ("What We Do Where"), and the "Business Administrator Concept." If a question remained outstanding at one meeting, they added it to the agenda of a future meeting.

These issues were further categorized by organizational function into a "merger activity list." These functions or activity headings included fiscal, human resources, management information systems, quality improvement, services, board, organizational identity/culture, staff development and training, and mechanics (including fund-raising, codes of regulation, organizational structure, etc.). Even though a formal time line was established, the work did not always proceed sequentially. Issues that proved more difficult to resolve imposed, at times, a modified and more organic process which allowed staff to explore various solutions or agree to table an issue until a later date.

One of the most successful strategies used throughout the merger process was systematically determining the integration of the program and service delivery areas for all Catholic Charities agencies, including

Parmadale. All directors of agencies and programs throughout the Catholic Charities system were invited, as committee members, to examine the continuum of services that CCSC provided and to make recommendations on how they could improve upon and increase, where necessary, service delivery options.

The president of CCSC, who also served as the primary merger facilitator, used an approach called "strategic marketing." Strategic marketing, a process used to examine and develop successful services, has the following goals:

1. To gather data on community service needs,
2. To build relationships,
3. To listen to and learn about community service priorities,
4. To build public/private service partnerships,
5. To discover vital community service needs, and
6. To develop new services for the community.

These goals, in turn, serve as the framework for strategic marketing activities. This cycle of activity is meant to repeat itself so that an organization is always assessing vital needs in its community and responding to them accordingly.

Directors at all Catholic Charities agencies were instructed to return to their agencies and ask key stakeholders and consumers in their communities about their needs. Within the eight counties of the Diocese of Cleveland, 151 people were interviewed and asked two basic questions upon which new service integration decisions would be based: (1) What do you perceive as important trends in the delivery of services? and (2) What do you perceive as the most vital service needs within your community? An empowering decision-making and management model for the agencies, this approach helped generate excitement and support for the more formal integration of Catholic Charities services along a continuum of care.

Also critical for the simultaneous merger formation process between CCSC and Parmadale, the strategic marketing approach enabled service integration between the two agencies to become a nonissue. Instead, most of the difficult merger issues related to the integration of human resource policies (such as pension and retirement, salary ranges and grades, vacation, hours of work, etc.) and the cultural differences between the two organizations. Since Parmadale was a residential treatment facility, for example, the informality of the work environment contrasted with the more corporate atmosphere of the centralized CCSC downtown office. As a residence operating seven days a week, 24 hours a day, Parmadale never closed for national holidays, so issues of equity in paid holidays for all staff needed to be balanced. The leadership purposefully allowed human resource issues to be the lightning rod for any potential dissension during the merger formation process, in part to protect programs and services from such tensions. They wanted issues related to clients and services to remain shielded from naturally ambivalent or even inhospitable feelings about the merger.

They also carefully decided which issues to put on the agenda and when they should be considered.

Another strategy that proved highly successful during this systemwide integration process was also one of the most time consuming and labor intensive. Over the course of a year, the president of CCSC made quarterly site visits to all Catholic Charities agencies throughout the eight counties in order to put a human face on CCSC's central administration. He also hoped to address their concerns about the changes taking place at CCSC in an open and inclusive manner. Many CCSC leaders cited this strategy as key to the effective integration of all of Catholic Charities services, including the formal merger with Parmadale; it also helped cultivate authentic buy-in for the merger from staff at all levels of the organization.

Board Involvement

The familiarity between the boards of Parmadale and CCSC and the equal access available to both boards by the then Secretary for Social Concerns/President and CEO of Catholic Charities enabled a relatively smooth transition between the two governing boards. Informal conversations between the highest level of board and staff leadership of both organizations occurred well before the merger process itself – in social settings, after mass, over breakfast. These conversations acknowledged potential roadblocks based upon perceived board sentiment within each organization and identified potential political ramifications in advance. This allowed the staff leadership to anticipate and address many strategic issues in a more timely manner.

During the first year and a half (and prior to the implementation of the Administrative Integration Plan), a joint merger committee made up of four board members from each organization met periodically with senior staff leaders who brought merger recommendations and issues with which they were grappling. In addition, staff leaders developed updates of common information about the merger process for each organization's board and took turns presenting this information to alternating boards. For example, the director of Parmadale presented to the CCSC board and the vice president and executive vice president of CCSC presented to the Parmadale board, thus familiarizing each board with the staff leadership at both organizations.

During the final year of merger formation, the staff leaders and board Merger Committee developed a board integration plan that included a timeline of issues to address the full integration of the two boards. The board integration topics and activities of the plan included:

- **Legal:** Creation of a draft merger agreement, articles of incorporation, and code of regulations.
- **Board Composition:** Recommendation that all board members with time remaining in their terms be given the opportunity to continue with the merged board; review terms of board members to adjust for continuity of membership.
- **Officers and Executive Committee:** Recommendation of officer positions and committee structure.
- **Committee Structure:** Recommendation of five standing board committees (Executive, Finance, Services, Quality Improvement, and Human Resources), their purposes, potential composition, chairs, and succession plan.
- **Nominations/Board Development:** Recommendation of functions within board development (and a more immediate focus of attention).

Prior to the merger, Parmadale had 13 and CCSC had 22 board members. The natural attrition of board members leading up to and during the merger formation process kept the new CCSC board to a relatively manageable size of 26 trustees.

After the merger, staff and board respondents indicated they would not change the way in which they had been engaged in the process, though some staff acknowledged that implementing the Administrative Integration Plan earlier might have helped address certain staff uncertainties earlier. Although the decision to merge came top-down within the organization, the merger integration process included a bottom-up approach. Staff leaders felt as though they had developed an inclusive process that involved staff and board members effectively, helping these internal stakeholders grapple with key issues at strategic points throughout the merger process.

Other Stakeholder Involvement

Stakeholders external to Parmadale and Catholic Charities, particularly funders at the local, county, and state levels, were engaged throughout the merger formation process, primarily through information sharing. CCSC was particularly careful to communicate with funders and contractors, such as the United Way, each local county Mental Health

Board, the Department of Human Services, the Juvenile Courts, and the Alcohol and Drug Boards, to name a few. They wanted to ensure that the proper paperwork necessary to register the merger with these entities was submitted in a timely manner in order to avoid lapses or permanent discontinuance of reimbursement and funding streams.

Even with diligent communication, both in person and in writing, the concept of the merger was not easily absorbed by external stakeholders. Payors were now dealing not only with a merger within Catholic Charities, but also with a more formal organization of CCSC into one system instead of its loosely affiliated agencies of the past. While CCSC staff members felt as though they kept these and other funders well informed, they acknowledged that many funders were not prepared for the paradigm shift in program and service integration at the magnitude with which it occurred.

Staff leaders also acknowledged that they might have engaged some external stakeholders earlier in the process, approaching them incrementally with key pieces of information to alleviate their concerns. On the other hand, the kinds of information requested by external parties may not have always been ready for distribution earlier in the merger process (e.g., an organizational chart or specific legal documents). The mere size of the merger – Catholic Charities is now the largest multi-service human service organization in Northeastern Ohio, and measured by budget, the fourth largest nonprofit organization in the same region – made many funders, such as the local United Way, take notice and even express mild concern about CCSC becoming an "800 pound gorilla."

Clients and other key stakeholders within the communities in which CCSC operates were engaged in the merger process through the strategic marketing effort described above. They identified key needs related to the specific CCSC agencies within their communities. Because maintaining effective, high quality service delivery was both a goal of the merger and an untouchable mandate throughout the merger process, the staff leadership tried to make the merger as seamless as possible to clients. Indeed, staff pointed out that services to clients actually improved throughout the merger process since system-wide service integration had already begun.

Due Diligence

Because Parmadale and Catholic Charities were related, with shared governance through the same three sole members of both organizations, due diligence activities took on a different focus than is often present for mergers between "strangers." Due diligence centered primarily on human resource issues since the financial and legal standings of both organizations were already well known to the shared leadership. Staff committees compared human resource manuals, pension plans, and salaries and benefits, among other matters, and made recommendations to the board Merger Committee about which policies to adopt for the merged organization.

Obstacles to Merger Formation

Few, if any, issues were outright obstacles that threatened the completion of the merger though several challenged the participants and required careful consideration and maneuvering. Human resource management issues were identified as the most difficult. Parmadale and CCSC had very different personnel policies, mirroring the differences between a specialized residential treatment facility and a large multipurpose human services agency. For example, the organizations had different holidays, matching contributions for pension plans, work day hours, and office and work environments. Depending on which side of the equation their organization's policies happened to be before the merger, many employees may have felt a sense of loss once new policies were adopted. However, these policies also affected the 23 other agencies within CCSC since they all followed the same administrative policies and practices.

While staff leaders wanted to finalize as many operational issues as possible, they realized that the merger date itself need not be a barrier to further

decision-making about sensitive human resource issues. They acknowledged that they would be unable to meet everyone's expectations, but they hoped that, by continuing to listen to employees' concerns and seeking their feedback, the solutions would meet as many needs as possible with the best practices in human resources.

Staff Issues

During the merger formation process, staff at all levels of Parmadale and CCSC questioned the necessity of the merger itself. Because the two organizations entered into the merger from positions of strength – neither organization needed the merger immediately to survive – the staff wondered why the change was necessary. The process of helping staff overcome their fears and embrace change and the merger as a positive long-term strategy continued long after the merger date passed. In retrospect, staff leaders noted that they might have considered integrating some administrative functions prior to the merger – similar to the pre-merger service integration – in order to alleviate staff anxieties earlier in the process.

The primary issues of concern for staff members from both organizations included:

- Job security and job satisfaction;
- Compensation, benefits, holidays, pension plan, work hours, etc.;
- Change in office location; and
- Leadership and management reporting structure (Who will be my supervisor?).

Because some personnel issues, such as pension, salary, work hours, and vacation time, were not resolved prior to the merger effective date of January 1, 1999, a plan was developed to address outstanding issues incrementally in the subsequent year. CCSC hired an experienced human resources director to manage the human resource responsibilities of what had become a much larger organization and to help work through the remaining staff issues.

The human resources director conducted a series of focus groups at all CCSC agency sites to clarify the employment-related issues that were most important to staff members. For example, staff liked the CCSC rating system better than the one that Parmadale had been using, but they preferred Parmadale's competency-based performance evaluation. The human resource director also worked with an external consulting firm to reassess CCSC's salary scales, integrating Parmadale's positions into the refined CCSC system. As issues became more clearly defined, the human resource director sought feedback from all agency sites for full implementation by January 1, 2000.

Board Issues

The merger of Parmadale and Catholic Charities was supported by both boards, which understood the philosophical importance of such a strategic partnership. Board members, however, were concerned about several issues, including:

- **Leadership:** The boards wanted to ensure that the executive leaders of their respective organizations were treated fairly and given leadership roles of comparable stature in the merged CCSC. This seemed to have been handled to everyone's satisfaction early enough in the process that it did not become a serious obstacle later.

- **Autonomy:** The boards were concerned particularly about Parmadale's autonomy. Would its identity be subsumed by CCSC? Would Parmadale retain some control over a special endowment fund they had established several years earlier? Because Parmadale still exists after the merger – as the site name for a residential treatment facility within CCSC – its identity to the outside world appears to be the same, thereby minimizing some of the identity and autonomy issues. Even though Parmadale's special endowment fund was incorporated into CCSC, the rate and intent of its distribution is informed by an advisory group that includes former board and staff members of Parmadale.

- **Power:** The boards worried about an imbalance of power. Would one agency ultimately have more

power than the other? Would the interests of one organization be included in merger integration solutions? The concerted efforts by the president and CEO of CCSC to keep all staff informed and to elicit their feedback at various stages of the pre- and post-merger process, as well as the intensive human resource plan addressing sticky issues after the merger, created an atmosphere in which the best practices of both organizations were considered. This strategy helped diminish the struggle of either organization to maintain ultimate power over how things are done at CCSC.

- **Finances:** Understandably, the boards were concerned about the cost and liabilities of undertaking a merger within the confines of approved operating budgets. The merger itself did not cause undue financial strain on either organization, though some of the new human resource policies caused CCSC to incur additional costs, such as paying more into pension plans and upgrading certain staff positions to new compensation levels in accordance with new rating systems.

Trust

Trust ranked very high for most of the top leadership at both organizations – both in its importance to a successful merger experience and in the level at which it was present in this merger. The long-standing personal and professional relationships between the leaders of Parmadale and CCSC built a solid foundation for trust between senior staff members. The efforts of the CCSC president to meet quarterly at every CCSC site in the eight-county service area also fostered trust among mid-management and line staff.

While the merger itself was ultimately a *fait accompli*, staff leaders acknowledged that, without a high level of trust, the merger could have been much more difficult and possibly suspended. The presence of trust also supplied a willingness to give up a certain amount of autonomy, which may otherwise have been a painful issue for some participants. Even after the merger was final, the continued efforts to address outstanding human resource issues in an open and inclusive manner helped CCSC further cultivate trust between staff. In addition, the more comprehensive service integration between all CCSC agencies helped instill a greater sense of shared purpose concerning programs and mission attainment.

While staff leaders wanted to finalize as many operational issues as possible, they realized that the merger date itself need not be a barrier to further decision-making about sensitive human resource issues.

Outcomes

The merger between Parmadale Family Services and Catholic Charities is considered a success by staff and board respondents and, based upon their perceptions, the external community. While no formal evaluation criteria were established to measure the success of the merger, several outcomes identified prior to the merger were achieved. The most crucial outcome was the accreditation by the Joint Commission on the Accreditation of Health Care Organizations (JCAHO) of the entire Catholic Charities Services System, the first time a system as large as CCSC had been JCAHO accredited anywhere in the United States. This accreditation was vital since only JCAHO organizations can provide certain services within a given community.

As a residential mental health treatment facility, Parmadale had been accredited prior to the merger. The organizations worried that Parmadale might lose its accreditation by merging into a large system with numerous sites at various levels of operational efficiency. They were also concerned about the challenges CCSC faced in eventually gaining systemwide accreditation. The fact that CCSC

received this certification within only four months of the official merger was a testament to success from a service-delivery standpoint of the Parmadale merger and to the formal service integration of all Catholic Charities' agencies.

Another outcome of the merger was CCSC's rapid growth and ability to garner increased contracts and fee-for-service commitments. Staff and board members acknowledged that this outcome should be monitored carefully in order to resist the temptation to grow too big, too fast. They recognized the need to temper potential exponential growth with a reinforced commitment to mission attainment.

Mission attainment remained perhaps the most important measure of success for CCSC. The merged organization planned to develop tools to measure the effectiveness and efficiency of serving clients over the long term. In addition, CCSC identified three major outcome areas in which they will measure the merger's success in the future:

1. **Client Satisfaction:** Are clients receiving the kinds of services they require in a manner that meets their needs effectively?
2. **Staff Satisfaction:** Do staff members at CCSC feel equipped and enabled to do their jobs effectively?
3. **Customer Satisfaction:** Are purchasers (such as the Juvenile Courts, County Mental Health Boards, etc.) satisfied with the level and effectiveness of services that are provided through CCSC?

Phases in Process Critical to Success

Staff and board leadership identified several different phases of the process that were most critical to the success of the merger. The most senior CCSC executive considered the initial decision to proceed with the merger between Parmadale and CCSC as the most important phase in the process. Once a firm commitment was made, he knew the merger was destined to be completed on time and achieve at least a minimum level of success.

Other staff leaders identified the first six months (forming the merger team, developing the transition plan, and achieving some early success to build excitement and momentum) and the last six months (working through some of the tougher human resource decisions at a more rapid pace) as key phases within the process. Yet other staff leaders regarded the efforts in the middle of the process to build the personal relationships among the organizations, particularly the strategic marketing approach and the personal contact by the president of CCSC, as crucial to the merger's success.

Unintended Consequences

Most of the unintended consequences of the merger were positive. Staff leaders pointed to a better understanding and respect between people in what became an extremely large and diversified organization. The president of CCSC noticed that individual staff members embraced the challenges inherent in a dramatic organizational restructuring and increased their own level of performance to meet the new demands. Almost all staff leaders noted that the merged organization operates much more inclusively and that staff responded well to their increased participation by offering solutions instead of road blocks.

They account for these outcomes by pointing towards the extensive internal information campaign waged throughout and following the merger process. Staff were engaged in meaningful dialogue that seemed authentically to address their needs and concerns. As their voices were heard and reflected in some of the final decisions, staff became more confident and positive about sharing their vision of CCSC with each other, regardless of past loyalties or personal agendas. The systemwide service integration strategies, even considered outside the context of the immediate Parmadale merger, also unified a previously disconnected organization into one that operates much more cohesively between programs and communities.

Lessons Learned

Several themes emerged from the staff and board leaders as they reflected on the lessons they learned in this merger experience. Key lessons include:

- ***People are basically good and will eventually buy into organizational change and restructuring if it is in the best interests of the clients and the organizational mission.*** Staff members commented that, even though there is plenty of self-interest in a merger process, people are eventually willing to make the kinds of dramatic changes (both personally and professionally) necessary for the greater good of an organization and its ability to serve its mission. Staff were willing to give up something for themselves if it meant something better for others.

- ***Don't make assumptions about anything.*** Staff members commented that even though they identified potential obstacles prior to their emergence in the process (such as human resource issues), those obstacles proved more challenging than anticipated. In addition, areas that were considered a nonissue for some, such as staff titles (especially at the senior level), proved to be sensitive for others.

- ***Trust is extremely important.*** Almost all staff and board respondents commented that trust was a crucial factor in the merger formation process and continued as the implementation progressed. Line staff, in particular, wanted to know if the president, for example, was a trustworthy leader and would keep their best interests and those of their clients at the fore throughout the process. His personal site visits to all Catholic Charities agencies, not just Parmadale, were instrumental in building trust throughout the system.

- ***Create a win-win environment and be inclusive.*** Building consensus was important for the leadership of the two organizations. They noted that it could be easy to slip into a negative mode of win-lose for every decision within a merger environment, but that such a stance was untenable. Communication and maintaining the greater good of the mission helped create as many win-win situations as possible.

- ***Communicate.*** The president of CCSC commented, I would "redouble the efforts that I thought were ludicrously redoubled from the beginning to communicate, communicate, communicate." If he had to do it over again, he would engage the senior leadership team in efforts to communicate with all staff instead of taking on that responsibility alone. Another staff member also identified communication as the most important lesson learned, underscoring the potential negligence of this seemingly simple organizational strategy.

- ***Be respectful and open to new perspectives.*** Many of the staff respondents noted the importance of looking at issues from other points of view. Staff members commented that the process of systematically presenting different options and explanations for established procedures (from Parmadale and CCSC, for example) helped them understand the other perspectives and enabled them to look beyond their own assumptions for solutions.

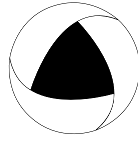
- ***Allow enough time to develop relationships and work through issues.*** While staff acknowledged that the merger time frame was adequate, they suggested that the amount of time it takes to work through relationship-based issues is never enough. Indeed, they noted that not much time is needed to complete the more functional, due diligence activities, but that relationship building takes time and energy even well beyond the defined merger process schedule.

Conclusions

The merger between Parmadale Family Services and Catholic Charities Services Corporation was a distinctive interorganizational alliance because it involved two organizations within the same "family" and was completed as part of a larger integration of services between all of the agencies within this system of services. The familiarity between the two organizations and the long-term trust and personal

relationships between key leaders in both organizations are fairly uncommon for mergers of this size.

Even though the two organizations were within the same family, they had very different organizational cultures and correspondingly different administrative systems and human resource policies. One of the most important activities of the merger process was "taking the message to the people" repeatedly to build ownership and confidence among all levels of staff. The key staff leaders were also able to anticipate many potential difficulties and approach them with political savvy in a timely manner.



Case Study 4

HelpSource

Ann Arbor, Michigan

Background and Overview

HelpSource is a human services organization serving more than 5,500 clients through an array of cradle-to-grave programs, including foster care and adoption, residential treatment for troubled youth, Big Brothers/Big Sisters, outpatient substance abuse, life skills for families, personal growth and career counseling for women, adult day care for seniors, and in-home assistance for dependent adults and the elderly. HelpSource was formed in 1996 from the merger of Huron Services for Youth and Child and Family Service of Washtenaw County, the two largest nonprofit human service providers in Ann Arbor, Michigan.

Founded in 1917, Child and Family Service (CFS) served primarily adults through a range of programs, from counseling and substance-abuse treatment to services for seniors, such as in-home skilled nursing for the poor. It had a budget of $4.8 million, 260 employees, and seven program sites. At the time of the merger, CFS's mission was to "assist individuals and families, primarily those in Washtenaw and Western Wayne Counties, to function better in society, and to improve their quality of life by providing a variety of health and social services that are responsive to changing needs."

Founded in 1969, Huron Services for Youth (HSY) served primarily youth or adolescents through residential treatment homes for abused or neglected youth, teen parent support services, and Big Brothers/Big Sisters. At the time of the merger, Huron Services for Youth had a budget of $5.7 million, 136 employees, and 14 sites throughout Washtenaw County, Michigan. HSY's mission was "To help children, teenagers, and families at risk become productive and participating members of society. In so doing, the agency was committed to policies and programs that respect and protect cultural and ethnic diversity."

When Huron Services for Youth and Child and Family Service merged in 1996, the surviving organization was Child and Family Service. After living with a hybrid name, which included elements of both organizations' names, for the first 18 months after the merger, the new organization was eventually renamed HelpSource to reflect the overarching nature of the organization's new mission. The mission of HelpSource is to "provide services that support and

strengthen individuals and families to build better lives and stronger communities." Its vision strives to ensure that "all individuals and families are reaching their highest levels of emotional, physical, and intellectual well being." HelpSource has a budget of $9.5 million and employs 350 people in 18 different programs at 17 locations in Washtenaw County.

This case study describes the merger between two large social service agencies in Washtenaw County, Michigan, home of the University of Michigan. It describes the importance of thorough due diligence review of potential merger partners, the challenges of bringing together two organizations with different cultures, and an unanticipated, precarious financial situation that surfaced after the merger was complete.

Driving Forces

The driving forces behind the merger between Huron Services for Youth and Child and Family Service were closely tied to each organization's long-term survival. Competition for social service funding was increasing while funding streams were drying up. In addition, the advent of managed care suggested that organizations needed to develop a more diversified continuum of care for clients in order to attract contracts from managed care companies. HSY and CFS realized that partnering with another agency that had few, if any, overlapping programs was key to developing the kind of continuum of care that would ensure long-term survival and provide a more comprehensive array of client services. They both knew that organizational growth and flexibility were crucial to survive in the increasingly competitive marketplace of nonprofit social service provision.

HSY officials also noted that they had a solid administrative infrastructure, with development, human resource, and financial management systems, and personnel who could support a larger organization with more program offerings than HSY currently offered. Both HSY and CFS knew that combining forces with another organization would help achieve economies of scale, primarily in these kinds of administrative support areas.

Within the context of these primarily external driving forces, the actual timing of the merger between Huron Services for Youth and Child and Family Service was precipitated by the pending retirement of the president of CFS. After more than 20 years at the helm of CFS, and with no succession plan in place, the president was ready to retire; yet he and the board of directors were concerned about who would take over leadership of the agency. A merger with another organization would solve the leadership succession problem at CFS and allow the president to have a hand in picking someone he trusted to lead his agency into the future.

Partner Formation

The presidents of Huron Services for Youth and Children and Family Service knew each other through the network of human service organizations in Washtenaw County. As two of the larger nonprofit organizations in the area, they were familiar with and respected each other's programs and services. With his own retirement in mind and the desire to ensure the safekeeping of his organization, the president of CFS approached the president of HSY to discuss the possibilities of bringing the two organizations together. CFS had experience with past alliances, having merged with other small organizations and programs in the past. Its leadership was comfortable with the concept of an even larger organizational merger. HSY's president also had previous merger experience and was receptive to the idea, though further discussion lapsed for more than six months before the matter was revisited in earnest.

Officials at Huron Services for Youth noted that they were not seeking merger partners, but that the opportunity with CFS presented itself at the right time. Once the merger option became real, the complementary and nonduplicative nature of the two organizations' programs and services were the most important factors in sealing partner selection. While both organizations were in somewhat precarious financial positions, officials from both asserted that the merger first and foremost had to make sense

programmatically. For example, HSY provided the same kind of counseling for youth that CFS provided for families and adults. As young clients grow older, the new agency would have the capacity to continue meeting their needs instead of referring them out to another service provider for treatment. After merger discussions between the presidents of HSY and CFS resumed, the president of HSY took the idea to his board and they agreed that a merger seemed a viable option for HSY's further positioning. In 1995, the boards of both organizations recommended pursuing a merger with one another.

Before and during the merger formation process, the two organizations wanted especially to learn the following about their potential merger partner: financial status, personnel benefit plans and other human resource policies, organizational culture, and areas of program compatibility and connection. Officials acknowledged that the compatibility of the two organizations' programs and missions, in particular, was the most important factor in keeping the merger on track.

Timeline and Process for Alliance Formation

Formed in September 1995, a Joint Oversight Committee between Huron Services for Youth and Child and Family Service began meeting regularly to develop a plan for merger implementation. The formal merger process began in early 1996, with the onset of a due diligence review, and concluded with a merger effective October 1, 1996. The timing for merger completion was ultimately dictated by the organizations' fiscal years, which ended on September 30. Legal counsel suggested completing the due diligence in time to file papers and establish the organization as of October 1, thereby avoiding overlapping fiscal years that would have incurred additional costs for audits and other related activities.

Leaders from both organizations provided a mixed assessment of whether the merger formation process was completed in an adequate amount of time. Some respondents noted that the time frame was adequate but that the allotted time could have been used more wisely. Others suggested that additional time, perhaps up to two full years for merger formation, would have been more satisfactory. In both cases, the amount and use of time for merger formation seemed somewhat problematic.

Within the context of these primarily external driving forces, the actual timing of the merger between Huron Services for Youth and Child and Family Service was precipitated by the pending retirement of the president of CFS.

Facilitation

While CFS had originally approached HSY with the merger idea, the two organizations assumed equal roles at the beginning of the merger formation process. The Joint Oversight Committee that had been formed between the two organizations in 1995 to consider the viability of the merger evolved into the main merger oversight committee charged with developing a time table and task lists. The Merger Oversight Committee was made up of three board members and one staff representative from each organization – the chair, vice chair, treasurer and president/CEO.

The Merger Oversight Committee did not engage an external facilitator to help guide their work, though in retrospect, a few officials noted that would have been wise. They suggested that a facilitator might have helped them better use the short time they had allotted for merger completion and may have helped the organizations work through uncomfortable situations that arose during the due diligence review. An external facilitator also may have helped them identify some of the potential hurdles that turned into larger issues after the merger was complete.

The Merger Oversight Committee established for

themselves a time table and initial "things to do" checklist. This general road map to the merger included:

- Develop a selection process for new board members, officers, and committees;
- Develop a mission statement,
- Reconcile financial reporting systems (chart of accounts, written policies and procedures),
- Develop a payroll plan (either in-house or contracted out; reconciliation of payroll procedures),
- Consolidate and/or reconcile personnel benefits,
- Consolidate banking wherever possible,
- Select an insurance carrier,
- Agree on how and when a public announcement will be made,
- Determine when staff, volunteers, colleagues, funders, competitors will be notified,
- Develop a statement outlining primary reasons and advantages for combining agencies,
- Decide if and how to continue to draw attention to the new entity,
- Develop by-laws,
- Develop articles of incorporation,
- Continue tax exemption status,
- Apply for solicitation license, and
- Combine development efforts and resources.

Due Diligence

While the Merger Oversight Committee completed work on many of the general items in the "things to do" checklist, they also developed separate task forces to address categories outlined in a due diligence checklist provided by their legal counsel. HSY provided pro bono legal counsel to the merger process, in addition to the legal expertise already present on the two organizations' boards. HSY had a long-standing relationship with a local law firm that had provided pro bono legal services for HSY over the years. This pro bono attorney, along with an attorney board member of CFS, brought to the table their experiences with mergers in the for-profit sector and served, to some extent, as facilitators of the due diligence review.

The pro bono attorney provided a general due diligence checklist as a guideline to ensure that all necessary information from each organization was examined. A sampling of that checklist included:

- **Organizational History:** History, definition of service areas, client demographics, and other general information concerning operations (e.g., a current strategic plan);
- **Corporation/Organizational Documents:** Articles of incorporation, bylaws, boards rosters, board and committee meeting minutes, annual reports, and an organizational chart;
- **Regulatory/Accreditation Issues and Compliance:** Licensure/registration and Medicare/Medicaid certification, descriptions of investigations concerning possible fraud or abuse, permits, licenses, and accreditation letters and follow-up progress reports;
- **Financial Accounting and Tax Records:** Audited financial statements for last four fiscal years, current interim financial statements, IRS 501(c)(3) determination letter, and charitable trust and solicitation registrations;
- **Contracts:** Agreements with Medicare, Medicaid, HMOs, PPOs, and other third-party payors and managed care companies, and agreements with state, county and other government units, grants;
- **General Assets:** List of all real estate (owned or leased), capital equipment (owned and leased), software, investments not listed elsewhere, and other relevant information regarding ownership and valuation of assets (e.g. appraisals);
- **Depreciation and Other Long-Term Liabilities and Obligations:** Loans, notes, line of credit obligations, and other information regarding long-term obligations;

- **Operational Liabilities:** Accounts payable arising from operations, and claims payable to subcontractors;
- **Employees and Services:** List of professional contractors and employees, including specialty and practice site, and an organizational chart;
- **Other Employment Contracts:** Description of benefits (pension, severance, retirement, leave policies, health insurance, disability, workers comp, etc.), collective bargaining agreements, union organization activity, unfair labor practice claims, employee handbooks and manuals, documentation of Immigration Act compliance, and employee orientation procedures;
- **Insurance and Claims:** List of malpractice and general liability insurance (including professional and directors and officers) and other risk management protection, list of any matters resolved or settled in which compensation was paid during the past five years; and
- **Other Litigation:** List of all pending litigation, any injunctions, court orders, or consent decrees to which the organization is subject.

Due diligence was carried out by four separate task forces, each comprised of two board representatives and one staff member from each organization. The staff participant from HSY was usually the director of the particular operational area under review, while CFS was represented only by the outgoing director. The task forces established their own time lines and contacts responsible for providing the requested information. They also determined areas that needed immediate resolution and those that could be deferred to a later date. The due diligence process lasted for approximately six to eight months, beginning in early 1996 and leading up to the official merger date of October 1.

These task forces addressed the general due diligence checklist above through four key content areas: program, financial, personnel, and legal. Each task force had its own charge, as follows:

- **Program Committee Charges:** Regulatory and accreditation issues and compliance; affiliations, joint ventures or other agreements with educational or other institutions; service, supply or maintenance contracts; management or consulting agreements; installation purchase agreements.
- **Finance Committee Charges:** Assets in general; accounting and tax records; debt and other long-term liabilities and obligations; operational liabilities; insurance and claims; selection of auditor and insurance carrier; reconciliation of financial reporting systems; general financial risks.
- **Personnel Committee Charges:** Employees and services; organizational chart; description of benefits; collective bargaining agreements; union activity; employee manuals and handbook; EEOC compliance procedures; other employee contracts; pension plan/403(b).
- **Legal Committee Charges:** All corporate and organizational documents.

The due diligence task forces regularly reported their findings and recommendations to the Merger Oversight Committee and each agency's board. Only one issue that had been decided prior to the beginning of the due diligence review remained an untouchable mandate as a condition for merger completion. CFS had in place a defined benefit plan, a retirement plan described by human resource professionals as popular with businesses but uncommon in nonprofit organizations. After a given period of time, an employee becomes vested in funds set aside in a retirement account. Upon retirement, the employee receives regular payments according to a set formula. This arrangement is uncommon for nonprofit organizations because it is difficult to make those kinds of payments in perpetuity. CFS had promised these retirement benefits to its retiring president. Even though the personnel task force looked for ways to combine and update the benefit plans for the merged organization, the merged organization had a specific and immutable financial commitment to the retiring CFS president for several years into the future. The

retirement plan was also promised to any CFS staff who was vested.

The due diligence process generated the most recommendations for human resources, requiring the most discussion and reconciliation between the two different policies. The merger participants wanted to be fair to the benefit plans from both organizations within parameters that the new organization could support financially and administratively. They did not want to take away anything from either benefit package, yet they realized that human resource areas contained many opportunities to reduce expenses through economies of scale. Despite the financial burden carried forward from the defined benefit package, merger participants contended that they developed a fair and comprehensive benefits package for all employees. In fact, benefits remained the same or improved (and continued to increase years after the merger) while per employee cost decreased, providing an example of the kind of economy of scale CFS and HSY sought.

The due diligence process gave HSY and CFS a structured opportunity to learn more about each organization's circumstances. Many participants, however, felt they were unable to obtain satisfactory answers to many of their inquiries. Officials from HSY, in particular, felt as though the strong-willed president of CFS deflected them from gathering the detailed information they needed to build a comprehensive picture of CFS's financial situation. As the organization courted by a larger, older, and more widely recognized entity, leaders from HSY initially felt that they could not ask tough questions of their suitor. Eventually, when HSY persevered, CFS answered with follow-up questions of its own. As one official from HSY noted, "Their best defense was a good offense."

The pro bono attorney for HSY commented that the open, collaborative nature of the task forces may have contributed to the difficulties in obtaining all the necessary information. While she praised the joint membership representing both organizations on the committees, she wondered whether or not people were worried about offending their partner colleagues by demanding complete answers to some difficult questions. The due diligence process may have engendered less frank discussions in order to be polite or not to derail the process by raising issues in "mixed company." The pro bono attorney suggested that an independent review period prior to the actual collaborative due diligence process might have identified and aired some of the sensitive issues within each organization independently and in a safe environment.

While no deal-breaking issues emerged during the due diligence process, after the merger was final the new organization encountered some weighty challenges that, had they been discovered during due diligence, might have jeopardized the merger. The most important discovery after due diligence was a serious financial "black cloud." CFS had a large debt to Medicare that had gone undetected during the due diligence review. Officials from both organizations acknowledged that the Medicare debt was not purposefully covered up by CFS. Because of the highly complex reimbursement rules that govern Medicare payments, the CFS board and staff did not realize that they had received reimbursements for more services and expenses than could be accounted for. Even though HSY raised the kinds of questions that might have uncovered the situation, they admit that they did not press for the answers as forcefully as they should have, nor did they have any experience with Medicare funding. As a result, when Medicare came to audit the former CFS's skilled nursing program after the merger, they hit HelpSource with a bill of $1.3 million to compensate for the overpayments.

Merger participants reflected that even if serious issues, such as the Medicare debt, had been raised in the due diligence review, the open and collaborative nature of the process made stopping the merger difficult. One respondent noted, "It becomes increasingly difficult to [back down] if you are doing that in an open way – involving the staff, it's out in the public, it's in the newspapers that these organizations are considering merging. It leaves a real taint to pull

back three-quarters of the way through the due diligence process. It becomes really difficult once the steam engine gets rolling along to try and stop the process."

The organizations received thousands of dollars' worth of pro bono services to carry out the due diligence process. They estimate that if they had to pay all of the lawyers and financial experts who donated their time, due diligence would have cost up to $50,000. The organizations did incur direct merger expenses of approximately $16,000 that included filing fees for the new organization, a special audit during due diligence to get the most up-to-date fiscal information, and consultants for the merger marketing plan and name change.

Staff Involvement

Some personnel were involved in the merger formation process primarily through participation on the due diligence task forces in their particular management areas. The rest of the staff were appraised of the merger's progress through a transition newsletter distributed periodically. Once the merger was final, the entire staff was invited, along with board members, clients, and community stakeholders, to a one-day retreat as part of a post-merger strategic planning process. The retreat was designed to give all constituents an opportunity to become vested and have a voice in the direction of the new organization. After the merger, staff leaders also participated in transition meetings designed to familiarize themselves with one another, develop compatible systems, and build stronger working relationships.

The new president of the merged organization (formerly the president of HSY) also created a seven-person, senior staff committee to determine how to operationalize the merger in all areas of the organization. All members of this senior staff committee, except one, were former staff members of HSY. Respondents noted some bitterness from former CFS staff about the lack of representation in the top levels at the new organization. The president acknowledged that he should have balanced the staff representation in this group more equally to provide equitable voice to and perspectives about merger implementation across the new organization. However, he did meet with CFS senior staff and he felt none of them were prepared to take on a larger leadership role.

Board Involvement

As described in the due diligence process, board members were involved on the Merger Oversight Committee as well as on the separate due diligence task forces. In addition, the boards of both organizations met monthly for the year leading up to and during merger formation in order to stay well connected to the process and to provide timely approvals on recommendations brought to them by the Oversight Committee.

Other Stakeholder Involvement

External stakeholders were not actively involved in the merger formation process. Key funders were appraised of the pending merger, and information about the merger was revealed in the local press. Community members and clients were also invited to the day-long strategic planning retreat held after the merger. They participated in facilitated forums throughout the day designed to elicit their feedback to the merger, including their hopes and fears for the new organization. In retrospect, the president of HelpSource said he would involve external stakeholders earlier and more actively in the merger process.

Obstacles to Merger Formation

After the completion of the merger, the integration of the two organizations' administrative systems, programs, and cultures was difficult. The yet-to-be named "HelpSource" was faced with trying to combine different employee benefits and management styles. While these issues did not prevent the merger, they proved to be particularly challenging in operationalizing the merger. Although having anticipated that human resource issues would be difficult, merger participants did not appreciate the

degree to which these areas would be so different in the two partnering organizations. For example, the defined benefit retirement package at CFS was considered a somewhat archaic pension plan that proved difficult to merge with the more standard retirement package provided at HSY.

CFS employees were accustomed to an extremely hands-on president and a more decentralized organizational hierarchy. The new president of HelpSource gathered a talented group of senior staff directors; this created a layer of management unfamiliar to former CFS employees, who used to have direct access to their president. Additionally, a few staff positions were eliminated due to duplication of skills and the necessity to streamline the organization. Long after the merger, a perception persisted that a disproportionate number of CFS staff members lost their jobs, although additional cuts had also been made in administration and training areas (previously associated with HSY) to help lighten the overhead and perhaps assuage some of the CFS staff. The president of HelpSource acknowledged these sentiments and, in retrospect, admitted that he would have handled staff issues differently.

These kinds of staff morale and motivation issues, as well as merging the different organizational cultures, were much more difficult to resolve than anticipated. The strategic planning process undertaken immediately following the legal completion of the merger was the first step in bringing together staff and board members from the two organizations in a positive, forward-looking manner at the new organization. The strategic planning process allowed all staff to voice both their concerns and their hopes for the future. HelpSource also created employee teams with staff from both organizations organized around specific work projects. This team approach to problem solving and project implementation helped foster a sense of cooperation.

Another hurdle during merger formation that proved even more problematic after the merger was obtaining an accurate picture of the organizations' financial situations, particularly that of CFS. For example, HSY did not have experience with the kind of financial accounting required to manage some of CFS's programs, such as the home healthcare business. They were not sure what kinds of questions to ask during the due diligence process. As a result, the financial status of the new organization was compromised by CFS's enormous Medicare debt.

Staff Issues

Merger issues critical to staff members included:

- Job security;
- Benefits, including pension, vacation and holidays, salary scales, etc.;
- Office location, and potential relocation; and
- Colleagues and supervisors (Who will be my boss? Who will I work with?).

One board member with for-profit merger experience noted that these concerns are common across sectors: "Employees always view any change of this size with fear and need reassurance that things are going to be OK." Respondents noted that these issues were worked out to the general satisfaction of all staff members.

The staff of both organizations also expressed concern over the challenges of melding two different cultures. CFS had an informal atmosphere and a relatively flat organizational chart. The CFS president was a hands-on manager involved with many details of the organization's programs and operations. HSY had developed several strong administrative departments, such as development, human resources, and finance, that were lacking at CFS. Staff members from both organizations perceived that their way of doing things was better. One respondent summarized staff sentiment as, "Somebody different from them was coming into the family, and they do things differently, and they don't do things as well as we do things."

A few years after the merger, the "us vs. them" mentality had dissipated. New employees outnumber those whose tenure predates the merger. HelpSource has approximately 350 employees, of which 54% are

new to the organization since the merger, 25% are formerly of CFS, and 21% from HSY. A new organizational culture, specific to HelpSource, eventually overshadowed most operational vestiges of the old organizations.

Board Issues

While both boards supported the merger between Huron Services for Youth and Child and Family Service, they also grappled with several issues during and after the merger process: autonomy and identity, fiscal health and status, human resources, and board development.

- **Institutional Identity:** Institutional autonomy and identity were important issues for board members from both organizations. The HSY board, in particular, was troubled by the fact that its organization would legally cease to exist as of the merger date. Use of the hybrid organizational name for more than a year after the merger helped ease the transition to a new organization. The issue of giving up organizational identity was an issue for some members because they had joined a particular board based upon their commitment to that organization's specific mission and scope of work. Even though the agencies provided complementary and not contrary services, some board members had a more difficult time than others supporting a broader scope of programs. For example, some HSY board members, vested in helping youth in their community, were less interested in serving other age groups, particularly older adults in home healthcare and Medicare-supported programs.

- **Finances:** Board members from both organizations expressed concern over the financial position of the other organization and whether their own organization could withstand the added financial stress of a merger. Neither organization was in a position of fiscal strength going into the merger, and each took a somewhat defensive position in providing financial information during the due diligence review. Board members also questioned the soundness of the logic behind the merger. They wanted to ensure that the organizations were merging because a fit existed between their program offerings that would better serve the community and make them more efficient organizationally. They did not want to merge solely for the sake of increasing size and strength, as advantageous as those positions might be. This sentiment persisted after the merger. The new president, chief financial officer, and board of HelpSource continue to examine the effectiveness and financial viability of the organization's programs to ensure they operate as efficiently as possible and break even financially.

Another hurdle during merger formation that proved even more problematic after the merger was obtaining an accurate picture of the organizations' financial situations, particularly that of CFS.

- **Employee Benefits:** An additional issue for board members was the provision of appropriate benefits for staff members of the merged organization. During the merger process, board members worried whether they would be able to combine equitably the two organizations' benefits programs. They also wanted to ensure that staff members were treated fairly during and after the merger.

- **New Board Development:** The president of HelpSource commented that the process might have been derailed if they had not been able to successfully merge the two boards with equal representation from both sides. HSY had 23 and CFS had 15 board members. They each needed to nominate 12 board members – of which two from each organization would comprise a slate of four officers – to sit on the new board. The board was merged successfully. The president of HelpSource noted that the new board is very committed and responsible and, perhaps, the best board of directors with whom he has ever worked.

Trust

All respondents confirmed that trust was crucial in this merger. Both organizations seemed to understand the importance of trust and were conscious of trying to keep a significant level of trust alive. However, the perceived level of trust varied between the organizations as the due diligence progressed, becoming increasingly problematic through merger finalization and implementation. Most respondents from Huron Services for Youth perceived that they trusted Child and Family Service more than CFS trusted them. At times, CFS staff were told that a hostile takeover was occurring. Yet, HSY participants attribute the trust imbalance to their impression that HSY was merging into a bigger organization. Feeling as though they had to demonstrate their worthiness to CFS, HSY staff saw themselves as less critical and demanding of CFS than they might have been during due diligence. After financial problems were uncovered at CFS, HSY respondents reflected that perhaps they should have trusted CFS less than they did. Some HSY respondents perceived that CFS staff did not trust HSY. However, all respondents formerly associated with CFS commented that trust was very high throughout the process and noted no absence of trust on either side.

While participants acknowledged that trust was a crucial ingredient, they also acknowledged that the unspoken mandate to complete the merger, regardless of any suspicions or hurdles, overshadowed the lack or imbalance of trust. Initially, the organizations trusted the information they were getting from each other, but when CFS refused to answer key questions or provide requested information, HSY's trust in CFS began to wane. Ultimately, noted respondents, everyone was reluctant to confront one another.

While trust appeared to deteriorate as merger formation progressed, it was perhaps at its lowest immediately following the merger when true integration became a reality. Officials realized that they needed to work hard to cultivate the kind of trust necessary to integrate two different staffs and organizational cultures. The strategic planning process that began immediately following the merger was an important step towards bringing staff members together to work towards a common vision of the new organization. In addition, staff began to establish new systems and quality improvement plans that neither organization had previously instituted. Those joint staff projects and ongoing efforts to confront staff issues after the merger helped establish a new level of trust, but all respondents admitted that this process took a very long time. For some personnel, trust was never reestablished; they simply quit. When new staff were hired, this issue diminished in importance.

Outcomes

Despite many of the challenges noted, the merger between Huron Services for Youth and Child and Family Service was considered a success by all staff and board respondents and, based upon their perceptions, the external community. No formal criteria were established to measure the merger's success, but respondents pointed to several factors present after the merger as indicators of the merger having accomplished some of its intentions. The outcome most often cited from respondents was establishing a continuum of care for clients. A full array of quality human services had always been the primary goal of the merger, and officials are proud that they made that a reality.

The fund-raising capacity of HelpSource increased with the merger, which was another outcome area important to both organizations before the merger. HSY and CFS no longer compete with one another for a limited pool of funds, and HelpSource's array of program offerings expanded its range of potential grant sources. In addition, the funding and revenue that now comes into the organization is allocated more efficiently; since the organization does not have to support duplicative administrative areas, the desired economies of scale have been achieved. HelpSource's increased size has also opened new doors. For example, the president of HelpSource sits on the

board of the local Chamber of Commerce by virtue of the organization's size and scope of its programs. HelpSource now also receives the largest allocation of funding from its local United Way.

Even though HelpSource achieved an increase in the diversity and amounts of fund-raising revenue, it was saddled with a staggering debt, primarily from the undocumented Medicare payments at CFS. For a while, the organization was not able to pay its bills, which had a negative effect on community perceptions of the merger. The financial stability that both organizations sought through a merger was not yet fully realized three years after the merger was completed.

Phases in Process Critical to Success

Staff and board members' opinions of which phases in the merger process were most critical to its success varied. Many staff respondents noted that one of the most important phases was the time spent after the merger bringing the two staffs together and finding a common mode of operation and organizational culture. They cited this stage as the one most fraught with distrust and requiring the most attention in order to fully implement the merger. Respondents also agreed that working through issues with staff at all levels of the organization should have occurred well before the merger was completed.

Board members, on the other hand, noted that the six to eight months leading up to the final merger were critical. They thought that involving both boards equally from the beginning and ensuring equal board and staff leadership of the due diligence committees was crucial. One board member commented, "I think these committees met with a lot of free exchange and good humor and so on, which eliminated the 'them vs. us' which could easily have infected the whole process." Comments from staff contradict this sentiment, however, revealing that board and staff perceptions may have been different. Respondents did acknowledge that the daily tribulations of merger implementation were more heightened on the front lines of the staff than in the board rooms.

Unintended Consequences

One of the unintended consequences of the merger between Huron Services for Youth and Child and Family Service was the necessity to close or spin-off programs that were not functioning effectively. Neither organization anticipated that programs would be in jeopardy; but, once the merger was final and participants began to look objectively and more closely at all program offerings, they realized that some programs were losing money and putting the entire organization at risk.

Some staff positions were also eliminated, either as a by-product of program elimination or due to issues of duplication or quality of work. Having been promised few, if any, staff cuts from the merger, CFS staff in particular were not prepared for the degree to which the cuts were necessary. Nor were the financial positions of the CFS programs shared on a detailed basis with the staff.

The extent to which the financial situation was a burden to the new organization was highly unanticipated. The depth of the debt at CFS was staggering to HelpSource, which struggled many years after the merger to right itself financially. On a leadership level, even though the president of CFS had agreed to retire, he still wanted leadership responsibility in the new organization. However, the president of HelpSource would have found it difficult to operate with two key decision-makers around. Ultimately, the dramatic changes in programs and staffing patterns, particularly those from CFS, were so devastating to the former president of CFS that he eventually discontinued contact with the organization.

Staff and board members mentioned that a positive consequence was a stronger board than either organization had prior to the merger. Respondents point to a more professional organization with better benefits and more efficient systems as other positive consequences.

Lessons Learned

Participants in the merger between Huron Services for Youth and Child and Family Service revealed a variety of lessons they learned in their merger process:

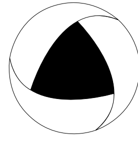
- ***Take time to involve staff at all levels and listen to what they have to say.*** Staff and board respondents repeatedly mentioned the need to spend more structured time with staff prior to the merger, both to share information honestly and to garner feedback about proposed changes in areas such as benefits and job configurations. Board and staff acknowledged that they may not have been able to satisfy all staff requests and concerns, but at least staff would have been engaged in a more open and defined forum, which would have fostered a more collegial culture and more realistic post-merger expectations.
- ***Address differences in organizational culture.*** The legal work is the easy part. The pro bono attorney for the merger process acknowledged that drafting a merger agreement and other legal documents is relatively simple. The difficult part is tuning into the sentiments of the participants and controlling issues related to relationships and culture before they percolate too long, becoming even more difficult to resolve down the road. Understand the different organizational cultures and work consciously at bringing them together.
- ***Establish an independent review process prior to or during the collaborative due diligence process.*** Due diligence is designed as a discovery stage for organizations entering into a merger. During this process, organizations seek and share the same information about themselves with their merger partner. This process allows the merging partners to assess each other's circumstances from all perspectives. Because this process did not uncover important financial information for the HSY/CFS merger, participants suggested a simultaneous, yet independent review of these areas.
- ***Use an outside facilitator.*** Respondents noted that a neutral facilitator could have helped diffuse the tensions. They suggested that an outsider is better positioned to ask difficult questions and demand complete answers. At the same time, some participants acknowledged that they themselves should not have been afraid to turn over every stone, even at the risk of annoyance or anger.
- ***Involve more stakeholders from the community.*** Many respondents noted that they would have involved community stakeholders in the merger process, or at least have kept them better informed at critical junctures along the way. Clients, funders, suppliers, even former employees were affected by HelpSource's financial struggles following the merger. More information provided to them up-front may have eased some of the shock when bills went unpaid or benefit reimbursements to former staff were suspended.
- ***Don't make promises you can't keep.*** CFS employees were told that no jobs would be affected by the merger, so when dramatic cuts were made to positions and programs after the merger was final, former CFS staff were hurt and bitter – particularly since CFS employees seemed to take the brunt of the cuts. Respondents noted that even if organizations estimate, with all good intentions, that no jobs will be eliminated due to a merger, some job loss or consolidation is inevitable.
- ***Keep the question of whether the merger is ultimately a good idea on the table.*** Participants in this merger mentioned a sense of powerlessness because the underlying mandate was to complete the merger regardless of the outcome of the due diligence review. This came out most strongly during the due diligence process when they did not receive the information they requested. As one participant noted, "Leave the question on the table of whether we are going to do this, and keep that on the table . . making sure we are honest about [the fact] that it's still an open question, and allowing the due diligence process to surface information that would help answer that question." Don't be afraid to discover that an alliance simply may not work.

- ***Risks are worth taking.*** Most respondents noted that even though it was not an easy process, and that troubles lingered years after the merger, it was ultimately the right step for these organizations to take. As one respondent said, “Nothing ventured, nothing gained.”

- ***Take time.*** Most respondents noted that more time could have been used for this merger formation. They seemed to think that at least one year was necessary, especially to allow for greater staff and external stakeholder involvement.

Conclusion

The merger between Huron Services for Youth and Child and Family Service was not an easy one. The difficulties encountered in integrating different organizational cultures and the unanticipated debt were extremely trying for many participants. Due diligence, structured to be an informative fact-finding phase, did not prove as fruitful as participants had hoped. Despite these realities, HelpSource became a strong, well-respected organization providing the quality and range of social service programs initially sought from this merger. Ultimately, this was the only criteria for success that really mattered.



Case Study 5

Metropolitan Alliance of Community Centers

Minneapolis/St. Paul, Minnesota

Overview and Type of Alliance

The Metropolitan Alliance of Community Centers (MACC) is an IRS 501(c)(3) tax-exempt membership organization formed as a joint venture between nonprofit community-based, direct service organizations serving predominantly low-income residents in the Minneapolis and St. Paul metropolitan area. MACC was incorporated in 1999 primarily to advocate on behalf of the individuals and families served by its member agencies and to increase the capacity of those agencies to survive and thrive in a changing and increasingly competitive nonprofit environment.

Eleven neighborhood and community centers are charter members of MACC. Collectively, these agencies employ 700 employees, manage combined annual budgets of more than $32 million, and serve 120,000 people in the Twin Cities, 86% of whom are low-income. The 11 member agencies are East Side Neighborhood Services, Merriam Park Community Services, Loring Nicollet-Bethlehem Community Centers, Merrick Community Services, Neighborhood House, Neighbor to Neighbor, New Unity, Plymouth Christian Youth Center, Pillsbury Neighborhood Services, Sabathani Community Center, and West Seventh Community Center. Services and programming provided by these organizations include, but are not limited to, family services, youth development, training and employment, basic needs and crisis intervention, education, childcare, financial services, senior services, counseling, social and cultural programming, and transportation.

MACC's mission is to "assist individuals and families in achieving greater self-sufficiency by strengthening the capacity of community-based social service organizations." The founding members of MACC believed that a unified voice and joint programmatic and operational initiatives would bring greater attention to and support for the kinds of long-term, community-based efforts to which its member organizations were committed. With philosophical, if not literal, roots in the settlement house movement, the organizations comprising MACC wanted more control over the human service agendas in their communities and the metropolitan area as a whole. MACC's vision states, in part:

"We will forge a new business relationship among member organizations in order to have greater impact in the lives of those we serve. We will use our collective

voice to advocate for the needs of individuals and families in our communities, with consideration of long-term impact on future generations. We will provide a leadership role in the community to represent those we serve, and because of the strength of our collective representation we will be an indispensable partner in community initiatives and policy deliberations. We will build the capacity of individual organizations through joint leadership and staff development..."

This case study describes the initiation, formation, and early life of the MACC. It highlights the importance of common needs and a common vision, leadership maturity, and trust when creating a joint venture that brings together numerous agencies across a geographically divided metropolitan area.

Driving Forces

Shifts in the philanthropic climate during the decades prior to the Metropolitan Alliance of Community Centers' formation had increasingly jeopardized what many of its agencies felt was an effective, long-term approach to providing services to people in need and making positive change in communities. Committed to the community-building and self-help philosophies of the early settlement house movement, the neighborhood and community center members of MACC felt increasingly squeezed by limited resources and challenged by funders to provide quick-fix treatment programs favored by outcomes-based philanthropy. As neighborhood needs continued to increase, funders were growing tired of ongoing, multiple requests for basic services. Many community centers were frustrated that the steady, sustained neighborhood services they provided were becoming invisible to the outside world, yet remained vital to their communities and residents.

More and more, community-based agencies were struggling to maintain the infrastructure necessary to keep pace with client needs and operational trends. Increasing professional development opportunities for employees, establishing effective program evaluation systems, upgrading information technologies, as well as looking for ways to trim administrative costs were forefront in their minds. Against this backdrop, the executives of many Twin Cities neighborhood and community centers recognized the possible benefits of forming a federation of community centers that would help coalesce their efforts and meet individual agency needs.

Ultimately, MACC participants' shared concern about trends in human services delivery and their common commitment to the philosophy of the settlement house movement were the primary driving forces for the alliance formation. Collectively, they believed they could influence the social service agenda, target larger service contracts, and achieve some economies through shared program and administrative resources, all while supporting each agency's mission and programs.

Partner Formation

Almost all of the executive directors from the potential and current members of the Metropolitan Alliance of Community Centers were familiar with each other and each other's agencies. They knew each other through their United Way Council of Agency Executives, through common or collaborative program activities, and through other alliances, such as a smaller-scale alliance of community and neighborhood centers just in St. Paul and the Metropolitan Federation of Alternative Schools to which some agencies belonged.

Although MACC agencies shared many philosophical and programmatic ideals, a symbolic and geographic barrier had traditionally separated them. MACC participants repeatedly referred to "the other side of the River" when speaking of member agencies located across the Mississippi River. Not only were the Twin Cities separate municipal areas, they were also in different counties and tended to operate very independently. This long-standing ambivalence between Minneapolis and St. Paul played out in the nonprofit, human service arena as well. Yet, MACC participants realized that the metropolitan area was not big enough to sustain operations in two separate spheres. Shrinking resources, coupled with trends toward more regional thinking, required cohesive,

larger-scale responses from neighborhood and community centers.

With this in mind, the executive director of Pillsbury Neighborhood Services in Minneapolis and the executive director of Merriam Park Community Services in St. Paul convened a meeting to discuss the possibility of forming a metrowide alliance. They invited nearly 40 agencies from Minneapolis and St. Paul through a specific yet inclusive appeal: Any known community centers and other core, city-serving agencies with facilities and established programs were welcome to attend.

The initial prompt to convene these agencies was to explore possible cost-savings in membership dues to the United Neighborhood Centers of America (UNCA), a national membership organization serving community-based agencies. To build its own membership nationally, UNCA offered discounted annual dues if agencies joined under a local association or federation of peer agencies. Already members of this national organization, some of the St. Paul and Minneapolis agencies appreciated the benefits of reduced membership costs. While MACC's conveners approached their peer organizations with this membership issue at the fore, they were also up-front about other possibilities that a strong metrowide alliance could engender.

Over the course of the first few general meetings, approximately 20 of the 40 agencies attended regularly. Eventually, when the time arrived to commit energy and resources for a strategic planning process, ten agencies signed on – remarkably, five from each side of the River (an eleventh agency joined later). The agencies that eventually committed to the alliance were, as one participant noted, "The ones that most fit what we thought we were as an alliance."

Primary leadership during partner formation came from the convening executive director from Pillsbury Neighborhood Services, which also happened to be the largest organization in the alliance. Taking charge of scheduling meetings and distributing materials, he served as the central champion of the alliance and its potential. He noted that two key factors at the onset of the alliance formation were the trust that had developed over the years between the agency executives, and the maturity and tenure of the executives in their respective positions. He suspected that the wisdom, security, and authority each had gained over the years contributed to their willingness to participate in a partnership that required devoting individual resources for the greater good of the whole: "You need to get power in order to consider giving it away."

This kind of executive power was another key factor in MACC's partner formation, and one that set it apart from other kinds of collaborations. From the beginning, participants and meeting attendees were exclusively executive directors, all of whom eventually comprised MACC's board of directors. As one participant noted, "One thing I found interesting...it's a real learning experience, is that we're all executive directors sitting around the table. I mean, we were all used to meeting. And now we're having to work together and to share responsibilities and to take on things and not have someone else on your staff taking this part in this partnership."

Many MACC participants had good experiences with other alliances and knew how useful effective collaborations could be to their agencies. On the other hand, some MACC participants, who acknowledged that they were not necessarily interested in and were even skeptical about another collaboration, commented that this joint venture seemed to have particularly strong vision, leadership, and potential.

Timeline and Process for Alliance Formation

The alliance exploration process began in the summer of 1997 with the first meeting of the 40 agencies. For the following few months, interested executive directors met monthly at rotating meeting locations, discussing various alliance possibilities. Once they realized that a more formal planning process was necessary to clarify their options and goals, ten founding agencies stepped up to see the process

through to its conclusion. They selected an external planning facilitator but then took a five-month break to find foundation support for the joint venture planning process.

The strategic planning process for the alliance began in earnest nearly 16 months after the initial meeting and continued for eight months. Once the plan was completed and the Metropolitan Alliance for Community Centers was named, MACC filed articles of incorporation with the state of Minnesota and applied for tax-exempt status with the Federal government. The executive directors of the 11 member agencies comprised MACC's founding board of directors. The alliance planning and formation process took two years from start to finish. While some participants considered this pace too slow, others acknowledged that it might have taken longer had the participants not known each other as well as they had at the beginning of the process.

Facilitation

The Minneapolis leader was the primary convener of the alliance, and his agency became the fiscal agent for start-up costs, grant awards, and the initial dues assessed each member agency. Several other executive directors also played leadership roles in the early stages and throughout the alliance formation. Once the alliance members decided to embark upon a formal strategic planning process, they hired an external consultant to facilitate the planning and a part-time, temporary coordinator to handle administrative duties. The strategic planning facilitator came from the local foundation community, had worked with some of the participating agencies in the past on their individual strategic plans, and was well respected by the alliance's members. The core group of agency directors worked closely with the consultant to design the planning process, which the consultant then facilitated.

Planning

While the strategic planning process served as the primary framework for alliance formation, MACC also developed an implementation plan to map out its initial activities. The **implementation plan** included the following broad steps:

Year 1

- Finalize membership agreement,
- Incorporate MACC,
- Establish board of directors,
- Recruit members and ensure alignment with MACC's mission and values,
- Launch fund development campaign,
- Develop initial promotional materials,
- Prepare a case statement including scope, scale, and impact of MACC member services,
- Create a plan for broad-based staff and board development across member agencies,
- Develop program evaluation for MACC,
- Explore cost savings opportunities,
- Identify current best practices among members' programs that could be shared with other agencies (programs such as welfare-to-work, crisis/food shelf, alternative schools, transportation, day care, youth, meals on wheels, job training, etc.),
- Meet monthly to ensure that participating agencies share a common approach to service delivery, and
- Decide on a membership recruitment strategy for 2000 (Year 2).

Year 2

- Hire executive director,
- Create and implement an annual policy agenda to support community-based agencies,
- Implement a plan for broad-based staff and board development across member agencies,
- Begin implementing evaluation design for MACC,
- Conduct ongoing assessment and feasibility study of cost savings opportunities,
- Implement one or two programs,
- Conduct feasibility study of one to three program

consolidation or collaboration efforts, and

- Develop model for a certification program for social service professionals, based on a survey of similar programs used in other fields.

The strategic plan, in turn, established MACC's mission, vision, and values and set forth the larger goals that this joint venture hoped to accomplish. The general goals and supporting strategies (minus the specific action steps) included in MACC's strategic plan were:

- To make more resources available to support service delivery
  1. Speak with a collective voice to obtain necessary funding for the start-up of MACC and for service delivery by members
  2. Create cost savings in administration and operations through economies of scale
- To enhance service quality and effectiveness of service delivery systems
  1. Maximize leadership and learning throughout the system through staff and board education, and sharing expertise
  2. Enhance efficiencies in service delivery through joint efforts
- To influence public policy that supports the needs of MACC constituents
  1. Through a collective voice, advocate for effective community-based delivery responses for people in need
  2. Increase the public visibility of MACC
  3. Incorporate MACC identity and positioning into member agency materials as appropriate

In addition to clarifying the mission and vision of MACC, the strategic plan included specific action steps for future MACC operations. The plan defined for MACC itself, potential alliance members, and funders, its philosophy and goals, as well as the methods and means through which it hoped to realize them.

The executive directors of the 11 member agencies comprised MACC's founding board of directors. The alliance planning and formation process took two years from start to finish.

Stakeholder Involvement

In general, no stakeholders other than the executive directors of each participating agency were directly involved in the alliance formation process. The executives informed their boards of directors on an individual basis and briefed some senior staff members on the alliance's formation and purpose. As part of the planning process, board members from all agencies and key funders were invited to one or two events to learn about the alliance's progress and to provide input on certain issues. In addition, each MACC member agency was required to obtain approval to join MACC by a formal resolution of its board of directors. None of the MACC respondents indicated that they would change this limited participation by stakeholders. Because this alliance was geared more towards structural and policy initiatives, its leaders felt constituent participation was not necessary. One respondent, however, felt that greater board participation might have been appropriate.

Due Diligence

No formal due diligence was conducted as part of the alliance formation process. All of the respondents equated due diligence work with more formal alliance activities, such as mergers and consolidations; they maintained that the revelations necessary for those kinds of alliances were not appropriate for MACC's formation. Because of the long-term professional relationships between the agency executives and their familiarity with each other's programs and services, they knew a fair amount about each other from the start. They also rotated planning meetings among member agencies, and the host agency was encouraged to share organizational information as part of an informal familiarization process. They requested and

handled additional information, such as annual reports and budgets, on a need-to-know basis and assumed that more information would be shared between staff members as MACC's joint initiatives were launched.

Even though these agencies were relatively familiar with one another, particularly on a program basis, one respondent noted that he needed information about agency partners in the following areas: experience and commitment of the board and their level of involvement in their agency's strategic issues; administrative structures and functions of the organization; and composition and characteristics of the staff, such as whether they were academically or community trained. This latter distinction, for example, could affect how different staffs work together on projects and which agencies might have special expertise for training others.

During the alliance formation period, participating leaders wrestled with several issues that affected their individual decisions to proceed with this alliance. Focused around governance and equity, these issues surfaced in questions such as:

- How was the alliance going to govern itself? How would it respect and treat the vastly different sizes in financial resources and capabilities of its member agencies fairly?
- Would the alliance commit itself to affecting the larger social agenda or simply serve member agencies?
- Was there potential for program infrastructure support?
- Was there potential for putting together metrowide proposals for service to improve the agencies' competitive positions?
- Would the alliance continue to function after executive leadership changes in individual agencies? (Is an agency's participation emotionally-driven by one person or institutionalized by the entire agency?)

In the participants' minds, these issues were resolved, or at least showed enough potential for resolution, so that participants were comfortable formally entering the alliance. As one respondent noted, "Collectively, I believe that other directors bought into and really shared the vision and were willing to work by making it happen. It was not a lip-service kind of approach. From early on, there was almost an [attitude of] 'It's about time, we really need to come together to take a look at how we can make this work.'"

Obstacles to Alliance Formation

While most of the executives' major concerns were resolved to a comfortable degree of satisfaction, a few issues surfaced as potential deal breakers. A couple of respondents noted that if the partner agencies would have had to become subsidiary members of a parent corporation and lose a significant amount of individual agency autonomy, they would have walked away from the alliance. Autonomy was such an important issue that it helped define the alliance's structure. Members of the group did not want to give up their individual agency identities and histories, so a *separate* corporation that would act on behalf of its member agencies was considered the best solution.

Respondents also identified power and equity as potentially serious deal breakers. They addressed these obstacles by devising, with the help of an attorney who specialized in nonprofit organizations, a share structure for membership. Member agencies pay dues to and hold shares in Metropolitan Alliance of Community Centers based upon the size of their organizational budgets. In the event that MACC is ever dissolved, member agencies would receive an allocation from MACC's assets based upon the number of shares they have. The share structure is also a device through which members of MACC can team up on certain programmatic joint ventures without requiring every member's participation. MACC keeps track of each participant's share in a particular project to ensure equity in what agencies put into and get out of that project.

Because the alliance was designed to include as many agencies as were interested, even serious hurdles did not undermine eventual alliance formation. If an

unresolved issue was important enough to a particular agency, they could (and sometimes did) walk away without derailing the entire alliance. Agencies that may have expressed an early interest in the alliance but did not like the latest direction could bow out gracefully once firm commitments were required.

Board and Staff Issues

According to the executive director respondents, members of their boards had several concerns about the formation of MACC. One of the biggest board concerns was whether the benefits each individual agency would realize from its association with MACC would equal or outweigh the cost of its commitment to the alliance. Without the potential for establishing the kind of infrastructure support that would create economies of scale and conserve resources, some board members may not have approved their particular agency's participation.

Board members were also concerned about the time and money required for the alliance formation and implementation; some even expressed doubt about the viability and effectiveness of collaborations in general. One respondent noted that board members were often more covetous of their organizations' autonomy and leadership than the executive directors. Board members seemed less impressed than the executives about the role MACC could play in influencing the larger social service agenda.

The staffs of MACC member agencies were either ambivalent about its prospects (because they were not yet sure of its impact on them personally) or expressed excitement when presented with the possibilities MACC represented. They seemed particularly enthusiastic about opportunities to work with similar providers in their particular disciplines, to share resources to keep program costs down, and to take advantage of professional development opportunities through networking, mentoring, and hands-on training. Most staff members seemed to trust their executives' opinion that participation in MACC was positive for their particular agency.

Trust

Trust was an important issue in the formation of MACC. Respondents pointed to the executive directors' maturity and tenure, their mutual respect for each others' work, and the relationships they had developed over the years as key factors in building the trust necessary to embark upon an alliance of this magnitude. The fact that the group participating in MACC had known each other for many years seemed to decrease the chance that members would rely on false impressions or partial perceptions to judge each other or situations as they arose during the process.

One respondent noted the importance of maintaining and building this trust even further as the alliance matured. He seemed to think that the equity built into the alliance structure would help, but he expressed concern that trust might be challenged if they were unable to accomplish anything meaningful as an alliance. "My biggest worry, frankly, is that we won't be able to do anything because we'll be so immobilized by 'No, I don't think that's a good idea.'"

Outcomes

The initial formation of the Metropolitan Alliance of Community Centers was considered a tentative success, though the alliance was still too new as a formal entity for participants to say so unequivocally. One respondent noted that, if they had not garnered substantial grant money to support MACC's start-up costs, then MACC would have failed fundamentally by not convincing the funding community of its value. The rest of the external community was still mostly unfamiliar with MACC, though some considered the alliance, according to one respondent, "on the cutting edge."

Participants also noted that this sense of initial excitement about MACC's possibilities was mixed with some unease, based upon uncertainty or skepticism or both. However, the current board chair of MACC, who was the lead convener, noticed that once initial word about MACC spread, he received many calls to speak on behalf of MACC's entire

membership. He had anticipated that kind of interest but did not expect it so quickly.

No evaluation criteria had been established to measure MACC's success, though developing some kind of evaluation plan was part of MACC's original implementation strategy. Participants considered the goals and objectives outlined in the strategic plan as the framework through which they would measure their success. Some respondents also pointed to specific outcomes that would need to be present in order to consider MACC a success. Suggested benchmarks of positive outcomes one year into implementation included: a high level of commitment by the leaders of the member agencies to continue to meet and carry on MACC's vision; a broader recognition and understanding about MACC; the successful launch of a few joint projects; and, the beginning formation of joint infrastructure support for member agencies in areas such as human resources, information technology, fiscal systems, and program evaluation.

The latter benchmark was of particular concern because the group had abandoned its first exploration into joint infrastructure support. After looking into the possibility of combining employee health benefits packages through one provider in order to save money, they did not reach consensus. Some agencies liked their health benefits provider and did not want to change plans, even if it meant better options for others and potential savings for all. More importantly, MACC did not have the internal capacity at that time to handle the complicated nature of obtaining a single provider. Some respondents were surprised that the group was not prepared to behave collectively given that this was the first opportunity for real collaboration. One participant was concerned that some of the players would have to change before that situation would be remedied because he felt that personalities can often play an important role in these kinds of negotiations.

According to some participants, the phase in the formation process most critical to MACC's initial success was the decision to undergo a strategic planning process. Respondents noted that the monthly meetings could have gone on indefinitely without any formal action; once participating agencies agreed to a commitment of time and money, MACC's potential took on a new level of interest and seriousness. Other respondents also noted that once participating agencies began to see the possibilities for private gain for their individual agencies, their commitment to MACC increased. All respondents were somewhat anxious about achieving some early success in joint projects in order to demonstrate – to themselves and others – that MACC could indeed realize some of its goals.

Lessons Learned

The lessons learned from participants in the formation of the Metropolitan Alliance of Community Centers centered around the following themes:

- ***Champions are essential.*** In MACC's case, a clear leader and convener championed the alliance from the beginning and played an important role in keeping the early discussions and subsequent planning process on track. This convener was joined by key champions across the river, thereby presenting a unified force to other potential alliance members and to the larger community.

- ***Alliances take time and are hard work.*** Almost all respondents noted the considerable time commitment required to create and implement a meaningful strategic alliance. Others noted the truly hard work involved and the fact that accomplishments often come in smaller increments than anticipated. Because alliances can be difficult and time consuming, their sustainability during the early stages can be precarious. Patience and perseverance are essential characteristics of alliance partners, particularly while they convince others of the benefits of their endeavors.

- ***Maintain trust.*** The long-term relationships built between the leaders and their organizations brought to MACC a base of trust and support that other alliances may not have at the beginning; this was

crucial in pushing MACC's agenda forward. One respondent, suspecting that the formation process might have taken longer if that basic level of trust had been absent, wondered whether such trust could be built from the ground up between so many different organizations to the extent necessary to make this kind of multiagency alliance successful.

- ***Conduct a thorough planning process.*** A planning process – whether more traditional strategic planning or alliance formation planning – is essential when creating strategic alliances. The process allows participants to solidify common values, communicate assumptions, and develop a concrete plan of action. One respondent noted that it may be easy to overcome procedural differences, but philosophical differences can be fatal. Airing those during the planning process helps decrease ideological problems down the road. As another respondent said, "Not engaging in a planning process never addresses the assumptions behind why the group is together – you need to get at that."
- ***Don't be afraid to test the waters.*** Even though the first possible joint project of MACC (the combined health benefits package) failed to take off, respondents noted the importance of trying all options. Exploring an issue or program does not necessarily mean it will be implemented, but alliance partners recognized the value of not being afraid to take those first steps. Alliance members can learn a lot about each other and their willingness to commit to an alliance's joint efforts once the first test is on the table.

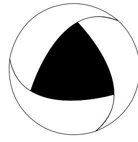
Conclusion

As of this writing, the Metropolitan Alliance of Community Centers was still a relatively new entity. They had established an unprecedented vehicle to collectively address key issues facing neighborhood and community centers in the Minneapolis/St. Paul metropolitan area, while providing infrastructure support for individual member agencies.

Both the strength and potential challenge of the alliance lie in the tension between the alliance's altruistic side (being a common voice for the greater good of the human services community) and its pragmatic side (the specific gains possible for each individual organization). While acknowledging the potential for an individual agency's benefit, half of the respondents saw MACC's benefits as more global, while the others were involved primarily – and some only – because of the potential benefits for their particular agencies. The continuing challenge will be in balancing these two priorities.

The future of MACC also presents other challenges. MACC may need to create more formal legal arrangements to support infrastructure systems in areas such as human resources, staff development, information systems, fiscal management, and program evaluation. Respondents suspect that more formal joint ventures would also be necessary in order to demonstrate more substantial progress. Other respondents, however, thought that the current structure was adequate for its purposes. Other challenges include making MACC financially viable through outside funding sources (since the revenue from member agencies' shares proved insufficient to cover the real costs of alliance implementation), establishing criteria for new member agencies, and identifying expectations for member agencies' continued participation in the alliance.

The long-term relationships between the member organizations and the professional respect and collegiality their leaders have for one another was crucial for the initial success in bringing together so many different organizations across a geographically symbolic divide. These kinds of relationships are built during many years of personal and professional contact. The example of MACC highlights the importance of long-term vision and coalition building among peer organizations, even outside the context of an imminent strategic alliance, because, as these organizations discovered, they may end up as partners some day.



Case Study 6

Ottawa County United Way

Ottawa County, Michigan

Overview and Type of Alliance

Ottawa County, Michigan is located along the west coast of Lake Michigan. Four United Way agencies serve four communities in the county: Tri-Cities Area United Way (Tri-Cities) in Grand Haven, Greater Holland United Way (Holland), Zeeland United Way (Zeeland), and Northeast Ottawa United Way (Northeast Ottawa) in Coopersville. Tri-Cities and Northeast Ottawa United Ways are geographically close to one another in the northern part of the county, and Zeeland and Holland are neighbors in the south. Farmland has historically occupied the space between these two regions of the county, which has recently been under rapid development for commercial and residential use. As a result, the lines between one community and another have blurred, as have the service boundaries of the four United Way agencies.

In December 1999, the four United Ways officially formed a management service organization (MSO)[1] to create efficiencies and better serve the county through consolidated administrative and financial operations. The MSO is called the Greater Ottawa County United Way and is incorporated as a separate IRS 501(c)(3) nonprofit organization. Prior to the formation of the MSO, these United Way agencies were completely autonomous. They each had their own board of directors, conducted their own annual campaigns, and made their own allocations to nonprofit organizations locally and countywide.

The MSO established by the four United Way agencies allowed them to retain their individual boards and make their own decisions about grant allocations within their local communities. As a central organizing structure, however, the MSO manages a staff for the United Ways and coordinates basic administrative functions. The MSO has a separate governing board for itself, consisting of board representatives from each of the four United Ways. This MSO board makes all of the fund allocation decisions for countywide nonprofit organizations and coordinates the work-place campaigns for companies with facilities throughout the county.

This case study describes the driving forces, process, and outcomes of an alliance formed between four regional United Way agencies. The MSO they

[1] "MSOs" may be more commonly known as management support organizations. However this alliance does distinguish itself as a management service organization.

established may be the first step in a long-term alliance designed to meet the needs of their county more effectively and may eventually lead to a merger or consolidation.

Driving Forces

The forces driving the four United Ways' alliance came from the external environment and internal situations distinct to, yet similar for, each agency.

Tri-Cities Area United Way

At the time the alliance was formed, Tri-Cities had an annual budget of $106,000, made $650,000 in grant allocations, and employed two full-time staff – an executive director and an administrative assistant. Tri-Cities was the strongest and more fiscally sound of the four United Ways in the county, with a $200,000 endowment and the only campaign of the four that was strong and growing. It had created a Volunteer Center that included a corporate and youth volunteer program, both of which had tripled in size in the last few years. The Tri-Cities leadership had also been strengthened in recent years with the recruitment of committed and influential board members.

Despite the organization's strong position, its leadership was not convinced that Tri-Cities would remain solid in the long-term because the local community had a small corporate base and lacked traditional growth opportunities. The demographics of the community were also changing. Local companies were taking on a more multinational presence and the population was more transient, with new residents coming and going with greater frequency. The executive director had experienced a merger in a prior position within the United Way family and was aware of the benefits to merger, such as achieving economies of scale and avoiding duplication of services.

Northeast Ottawa United Way

At the time of the alliance, Northeast Ottawa had a budget of $5,300, made $135,000 in grant allocations, had no executive director, and hired one secretarial support person as needed. The seven-member board of directors that ran the agency was having trouble keeping itself viable in terms of size and commitment. More than 75% of the agency's income came from one major company in the area, Delphi Automotive. The agency's leadership knew that the introduction of designated giving (a practice that enables employees to designate specific agencies to receive their United Way contribution, often resulting in a decrease in the amount of money available to a United Way's general fund) at Delphi Automotive was a potential problem for long-term growth. Furthermore, Northeast Ottawa leadership knew that the agency needed more human and operational resources to survive.

Zeeland United Way

At the time the alliance was formed, Zeeland had a budget of $36,000, made $120,000 in grant allocations and employed one part-time executive director. The agency had a new, young, and inexperienced board of directors. With only one part-time staff and an insufficient volunteer base, leadership felt that the agency was too small to conduct its own fund-raising campaign. Even though the Zeeland United Way operated in a very small community, there was a wealth of corporate potential, including Herman Miller Inc., Howard Miller Inc., Bristol Meyers, Gentex, and Bill Mar Foods. The board considered Zeeland an important part of the community fabric and noted that the agency elicited a feeling of territorial pride from community members. The community wanted Zeeland to have its own identity, separate and apart from its close neighbor Holland, with which it was often lumped together. The Zeeland leadership knew that their United Way needed additional resources, primarily in the form of campaign assistance, to meet its potential.

Holland United Way

Holland United Way had a budget of $200,000, made $633,000 in grant allocations, and employed one interim full-time executive director, a part-time accountant, a part-time clerical staff person, and a 30-hour-per-week contract staff person. The Holland

board of directors did not necessarily think of themselves as influential, however, they were extremely committed to the agency. The board served as more of a governing body than a working board; several board members had recently left the board, and their positions had not been filled. The Holland leadership had also been faced with the recent resignation of its executive director, and they needed to fill that vacancy.

The Holland United Way was in a weak financial situation. In recent years, it had struggled to raise the necessary monies to meet the needs of its member agencies. Leadership feared that the agency had lost its relevance in the community. The Holland board knew that the agency needed legitimacy in the community and assistance in fund-raising if it was going to survive.

Additional forces driving the alliance came from external sources. While many corporations still supported the United Ways, they had become dissatisfied. With facilities throughout Ottawa County, many companies had to coordinate multiple United Way campaigns; this highlighted the need for unified cultivation and solicitation of these companies by the different United Ways. In addition, more than half of the county's nonprofit organizations were funded by more than one United Way, each with different reporting requirements, funding cycles, and policies. Moreover, 70% of the combined allocations of the four United Ways went to the same organizations. Also frustrated with these inefficiencies, the United Ways believed that an alliance could serve to alleviate this duplication of effort.

Other external factors included the increasing mobility of the county's residents. A growing number of people lived in one community and worked in another. Community residents did not like giving to a United Way that supported the community where they worked and not where they lived. Furthermore, some areas in the county were not served by any of the United Ways because, individually, they did not have the resources to reach beyond their immediate vicinity. In addition, the larger, adjoining Kent County had a single, powerful United Way. As a unified force, the Kent County United Way was a potential threat to Ottawa County. By joining forces, the four United Ways in Ottawa County believed that they could increase their power, control, and credibility to prevent any such encroachment from occurring and, therefore, would be better positioned to work with Kent County as a neighbor and ally in the future.

Partner Formation

Several conversations between the four United Ways regarding other strategic alliances had occurred prior to the formation of the management service organization:

- In 1994, Tri-Cities and Holland had discussed a potential merger. Due to territorial and financial fears, the two agencies' leaders resisted, deciding instead to collaborate on allocations and campaign materials.
- In 1997, Holland contacted Zeeland and Tri-Cities to explore any kind of strategic alliance possibilities. The conversations resulted in some staff coordination but, due to poor communication between the three agencies and resistance from the Zeeland executive director, did not go further.
- At the same time, Holland had talked to Zeeland about a merger but Zeeland's leadership feared that Zeeland would lose its identity and be swallowed up by the larger Holland.
- In early 1998, Tri-Cities contacted Northeast Ottawa to offer their assistance, but Northeast Ottawa never took them up on the offer.

Finally, in the spring of 1998, the four Ottawa County United Ways decided once again to explore an alliance. Internal and external issues had come to a head and all four agencies were looking for solutions. By this time, a closer relationship had developed between Tri-Cities and Northeast Ottawa. Tri-Cities wanted growth opportunities and Northeast Ottawa needed human and financial resources to survive. The Holland executive director had left the agency, and a new director was in place in Zeeland, though Zeeland

still felt as though they needed additional campaign assistance. The timing finally seemed right for serious conversations about an alliance.

Process and Timeline of Alliance

The alliance exploration and formation process began in the spring of 1998 when the president of the Tri-Cities board called the board president of Holland to discuss the possibility of reopening discussion about a more formal strategic alliance. Soon after, the two board presidents and the executive director from Tri-Cities had additional conversations to determine serious interest. A meeting of board representatives, the executive director of Tri-Cities, and Holland staff soon followed.

By the summer of 1998, the leadership of the two organizations decided to contact a representative from United Way of Michigan to serve as an outside facilitator of future discussions between the agencies. Holland and Tri-Cities went to the United Way of Michigan for support because they did not want any one agency to appear as the leader of the process. Tri-Cities and Holland formed a committee to meet with leaders from Zeeland and Northeast Ottawa to explore and lay out the case for some sort of countywide alliance.

Facilitation

The informational meeting facilitated by the United Way of Michigan representative was held later that summer, attended by the executive director (if applicable) and two board representatives from each of the four organizations. The United Way of Michigan facilitator presented the benefits of collaboration and asked each person in attendance to express his or her feelings about working together. The group articulated reservations regarding individual agency history and identity, autonomy, and individual community support. In addition, the Zeeland and Northeast Ottawa leaders made it clear that they would end their participation if the word “merger” was used in these discussions.

The United Way of Michigan facilitator convened a second meeting in late summer. At this meeting, the same group examined the priorities, expectations, and potential problems of an alliance, as well as the advantages to the individual agencies and the county as a whole. Zeeland and Northeast Ottawa representatives were still apprehensive because the process appeared to be moving faster toward merger than they liked. The board president of Zeeland left the meeting saying that his agency would no longer participate in discussions.

In the fall of 1998, the facilitator called another meeting with only the board representatives of all four agencies to determine how they wanted to proceed. He worked with the boards jointly to establish parameters for some kind of corporate alliance model with which they would all feel comfortable. Their resulting objectives included:

- Bringing the four United Ways in Ottawa County together to work in a collaborative fashion,
- Creating an environment that would help all communities in Ottawa County raise as much money as possible for health and human services;
- Respecting the integrity of the local volunteers’ decision-making in the fund-distribution process; and
- Creating an alliance other than a merger.

After this meeting, the United Way of Michigan facilitator met with the executive directors of each participating United Way to frame a plan around the criteria established by the board leadership. At the same time, the facilitator suggested a management service organization (MSO) model as a viable option. The staff then identified six areas that they wanted integrated into the development and structure of the MSO, which began to be referred to as the Ottawa County United Way. The staff members’ addition to the plan included:

- Hire an executive director and/or staff for the Ottawa County United Way,
- Establish transitional funding and budgets for administrative costs,

- Seek and procure a central location for the Ottawa County United Way office,
- Develop a common fund allocation procedure,
- Develop a communications plan for rolling out the Ottawa County United Way, and
- Establish by-laws for the Ottawa County United Way.

Later in the fall, the United Way of Michigan facilitator presented the boards of directors with a plan for a MSO that included the parameters established by both boards and staff members. The boards approved the MSO plan and moved to form a steering committee to begin the process.

Board and Staff Involvement

The steering committee, established in November 1998, included executive directors, board presidents, and two board members from each United Way. This committee structure supported equal participation by all four organizations. While Tri-Cities may have appeared to have a more developed board and volunteers corps than the other agencies, it did not take an obvious lead.

In early 1999, the staff leadership identified critical issues and established a timeline to move the MSO development plan forward, presenting these recommendations to the steering committee. The steering committee arranged a series of meetings to monitor the six task areas outlined in the collaborative plan and established subcommittees to work through these specific areas.

By February 1999, the process began to move forward more quickly. Each of the three executive directors took the lead on two of the six subcommittees, which were made up of board-appointed representatives. The subcommittees included executive director search, fund distribution, finance, communications, location, and bylaws. These subcommittees established their own missions, goals, and timelines, and the executive directors determined the issues they would address.

In lieu of conducting a formal due diligence review that traditionally would examine each of the participating United Ways' legal and financial status, the subcommittees undertook a side-by-side analysis of the four agencies. This analysis included a closer look at each organization's governance, fund-raising, financial procedures, management information systems, and human resource policies. For example, the finance subcommittee met first to compare the financial statements and establish a transitional budget for the MSO that included fair distribution of the MSO's operational costs among the four agencies.

While Tri-Cities may have appeared to have a more developed board and volunteers corps than the other agencies, it did not take an obvious lead.

The executive directors pulled together the summaries and resulting suggestions from each subcommittee and brought them to the full steering committee. Because most decisions for the MSO were made at the steering committee level, full board approval was not required. However, some decisions, such as the transitional funding budget and fund allocation, were bought to the full boards for approval. Each board's buy-in and respect for maintaining a sense of individual autonomy were important to the success of the alliance. Once decisions were made at the steering committee level, they were given to the by-laws subcommittee for integration into the first draft of the by-laws. The by-laws, too, were finalized by the steering committee.

Implementation

The steering committee decided that the management support organization structure would serve to consolidate service and administrative functions. Each United Way would maintain its own identity and conduct its own fund-raising. A portion of what was raised by each local United Way (see Exhibit 2) would

be given to the MSO for operating expenses and divided among countywide nonprofit organizations. The remaining monies would remain within the local United Way communities. The percentage used to calculate a given share of responsibility was determined according to assets, revenue, expenses and allocations of the agency.

Exhibit 2:

Local United Way Allocation to the Management Support Organization

Agency	% of Campaign given to MSO
Holland	42.20%
Tri-Cities	39.80%
Zeeland	9.97%
Northeast Ottawa	5.93%

The steering committee also decided that a 58/42% split would be applied to allocations to countywide and local agencies, respectively. For example, if Tri-Cities raised $9,000,000, it would first subtract its allocation to the MSO (39.80% or $3,582,000), then 58% of its remaining balance (or $3,142,440) would be placed in a pool for countywide agency allocation and 42% (or $2,275,560) would be allocated to local agencies. (The allocation formula was eventually changed to add more flexibility, with at least 47% of each local United Way's allocable dollars used for countywide agencies. The MSO would be responsible for countywide allocation decisions and the four agency boards would decide their own local allocations. Managing its own finances and those for each United Way agency, the MSO would produce both individual and shared financial statements.

One of the more difficult decisions the steering committee had to make was the coordination of the agencies' funding cycles. All four fiscal years had to be coordinated for fund-raising campaigns and grants disbursements. The agencies agreed to an April 1 to March 31 fiscal year, with fund-raising campaigns launched in September. This timeline required little, if any, change for three of the four agencies, but more substantial change for Tri-Cities. Determining a uniform fiscal year was almost a deal breaker for Tri-Cities because, during the first year of the new cycle, it would have to fund 18 months of expenses and allocations out of a 12-month cycle. Tri-Cities eventually decided to move forward and agreed to the fiscal year shift, acknowledging its necessity for the greater good of the alliance.

The steering committee decided that the four individual United Way agencies would not retain separate staff members and that the MSO would hire an executive director, three staff, and three administrative assistants. The decision to staff the MSO with three staff members was based upon the previous staffing patterns at the four agencies (Northeast Ottawa had not previously employed an executive director, relying instead on temporary and periodic secretarial support). As such, the three staff members and administrative assistants would represent all four United Way agencies.

The steering committee believed that staff activities would be better coordinated by the MSO. Each of the three staff members was expected to work out of one of the local agency offices (Northeast Ottawa did not have office space) and represent that specific geographic area. Each staff member also served as the point person for a particular area of focus for the MSO. These included: campaign (staff member based in Holland), allocations (staff member based in Tri-Cities and also representing Northeast Ottawa), and communications and support (staff member based in Zeeland). Reporting to the executive director of the MSO, each staff member was responsible to the MSO for his or her specific functional area and the daily operations of the individual United Way agency. The executive director maintained a desk at each United Way site but was expected to spend most of his or her time traveling throughout the county to increase awareness of and support for the United Ways and the new MSO structure.

The steering committee decided that the four agencies would retain their independent boards at their current size. The executive director of the MSO would attend all board meetings and report on the progress of the MSO. Because the MSO was formed as a new IRS 501(c)(3) entity, a new board for the MSO was also established. Each of the four United Ways appointed two representatives to the MSO board. These eight board members then elected up to seven at-large members – two of whom represented labor. Board members have three-year, staggered terms, with no more than one-third of the board members' terms expiring in a given year. The MSO board and executive director would became the focal point of United Way activities throughout Ottawa County.

The steering committee considered technology as a significant contributor to achieving economies of scale and authorized a system of shared internal technology. A countywide network and a common information system for campaigns would be implemented with the server housed in Holland. The management information system was funded by each local United Way as part of a transitional budget, developed by the original finance committee, for start-up costs.

Having finished making a decision in the fall of 1999, the steering committee drafted a letter of agreement that was signed by all four agencies. The steering committee hired a lawyer to file the necessary IRS 501(c)(3) incorporation paperwork and to help draft new bylaws. The MSO signed a three-year contract with the attorney with the option to renew.

In order to allow time for the steering committee to work through potential deal breakers, communication about the alliance to external stakeholders was minimal early in the process. The first official press release was issued in May 1999, several months after the steering committee had been formed. The executive director of Holland United Way drafted the first press release, which was revised based upon the work and insights of a special communications committee developed for that purpose. The steering committee and local United Way boards approved the final version prior to its release. At the same time, a letter was sent to all constituents describing the alliance's purpose and the justification for its existence. The announcement was well received in the community because of the time and effort previously invested to obtain informal community feedback and approval through conversations with key constituents. The communications committee was also careful to present the alliance as a unified force.

Emerging Leader

Upon the departure of the United Way of Michigan facilitator after the original MSO plan was approved, the group needed someone to coordinate activities and help lead what promised to be a difficult process. Having begun to serve as the point of contact for the group, the Tri-Cities executive director was perceived as the person who drove the process and kept everyone on track. He took responsibility for communication, establishing time lines, and setting agendas for meetings between the four agencies. While the executive director of Tri-Cities did not want to appear as if he were taking charge, the steering committee realized that he had become invaluable and officially delegated responsibility for coordinating the rest of the process to him.

During the implementation of the alliance, the steering committee conducted a search for an executive director for the MSO. By this time, the part-time executive director of Zeeland had resigned, and the interim executive director of Holland was not interested in the position. While other candidates were considered, the job was offered with unanimous approval to the Tri-Cities executive director. The group viewed him as fair, trustworthy, highly capable, and committed to the best interests of the county. The steering committee felt that throughout the process he had never favored his own United Way, and they sensed he was not concerned with turf issues because the alliance could have cost him his job. He was sensitive to each local United Way board and understood the thorny issues of autonomy. Board leaders acknowledged that his hard work and sincerity had encouraged everyone to buy into the process.

Board Issues

The boards of directors of all four United Ways agencies supported the development of the management service organization, though each had their own community concerns, as follows.

Tri-Cities

The critical issue for the Tri-Cities board included the potential loss of the agency's increasing strength and position in the community. The board was concerned about the extent to which it was surrendering its success to jump into a potentially "leaky boat." Believing that the MSO was good for its donors and member agencies, Tri-Cities board members were at times torn between keeping Tri-Cities' interests at the fore and favoring those of the whole county. The board needed reassurance that this alliance was a positive step with long-term benefits to their organization and community, including developing better relationships with large clients and constituencies.

Zeeland

The most critical issue for the Zeeland board was the potential loss of agency autonomy. The board was concerned that the process would result in a merger that their community would not support. As a smaller player with relatively less experienced board members, the Zeeland board also felt intimidated by the formation of an MSO. The board wanted to make sure that the other United Ways did not have ulterior motives, that local Zeeland needs were met, and that their executive director would not be out of a job. The executive director eventually left for personal reasons, alleviating that fear.

Holland

The most critical issues for the Holland board were the need for additional financial support and better campaign management. The board was also concerned about meeting local needs through fund distribution and whether Holland could survive on its own if the MSO failed.

Northeast Ottawa

Feeling the threat of competition and fear for its own survival, the Northeast Ottawa board was pressured, perhaps more than the others, to consider an alliance. They were adamant, however, that respect for their community and its needs be maintained throughout the process.

Trust

The participants involved in forming the MSO felt that trust was vitally important to a successful process. At the outset, since each agency wanted to protect its own interests, the issue of trust was openly discussed at the first meeting with the facilitator from United Way of Michigan. Other means to cultivate trust among the agency leaders included:

- Open discussions of all potential ideas and identification of common ground in all the meetings facilitated by the United Way of Michigan representative,
- Continual discussions and good communication among steering committee and subcommittee members,
- Control by board presidents of the grapevine of rumors among other board members,
- Ongoing discussions centering on positive aspects of the alliance, such as obtaining efficiencies instead of focusing on the perceived threat of merger,
- Personal issues aired and quickly taken off the table,
- Honest discussions about loss of autonomy and smaller organizations being swallowed by the bigger agencies, and
- Efforts by each organization to get to know each other and their United Way communities.

The major issues at the beginning of the process centered on identity and autonomy, which lessened as a result of the trust that developed throughout the process. Zeeland and Northeast Ottawa County United Ways did not want to talk about a merger in the beginning; but once the barriers had been broken down and a level of trust had been established, they

came to believe that a merger might be a viable option in three to five years.

Outcomes

The steering committee tried to set up objective outcome measurements in the beginning of the process, but each United Way had different criteria for success. While no formal evaluation criteria were created to measure the success of the MSO prior to formation, three criteria (quantitative and qualitative) were established after implementation:

1. Increasing the number of volunteers and financial support raised through the campaign,
2. Bringing the community together and improving quality of life for residents, and
3. Maintaining a low operating cost (15% of operating budget).

The management service organization formed by Tri-Cities, Holland, Zeeland, and Northeast Ottawa United Ways was considered a great success by the leadership of the organizations. The communities involved strongly supported the endeavor. Those involved in its formation believed that the MSO achieved its initial desired outcomes. In the absence of more specific benchmarks, participants point to the fact that the agency has obtained additional support, streamlined activities, achieved economies of scale, and enabled all four United Ways to survive. The local press was favorable to the MSO, and corporations and nonprofit organizations viewed it positively.

Lessons Learned

Several themes emerged from the board and staff leaders with respect to lessons learned in their alliance formation experience, including:

- ***Appoint a Leader.*** Leadership felt that it would have been wise to appoint a staff leader early on in the process, as time and consistency of message were lost in the beginning.

In the absence of more specific benchmarks, participants point to the fact that the agency has obtained additional support, streamlined activities, achieved economies of scale, and enabled all four United Ways to survive.

- ***Hire a Neutral Facilitator.*** Leadership believed that it should have hired a neutral facilitator or planner to guide the implementation process (after the facilitator from the United Way of Michigan departed). They noted that often it was hard to know what to do next and how to mitigate difficult decisions.

- ***Create a Vision.*** Leadership felt that the vision of what the MSO could do for the community drove the process and built the commitment to follow through no matter how difficult the process became. They believed that keeping that vision in sight was critical to the process.

- ***Understand the Time Commitment.*** Leadership felt that the process took longer than expected but could not have been rushed because of the necessary and time-consuming task of creating organizational buy-in and trust.

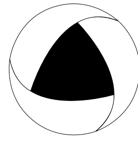
- ***Build Trust.*** Leadership believed that the time spent early on to build trust was important to the success of the alliance. They believed that the most important way of building trust was to be sensitive to everyone's interests.

Conclusion

In retrospect, many of the leaders from all four United Ways felt that they should have pressed ahead for merger and that such a formal alliance may be likely in three to five years. The communities were more receptive to the alliance than originally thought, and

the trust level had developed to the point that a merger could perhaps have occurred.

While the process was difficult and time consuming, those involved believed their joint commitment to improving the communities as a whole drove them to a successful conclusion. The leadership anticipated that all involved would be most concerned about their individual agency's identity and autonomy, since they noted that this particular region traditionally expresses tremendous pride toward individual community accomplishments. At the same time, community members also seemed understanding about supporting activities for the greater good beyond their own communities. As the county becomes geographically closer, by virtue of modern development, the United Ways may find the timing right to consider a full-fledged merger.



Conclusion

Strategic Alliances Case Studies

In many ways, the themes that emerged from the lessons learned in these case studies provide some of the most valuable insights. The lessons were always the last item of discussion in the interviews and required the participants to distill their reflections into a few pieces of wisdom. They are made more powerful because they represent the collective thinking of a wide variety of nonprofit leaders on their alliance experiences.

Even though the organizations and alliance situations were very different, many of the lessons were the same: trust, shared mission and vision, leadership, a difficult and time consuming venture, a risky yet rewarding process. At a glance, these themes could describe any kind of relationship. After all, interorganizational alliances are, at their core, relationships made possible by and for people.

In the case of the Catholic Charities Services Corporation, for example, the people and partners involved came from the same family of organizations. This merger demonstrated that, while a relationship between so-called relatives may have had fewer planning obstacles, issues of differing organizational cultures, operational approaches, and human resource needs are always challenging. Even though participants were part of a larger family, they never took the issue of trust for granted, remaining vigilant about its cultivation throughout the process. HelpSource's experience also highlighted the importance of building and maintaining trust. Their merger illustrated one of the most comprehensive due diligence processes represented in these case studies, yet serious issues remained uncovered as trust wavered during the due diligence process.

Strong leadership seemed vital to all of these alliance experiences, particularly for the Metropolitan Alliance of Community Centers (MACC) and Applewood Centers, Inc. For Applewood, the early appearance of a leadership succession plan eliminated what is often a deal breaker for other mergers. For almost all of the cases presented here, the long-term relationship between the leaders of the participating organizations was the most crucial factor in partner selection and a smooth alliance formation process. Merger or general alliance opportunities are most often cultivated through ongoing conversations and joint projects. Organizations rarely decide they need to merge and go cold calling for a potential partner among strangers. They usually have discussed merger, even if only informally, for many years before any action is taken.

Though merger was the predominant form of strategic alliance represented in these case studies, two of the cases illustrated opportunities available through other kinds of alliances. The management service organization created by the four United Ways in Ottawa County, Michigan, gave them a formal structure through which to collaborate on fund-raising and grant-making in their communities. They were able to test the effectiveness of these strategies without merging. The shares and allocation disbursement structure they developed to ensure equity between participants was similar to that of the Metropolitan Alliance of Community Centers. Maintaining autonomy and equity were important to the members of MACC. They established their alliance as a separate IRS 501(c)(3) organization to address these concerns while still creating the kind of formal structure necessary to accomplish the work they envisioned.

Finally, few of the mergers illustrated in these case studies were troubled by turf battles. For the most part, the partnering agencies had complementary programs that, when combined, would provide more comprehensive services to members or clients. The Alliance for Nonprofit Management demonstrated how two national organizations providing similar kinds of services could relinquish many vestiges of competitiveness and join forces in a more high-profile arena.

Partners who bring complementary programs and similar philosophies to the merger table are more likely to form successful alliances that will withstand the test of time and beget even more alliances down the road. In fact, almost all of the organizations participating in these case studies mentioned their ongoing attention to future mergers and alliances. They consider the completion of their most recent alliance not the end for this kind of activity, but the beginning.