

Formulating and Implementing a Merger Strategy in the Not-for-profit Sector

Claude Perras

Director, Uniterra (CECI-WUSC)
*Formerly Deputy Director, Canadian Centre for
International Studies and Co-operation (CECI)*



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Abstract

Mergers and new types of alliances have characterized the restructuring of the private and public sectors since the mid-1990s, when government reductions in community and social services changed the potential role of nonprofit organizations to fill the gap in the social safety net. Given the perception that there are too many Canadian NPOs operating nationally and internationally, many may have to consider mergers as a strategic option. This paper explores merger as a strategic option for the Canadian Centre for International Studies and Co-operation/Centre canadien d'étude et de coopération internationale (CECI) as part of the implementation of its five-year strategic vision for this international development NPO. The author studies the various types of corporate alliances possible (joint venture, management service organization, parent corporation and merger); considers amalgamation versus absorption; reviews four forms of mergers (vertical, horizontal, conglomerate and concentric) and examines the favourable conditions, factors and steps to ensure a successful merger, as well as the desirable types of leadership and organizational culture (power culture, role culture, task/achievement or person/support culture) associated with this shift in organizational structure. The paper concludes with recommendations to guide CECI executive management and other Canadian NPOs when considering merger as a strategic option.

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This paper is inspired by some of the conclusions from my Team Integrated Project; my Reflective Papers for Modules 1, 2, 3 and 4; my Anchoring Project; and CECI's current vision and strategy, which looks at the possibility of merging or embarking into a joint venture.

Introduction

The last decades of the twentieth century have been a period of sweeping restructuring in the organization of modern society. The private corporation has been reshaped by the globalization of the economy. The corporate sector in the modern era is characterized by restructuring, mergers, and new types of alliances. Similar changes have swept through the public sector, driven by globalization and reinforced by fiscal constraints.

These changes in the public sector were translated into government retrenchment in the early 1990s. This led to reductions in many community and social services, as well as a renewed interest in the potential role of not-for-profit* organizations in filling the resulting gaps in the social safety net of Canada and developing countries.

While the corporate and public sectors were experiencing restructuring, mergers (Telus and BC Tel, Loblaws and Provigo, Canadian Airlines and Air Canada) and downsizing, not-for-profit organizations in Canada were still experiencing stable funding and renewed interest in their activities from both governments and the general public.

However, the situation quickly changed in the mid-1990s with drastic government cutbacks in funding and various funding scandals. Among governments and the general public, the perception was that there were too many not-for-profit organizations, resulting in a lack of service coordination, fragmentation, duplication of efforts, competition and – not least of all – a waste of resources.

Given the speed and magnitude of change we are experiencing, and current government and public perception of the not-for-profit sector, it seems probable that Canadian not-for-profit organizations involved at the national and international level, like corporations, will come more frequently to consider mergers as a strategic option.

*The expression “not-for-profit” and its synonym “nonprofit” are used interchangeably throughout this paper, according to the preference of the author cited in context.

Should mergers be considered a strategic option by Canadian not-for-profit organizations? If so, what should the strategy formulation be? What type of leadership and organizational culture would be more desirable to achieve a successful merger? And what should the strategy implementation be?

This paper seeks to answer these questions, and to provide insights for the Canadian Centre for International Studies and Co-operation/Centre canadien d'étude et de coopération internationale (CECI) regarding future decisions to be made with respect to its strategic vision. Should CECI consider merging as an option for the future? The paper looks at what are the favourable conditions, factors, and steps required to ensure a successful merger operation. It analyzes the types of leaderships and organizational culture desirable in organizations considering merging. Finally, the paper presents implications and recommendations that should guide the executive and board in considering merger as an option for achieving CECI's five-year vision.

Methodology

Before writing this paper, a thorough research was conducted using words such as NGO, not-for-profit organization, strategic planning, merger, leadership, and organizational culture through the McGill Library and various Web sites such as the Canadian Centre for Philanthropy, National Voluntary Initiative and the Muttart Foundation; a review of my various reflective papers submitted to the McGill-McConnell Program; “CECI’s restructuring” (Module 2), “Globalization and CECI” (Module 3), “Collaboration between Two Not-for-profit Organizations” (Module 4); and results of my Team Integrated Project and Anchoring project funded by the McConnell Foundation, in the course of which material, theories and case studies were analyzed. The literature reviews and cases studies from my Team Integrated Project provided the issues that were to be further analyzed.

Research was conducted from September to November 2002, on line and at the McGill University Library. Information drawn from the literature review was then analyzed. A first draft was written in December 2002, and the paper was completed in March 2003, after being read and commented upon by my tutor, Prof. Steve Maguire.

Formulation I. Contextual and Core Competence Considerations

Recent interest in nonprofit organizations in Canada has been driven by a large number of changes in our politics and our social structure. The nonprofit sector appears to be emerging as a chosen instrument of collective action in a new century. Government retrenchment in the 1990s . . . led to reductions in many community and social services and a renewed interest in the potential role of not-for-profit organizations in filling the resulting gaps in our social safety net. Such retrenchment has often been accompanied by a call for communities to do more on their own through voluntary action. (Hall and Banting 2002)

This is confirmed by the fact that since 1987, Revenue Canada has witnessed the steady creation of new charitable or not-for-profit organizations at an annual rate of three percent.

At first glance, not-for-profit sector organizations would seem to be emerging as the new instruments of collective action in Canada and internationally in the new millennium. However, the sweeping changes caused by globalization of the economy (such as the revolution in communications and information processing, changing technology of production, new forms of marketing, the expansion of non-traditional forms of employment, and the late 1990s scandal at Human Resource Canada related to mismanagement of public funding) prompted the Federal and Provincial Governments to reduce and change their funding arrangements with not-for-profit organizations. In order to reduce costs and increase control, governments shifted from grants to service contracts, with crucial consequences for the not-for-profit sector, traditionally used to implementing its own program based on conducting need assessments.

Governments also began to compete with a limited pool of private funds available to nonprofits by creating nonprofit organizations of their own with the expectation that they would be supported by private donations. This more competitive environment is further complicated by changes in approach of the corporate sector, evolving from traditional philanthropy toward more targeted contributions. A trend that raises both opportunities and risks for the nonprofit sector. . . .

Moreover, the less trusting attitudes about organizations among the general public also apply to the nonprofit sector. This trend has been reinforced by more aggressive media which pounces at scandals and misuses of funds. (Ferronato 1999: 1, 8–9).

The corporate sector, also affected by these sweeping changes and trends, reacted by restructuring, merging (Telus and BC Tel, Loblaws and Provigo, Canadian Airlines and Air Canada) and creating new types of alliances. According to a report produced by the Government of Canada's Competition Bureau in June 2001, the number of merger filings in Canada has increased steadily over the last five years – from 191 in 1996 to 373 in 2001.

While some funders have prompted or even forced various types of collaboration and mergers as a panacea, not-for-profit organizations involved at the national and international level still dismiss the idea as a strategy to address these sweeping changes. Why? Is it because of their mission, competence or strategy – or their leadership or organizational culture?

Let us look at the issue of mission in the not-for-profit sector. “The first step in strategy formulation involves clarifying the fundamental mission of the organization” (MacMillan 1983, 61). Having a clear mission facilitates discussion related to collaboration and the added value of each partner.

However, given the nature of their work and the tremendous needs in communities across Canada and in developing countries, as well as the need for resources and support from a wide range of stakeholders, not-for-profit organizations, especially those involved in international co-operation, have a tendency to adopt missions and objectives that are often too broad or diffuse.

But what is the status of strategic planning in this sector? It is difficult for an organization to consider merger as a strategic option if it has not identified its core competencies and developed a vision and a strategy. This was identified as one of the weaknesses in not-for-profit organizations by the McConnell Foundation in its assessment of the sector prior to launching the McGill-McConnell Program in 1999. Generally, not-for-profit organizations have not identified their core competencies; nor have they developed a vision and a strategy.

Any decision about reorganization, whether in the not-for-profit or the for-profit sector, requires that an organization identify its core competencies, complete a strategic planning exercise and work out a clear vision and strategy. Prahalad and Hamel ask, “How can a company make partnerships intelligently without a clear understanding of the core competencies it is trying to build and those it is attempting to prevent from being unintentionally transferred?” (1990, 87).

But most importantly, the organization should have the maturity to ask itself how it can improve and enhance service delivery. This question should be asked in the spirit of being more efficient and offering the best services to its clients, and not with the self-preservation mindset that is all too common in the not-for-profit sector. Only then will a serious reorganization occur in the sector and solutions to the current barriers to collaboration emerge.

The nonprofit sector in Canada needs to realize the importance of reorganization within the current sweeping changes. The main purpose of corporate reorganization in the not-for-profit sector is the same as in the for-profit world: economic. According to Bryce Herrington, “Among reasons for corporate reorganizations are (1) to increase revenues, (2) to reduce costs, (3) to bring about better performance through consolidation of activities, (4) to separate and isolate liabilities and different types of risks, (5) to create different management structures, and (6) to deal with ethical and public relations problems” (2002, 656).

Reorganization should be initiated first through a strategic planning exercise that combines internal and external factors such as a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. There are various strategic planning methodologies, but whichever one is adopted, it is essential that the exercise should consider merger as a strategic option. In the United States, with its more market-driven economy and different social safety net, “for years, nonprofit organizations have collaborated with one another in light of factors such as: pressure from funders, a need to comply with government mandates, or out of a motivation to combine forces around a particular venture. The nature of these collaborations has become increasingly purposeful and formal, thus having an important influence on the nonprofit sector” (Yankey et al. 2001).

The not-for-profit sector in Canada is now facing similar pressures and should draw lessons from the not-for-profit sector experience of the United States and start thinking seriously about reorganization and mergers.

In order to better understand why not-for-profit organizations should consider merger as a strategic option, let us look at various concepts and definitions developed from the American experience.

J. A. Yankey proposes a general strategic alliance continuum, which organises the types of alliances or collaborations according to the type of autonomy each organization is required to give up. The types of alliances range from affiliations and federations, coalitions and joint ventures, to mergers and consolidations. The degree of autonomy partnering organizations are willing to give up in a strategic alliance greatly influences the choice of the alliance. . . .

The following distinction between the different types of mergers complements Yankey's framework. Mergers in the nonprofit sector occur through two primary processes: amalgamation or absorption. An amalgamation is the joining together of two or more organizations, often of similar size, to create an entirely new organization. Mechanically, this type of merger is quite challenging, as it involves the dissolution of the existing nonprofit organizations and the reestablishment of another, new entity. The organizations must reach agreement on the mission of the new organization, the governance structure and staffing, whilst working to include only the remnants of their old organizations that support the new vision. . . .

Absorption occurs when one or more organizations are merged into another, often larger, organization. The absorbed organization(s) often assumes the culture and operations of the larger organization, versus establishing a new entity (Chaison 1986). This type of merger is more frequent in the voluntary sector than amalgamations. The critical factor here is to ensure that the absorbed organization is compatible with the mission, strategic objectives and culture of the larger organization. ("Why merge?" 11-12)

In *Forging nonprofit alliances* (1998, 85-86), Jane Arsenault suggests that the eventual specific form of the merger will depend on the motivating factors for the merger itself. It is therefore critical that organizations be clear on their strategic objective for the merger, in order to select, amongst the various merger forms, the one that will optimize success. The four primary forms of mergers in the nonprofit sector, as suggested by Arsenault, can be summarized as follows:

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1. **Vertical Mergers.** Two or more organizations from successive processes in one industry combine together to create a continuum of services (for example, a hospital merges with a hospice). The benefits of this type of merger are that it supports the delivery of a continuum of services to clients, promotes consistency in service approach and provides an opportunity to reduce redundancies at the administrative level.
 2. **Horizontal Mergers.** Two or more organizations from the same industry combine (for example, two alcohol and drug treatment centres). This form of merger allows for an expansion in service delivery capacity and client group.
 3. **Conglomerate Mergers.** Two or more organizations from unrelated fields combine in order to achieve diversity in funding and service provision. Diversification of services reduces organizational vulnerability to changes in service demand or availability of funding, while allowing for savings in administrative costs resulting from economies of scale.
 4. **Concentric Mergers.** Two or more organizations in the same field, but not competing with one another, combine (for example, a mental health centre and a substance abuse centre). This type of merger supports a one-stop shopping model for clients with multiple needs, such as clients with dual diagnosis, and reduces redundancies at an administrative level.

After looking at the concepts and definition of merger, let us look at some of the driving forces behind mergers in the nonprofit sector. In their case studies of six mergers (2001), Yankey's team identified the following motivations and main driving forces:

1. Enhance organizational capacity building
2. Improve and enhance service delivery
3. Diversify funding
4. Increase membership
5. Exercise leadership in the sector
6. Build a network

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7. Increase visibility
 8. Proactive response to external environmental pressures.

“The key,” they write, “is that, through a process of thorough research and deliberation, the merger is determined to be the best option to meet organizational objectives.”

Thomas A. McLaughlin’s *Nonprofit mergers and alliances* (1996) provides a useful checklist for nonprofit organizations looking at merger as an option in their strategic planning exercise. If the leaders of a nonprofit organization can answer yes to several of the following questions during their strategic planning, they should seriously consider merger as a strategic option:

1. Does your organization offer only a piece of a larger service delivery pie?
2. Are your services similar to those of another group in your area or do you serve a related population?
3. Is your long-term funding in jeopardy?
4. Have you had to curtail or postpone necessary expenditures due to dips in your cash flow?
5. Are you struggling to recruit volunteers and board members?
6. Are your volunteers, board members and staff burning out?
7. Is the Executive Director or CEO position vacant, or soon to become vacant?
8. Are staff required to be too versatile – jacks-of-all-trades but masters of none?
9. Are your image and profile suffering because of a shift in community perceptions or priorities?
10. Does confusion exist in the community about what your organization actually does?
11. Is the community uncertain as to how your services differ from those of similar organizations?
12. Are your service users asking for something that you do not or cannot currently provide?

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13. Is an inadequate infrastructure or lack of expertise preventing your organization from growing?
 14. Ultimately, would services to your community be improved by combining with another organization?

Formulation II. Leadership Considerations

If merger is identified as a strategic option, what desirable leadership competencies and organizational culture should an organization have to ensure a successful merger operation?

Why is there still so much hesitance and resistance to collaboration among nonprofit organizations? To understand this, we must take a look at their culture of leadership. Even in the twenty-first century, many of the older founders, managers and leaders of not-for-profit organizations still cling to the American ideology of self-reliance and “rugged individualism” in which they were brought up. Perhaps under the influence of “neo-conservative,” market-driven trends of the last few decades, some have perhaps unduly emphasized this value of self-reliance in their management and program development strategies for Canada and developing countries.

Good fences make good corporations, the translation to traditional management assumptions could read. If you don't own it, if it hasn't been branded with your mark, you don't control it and it might hurt you. What you own is “inside” the fence; everything else is “outside,” to be treated as a potential enemy or adversary unless brought under your domination. (Kanter 1989, 183)

Another problem is that many, if not most, not-for-profit organizations have been founded by very strong, charismatic leaders, usually with a commitment to a specific cause. Such leaders tend to remain deeply involved with their organizations, which they may have personally managed more or less at will. When their organization moves beyond a simple volunteer governance or seeks to broaden its commitments, such leaders often feel threatened by the prospect of giving up part of their autonomy within the organization and opening their organizational culture to outside influence. Their lack of flexibility often makes them strive to maintain the status quo, “the way we have always done things.” But in a world changing with unprecedented rapidity, not even a charismatic leader can turn back the clock.

Sherry Ferronato has pointed out (1999) that the fundamental barriers to collaboration or merger in this sector are emotional issues of distrust, ownership, control, ego, fear of job loss, self-interest and loss of identity. This can certainly explain why most not-for-profit organizations involved at the national and international level are so independent and have such difficult time collaborating in the true sense of the word.

In order to face the sweeping changes in the not-for-profit sector, leaders need to have their focus extended from themselves to global issues in the interest of social change. According to the National Learning Initiative of the National Voluntary Organization and the Association of Canadian Community Colleges, “Today’s leader in the not-for-profit sector needs to be a social change agent who is connected and informed, facilitating connections and forming alliances; who is a creative and innovative visionary, dedicated to a mission; and who works toward change in a prudent and ethical manner” (NVO-ACCC 2002, 2).

What competencies should the leaders possess who will undertake the challenges of forming alliances and eventually merger? The definition of competence for the purpose of our analysis is “the knowledge, skills, abilities, intangible/tangible mindsets and behaviours that lead to improving life in the community and world through principled action and professional behaviour, in the not-for-profit sector” (ibid.).

According to the National Learning Initiative, in today’s context there are four core competencies that leaders should possess in order to manage sweeping sectoral and organizational changes and challenges. These are:

- “A high level of self-understanding – being able to accept one’s capabilities, strengths, weaknesses and dispositions
- “Wisdom, acumen and intuitive foresight – being able to learn from past experiences, analyze the present situation and see successful resolutions
- “A commitment to lifelong learning – being able to value human development as essential to all other development

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- “Ethical and principled actions – being able to act with honesty and integrity at all times” (NVO-ACCC 2002, 2)

Only with a high level of self-understanding will it then be possible for a leader to share his or her strengths and weaknesses and be open to criticism. Such a leader will be able to evaluate the strengths and weaknesses of the players involved in a merger (individually and collectively) and ensure that the management talent required to define the future of the organization is there to steer the chosen course.

Wisdom, acumen and intuitive foresight will allow a leader to carefully think through both short-term and long-term implications of any collaboration on the organization, employees, clients and the community. Once these factors have been fully evaluated, only then are leaders ready to embark on transactions that will have dramatic, lasting and desired effects on the organizations and people involved.

With a commitment to lifelong learning, a leader will be able to reach out to the other side during a merger when the time comes to make staffing and integration decisions. Only if a leader values human development as essential to all other development will he or she overcome the tendency to favour people and practices familiar from his or her own organization and ensure the same practice with middle managers who must make the deal work. The leader will be able to set the proper tone, articulate the principles of integration, and bring those principles to life through his or her own actions. Such a leader will be able to listen and respond to stress and frustration from the merging partner and spend time coaching his or her own middle managers. Often this calls for ethical and principled action. For example, if certain key employees are no longer needed after the merger, it is better to let them know this promptly, rather than leave them in limbo, to resign of their own accord when their own redundancy becomes apparent – or force them to resign later on. The sensitive leader will be able to address and resolve such problems before they escalate, and handle special cases without creating injustices or resentment.

Formulation III. Cultural Considerations

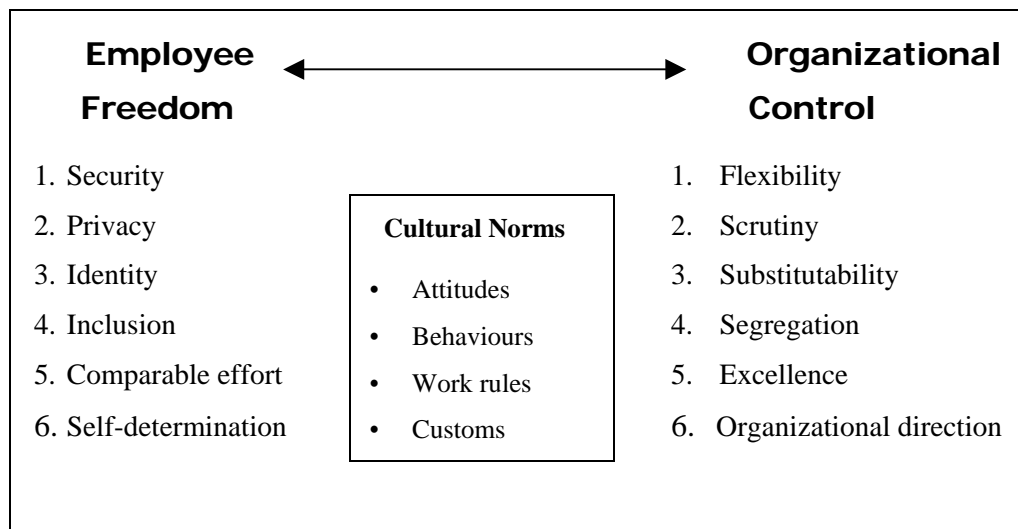
In order to have a better understanding of the barriers to collaboration in the not-for-profit sector, we must also look at their organizational cultures. Most not-for-profit organizations have a very strong organizational culture. According to Roger Miller (2000), culture is a pattern of norms, values, beliefs, and attitudes that influence individual and group behaviour within an organization. Originating with the founders and honoured over time by senior executives and other stakeholders, these values filter down through the organization, and are further refined and modified in the day-to-day priorities and actions of all managers and employees in the business.

Moreover, for the not-for-profit sector, surviving financial insecurity, the lack of financial incentives for employees and the need for employee versatility all require a strong set of shared beliefs and practices. But this is often not compatible with the concept of collaboration.

Jane Arsenault writes, “Corporate culture is generally defined as all the norms and behaviours that operate in an organization. These norms are made up of the attitudes, customs, values, and beliefs of the individuals in an organization or a unit of an organization, and are expressed by way of the formal and informal work rules that people follow in the workplace” (1998, 140). Where do these attitudes, customs, values, and beliefs come from? According to Arsenault,

One theory tells us that culture emerges from the balance that must be struck in every enterprise. When an individual agrees to work for a particular organization, a deal is struck. Individuals trade personal autonomy and freedom to use their time as they see fit in exchange for compensation. Organizations trade compensation for the ability to use individual competencies to achieve organizational ends.

Gordon Walter (1985, 301–10) talks about culture as the equilibrium between six opposing sets of values – the balance that is created between the needs of employees for freedom or autonomous action and the needs of the organization to control employee action.



As mentioned earlier, not-for-profit organizations have leaders and large numbers of value-driven staff: individuals who have struck a deal and trade personal autonomy and freedom in return for compensation. Because of the value-driven dimension, which is quite different from the for-profit sector, culture integration becomes even more complex in the not-for-profit sector. In order to move into a successful merger operation, the respective organizations need first to figure out their culture type. According to Cartwright and Cooper (1996, 57–81), there are four types: power cultures, role cultures, task/achievement cultures, and person/support culture. Let us explore these types in some detail.

Power Culture

This culture is not common within the not-for-profit sector, but it does occur within organizations that are run by their founders or led by charismatic leaders. Power cultures tend to display these attributes:

- A single individual or a very small group holds power.
- Individual rather than group decision making is the norm.

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- Decisions tend to be based as much on intuition and past successes as on logical reasoning.
 - Individual members are motivated by a sense of personal loyalty to superiors, or by fear of superiors.
 - The reward system is typically inequitable, and more likely to be based on personal preference of superiors than objective performance criteria.
 - Managers are generally autocratic and repressive in their response to challenges.
 - Employees do as they are told.

Role Culture

This culture emerges in large, older organizations that see themselves as having attained institutional status. Organizations show the following attributes:

- The guiding principles are logic, rationality and achievement of maximum efficiency.
- The organization is viewed as a collection of roles to be undertaken rather than a collection of people and personalities.
- Things get done according to highly structured and articulated procedures. A good employee is one who recognizes protocol and sticks to the rules.
- Power is distributed hierarchically.
- Procedures offer security and predictability to the individual employee but often constrain innovative and risk-taking behaviour.
- Employee acts within the parameters of the job description.

Task/Achievement Culture

This seems to be the most common culture profile in the not-for-profit sector and it has the following attributes:

- Emphasis is placed on accomplishing the task. What is achieved is viewed as more important than how it is achieved.
- A team culture is the norm-commitment to the individual task bonds and energizes the individuals.
- Relevant task expertise is highly valued and is frequently seen as more influential than personal or positional power.
- Operations are characterized by flexibility and high levels of worker autonomy.
- When things go wrong, there is a tendency for everyone to blame everyone else.
- The employee acts in the way he or she considers suitable for the task.

Person/Support Culture

In the nonprofit sector, this cultural profile seems to emerge in sub-units or programs of larger organizations, particularly within organizations employing groups of highly trained professionals and in arts coalitions. Such organizations tend to show the following attributes:

- They tend to be egalitarian. Structure is minimal; the culture exists and functions solely to nurture the personal growth and development of its individual members.
- Information, influence, and decision making are shared collectively.
- The employee “does his or her own thing.”

It is important to note that an organization can have a combination of cultures, especially when it has sub-units that are quite autonomous with a lot of freedom.

Returning to our question, what would be the most desirable organizational culture to ensure a successful merger operation? The answer is that there is no preferable organizational culture, but rather the need to merge with an organization that has a compatible culture to that of one's own organization. For example, a power culture, with its constraints on individuals, would not merge very well with a person/support culture, with its collective decision making and individual autonomy.

In conclusion, when considering a merger, the first step in the process is for both potential partners to determine the nature of their respective organizational cultures. Only then will both organizations be able to identify potential culture clashes and look for strategies to reduce them.

Jane Arsenault has developed resource materials to help organizations determine their particular culture (see Appendix).

Implementation

As mentioned in previous sections, the first step to take before considering a merger as a strategic option is for an organization to identify its core competencies and develop a vision and strategy. This is done through a strategic planning exercise.

If a merger is then identified as the best option, what should be considered in the implementation strategy?

1. *Identify potential partners* that would help the organization achieve its strategic vision. In this initial approach, the executive management of the organization makes contacts with and meets various organizations.
2. When a potential partner has been identified, the *courting period* begins, and the following steps are undertaken:
 - Presentation by each organization (vision, mission, management structure, programs, action plan and challenges for the next five years) to respective boards of directors and staff
 - Meeting and exchange between the various departments and sub-sections of the respective organizations

This will take between three and six months. Its purpose is to ensure that the proposed merger is seen, endorsed and supported by most staff as a strategic option in both organizations.

If the option to merge is still seen as valid after the courting period, it is time to move into the merger implementation and identification phase of the preferred merger option (amalgamation or absorption). The following procedure is recommended:

Create a merger task force composed of equal numbers of representatives from both organizations. Representatives are selected according to specific criteria established by

the executive management in each organization. Such criteria might include the ability to innovate, to create, to lead and mobilize people behind new initiatives.

Both organizations, as a prerequisite, have developed their own strategic visions for the next three to five years. This can be done even if the potential partner has not undertaken a strategic planning exercise. In this case, the lead merger organization facilitates a comprehensive discussion on its strategic vision with the staff of the partner organization and is prepared to adjust its vision and strategy in light of their comments.

The merger task force (or task forces) would have the following responsibilities:

1. Identify at least five strategic objectives and a long-term common vision to be achieved through the merger of the two organizations. These will be based on each organization's respective strategic visions for the next three to five years, looking at their mission, values, vision for the future, long-term viability, geography, programs and services, funders, previous relationships, potential for efficiencies.
2. Present the five strategic objectives and the proposed type of merger for approval to each organization's staff and board of directors.
3. Prepare a draft action plan to achieve each strategic objective and the strategic vision.
4. With support from an external consultant, assess compatibility of organizational cultures and identify strategies to mitigate potential incompatibilities.
5. Evaluate the feasibility of the five strategic objectives and then finalize the action plan.
6. Present the five strategic objectives and vision for approval to each organization's staff and board of directors.
7. Concurrently with activities 1 through 6, a due-diligence process is undertaken. This is an extension of the joint organizational analysis, and includes verifying financial assets, understanding current and potential liabilities, documenting

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- human resource details, assessing physical facilities, and identifying legal barriers or challenges.
8. Develop and finalize a merger agreement that legally defines the parameters and conditions of the merger.
 9. Implement the merger. Since the planning of a merger is extremely time- and energy-consuming, one strategy recommended in the literature to ensure the same level of leadership and energy in this phase is to create a new merger task force, but this time strictly responsible for implementation. One of the major activities at this stage is the establishment of the organizational structure for the internal operations and the management of staff transition.
 10. Ensure that a plan is in place for communicating with all stakeholders concerning the merger.
 11. Conduct ongoing evaluations. Was the merger successful in achieving its initial strategic objectives? Lessons learned are documented in order to inform future strategic planning and future alliances.

Applying Lessons Learned: Recommendations For CECI

1. About CECI

The Canadian Centre for International Studies and Co-operation/Centre canadien d'étude et de coopération internationale (CECI) is one of Canada's most well established voluntary organizations promoting international co-operation.

Mission

CECI's mission is to fight poverty and exclusion. More specifically, it strengthens the development capacity of disadvantaged communities; it supports initiatives for peace, human rights and equity; it mobilizes resources and promotes the exchange of know-how.

Objectives

- To involve Canadians fully in international development as volunteers, and to prepare them to be effective development agents in the third world and Canada
- To provide support to third world partners in their efforts to cope with their biophysical, socio-economic and cultural environment
- To take part in the ongoing exchange of ideas on international co-operation and to educate the Canadian public towards building equitable relations with the Third World

Founded in 1958 by Jesuit missionaries, CECI evolved from a training centre preparing an average of 100 religious per year to work in developing countries with a budget of a few hundred thousand dollars, to a centre of co-operation headed by lay professionals with its head office in Montreal, a network of 25 offices overseas comprising more than 800 Canadian and international volunteers and personnel responsible for the

implementation of 200 projects and partnerships, with a yearly average budget of \$ 45 million.

2. Context and Core Competence

CECI's main source of funding comes from the Canadian Official Development Assistance (ODA) budget, which is managed by the Canadian International Development Agency (CIDA). Like most developed countries, Canada had a commitment to dedicate 0.70 percent of its GNP to ODA. From a high of 0.50 percent in the early 1990s, Canada's ratio declined to 0.30 percent in 1998 and reached a low of 0.25 percent in 2001 (CCIC 2000, 2).

This substantial reduction in the Canadian ODA budget since 1990 was mainly due to the poor performance of the Canadian economy and the federal government's goal to eliminate the deficit and put the country's public finances in order.

In the mid-1990s, organizations like CECI involved in international co-operation started to experience major reductions in their funding allocation from CIDA. Following Human Resource Development Canada's scandal over the mismanagement of public funding in the late 1990s, not-for-profit organizations like CECI receiving funds from the government came under substantial pressure for accountability and delivery of results. This pressure resulted in the imposition of new standardized administrative and reporting procedures, which in most cases required organizations to modify or adjust their management systems.

The first step CECI took to adjust before its first reduction of funding from CIDA was the implementation of a strong funding diversification strategy in early 1990. In less than six years, it reduced its dependency on CIDA from 95 percent to 55 percent. The implementation of the diversification strategy was accompanied by a decentralization of responsibilities to its overseas offices.

In the face of sweeping changes in its external environment, CECI initiated a strategic planning exercise in 1996. Four strategic options were identified, but unfortunately this

was done without restructuring, identifying the core competencies of the organization or developing a strategic plan.

From 1990 to 1997, CECI had a yearly average increase of ten to fifteen percent of its budget. Then in 1998, its budget decreased by almost seven percent, and since then has stagnated. This was a clear signal that in order to maintain growth the organization needed to review its mission, strategies, management structure and the delivery mechanisms of its programs. In June 1999 a consultation process on the management structure was initiated throughout the organization. This ended in April 2000 with a major restructuring, including the presentation of a new mission, a new management structure and program delivery mechanisms, but again without identifying the core competencies of the organization, a vision or a strategic plan.

In 2002, six years after it initiated its first strategic planning exercise, the organization finally completed a participatory strategic planning exercise. It developed a five-year vision, and is currently finalizing a strategic plan for its implementation. The five-year vision sees CECI being part of an international partner network that fights poverty and exclusion. It sees CECI supporting campaigns against poverty and violence. It sees CECI promoting the participation of Canadians in international co-operation through exchanges, internships, volunteerism, responsible consumption, social tourism and solidarity holidays. It sees CECI as a privileged partner of front-line emergency humanitarian organizations. Finally, it sees CECI with an organizational governance and structure, which are the drive behind this strategic vision and its partners. CECI staff concluded that in order to achieve its vision the organization would need to look seriously at partnerships and alliances.

As we have seen in the previous sections, most not-for-profit organizations, and especially those like CECI involved in international co-operation, have a tendency to adopt missions and objectives that are often too broad or diffuse. CECI's mission and objectives are good examples: they require resources and support from a wide range of stakeholders, and this adds substantially to the challenge of identifying core competencies and developing a strategic plan. For example, CECI took more than six years of consultations and reorganization before it was able to identify its core competencies, articulate a five-year vision and develop a strategic plan.

3. Leadership

As we have seen above (pp. 15–16), leaders should possess four core competencies in order to face the challenges of forming partnerships and alliances:

- A high level of self-understanding
- Wisdom, acumen and intuitive foresight
- A commitment to lifelong learning
- Ethical and principled actions

Are these four core competencies sufficient to enable an organization like CECI in implementing its vision and meeting the challenges of forming partnerships and alliances?

For the implementation of its five-year vision, future alliances and strategic plan, it is important for CECI senior leadership to share openly their strengths and weaknesses among themselves and be vulnerable. Then, collectively, they will be able to complement each other and identify the management talent required to define the future of the organization.

Wisdom, acumen and intuitive foresight are important, but in a decentralized organization such as CECI they need to be combined with drive and a strong determination. Unduly prolonged phases of reflection can eventually have a negative impact on the morale and energy of middle managers and on their commitment to the implementation of the five-year vision and strategic plan – especially for managers posted overseas.

Commitment to lifelong learning needs to be further developed among CECI's senior leadership. Senior managers are having difficulties reaching out to the other side when discussing possible alliances. There is a strong tendency to favour people and practices from the organization.

Ethical and principled actions are part of the guiding principles of the organization. However, because of the nature of the organization, putting them into practice remains a major challenge for the senior leadership. Senior managers are still having difficulties addressing and resolving problems before they escalate. The organizational culture still believes that time will help resolve problems.

4. Organizational Culture

From my experience with the Canadian Centre for International Studies and Co-operation (CECI), I would say that it has a hybrid organizational culture – one that has been changing since the restructuring of 2000.

Under the previous Executive Director, the CECI head office seemed to present many of the attributes of a power culture. A sense of personal loyalty to superiors prevailed and challenges to authority were suppressed. However, a look at the CECI staff in the regional or country offices (sub-units) revealed a combination of task/achievement and person/support cultures, in which team culture was the norm and where information, influence and decision making were shared collectively. This certainly explains some of the tensions and conflicts the organization experienced before the restructuring.

Because the organizational culture of CECI has been evolving since the restructuring, and in order to facilitate the implementation of its five-year strategic vision, it seems important for CECI to undertake a participatory process in order to determine the profile of its culture. This will help the organization when entering into partnership discussions to quickly identify potential culture clashes with the proposed partner and look for strategies to reduce them.

5. Implementation

Having identified its core competencies and developed a strategic vision, CECI is currently elaborating its strategic plan. Alliances and partnerships have been identified as options for the organization. CECI has identified a potential partner to help the organization achieve its strategic vision with regard to promoting the participation of

Canadians to international co-operation through exchanges, internships, volunteerism, responsible consumption, social tourism and solidarity holidays. It has moved into the courting period, in which presentations about each organization are made to respective boards and staffs, while meetings and exchanges between the various services and sub-units of the respective organizations are ongoing.

A partnership task force composed of equal representatives from both organizations has been created and four strategic objectives have been identified. The next step will be the presentation and approval of the four strategic objectives by each respective staffs and boards and the proposed type of partnership. This will be followed by the elaboration of a draft action plan for the achievement of each strategic objective.

Before assessing the compatibility of organizational culture, which should be done with support from an external consultant, it would be important for CECI management to first have a common understanding of its own organizational culture. Senior managers should share their strengths and weaknesses among themselves and be open to criticism. They should then collectively review the four strategic objectives and see how they can complement each other and identify the management talent required for implementation. During the same exercise, they should discuss the difficulties the organization experiences in reaching out to other organizations when exploring alliances and partnerships, and resolve problems before they escalate.

Once they have analyzed and understood these issues, the partnership task force should evaluate the feasibility of the four strategic objectives, finalize the action plan, and have it presented and approved by each organization's respective staffs and boards.

Simultaneously, with support from a legal adviser, it will be important to undertake a process of due diligence, which should include verifying financial assets, understanding current and potential liabilities, documenting human resource details, assessing physical facilities and identifying legal barriers or challenges. This should be followed by the development and finalizing of an agreement that will legally define the parameters and conditions of the proposed type of alliance.

For the implementation of the proposed alliance, a new task force should be created to ensure the same level of leadership and energy behind the selected option.

Finally, it will be essential to make sure that a plan in both official languages will be in place for communicating with all stakeholders in Canada and overseas concerning the proposed alliance. It will be important to identify a series of indicators linked to the strategic objectives, in order to assess the successful achievement of the proposed alliance. Also it will be important to document lessons learned, in order to help with future strategic planning and future alliances.

6. Recommendations

A merger, it has been said, is the most extreme form of collaboration. Where two organizations – two separate legal entities – have decided voluntarily to come together, either a new governance entity must be established or one of the two organizations must be formally dissolved. For CECI, because of the organization’s background, size and history as a “power” culture, embarking upon a merger such as amalgamation or absorption would probably imply major internal tensions and culture clashes with potential partners. As well, because of its various and diverse programs, it is unlikely that CECI will be able to find a perfectly matching partner.

The recommendations to CECI would be to initially explore other types of alliances or partnerships beside merger, such as joint venture, management service organization and parent corporation. Let us look in greater detail at the implications of these types of alliances, as defined by Arsenault (1998).

A joint venture is an undertaking of two or more organizations for the accomplishment of a specific purpose. They are often limited and narrowly defined.

A management service organization (MSO) is an entity created by one or more not-for-profit organizations to provide management and administrative services to other organizations. A good example in the Canadian context would be the recent creation of a travel agency in Ottawa by World University Service Of Canada (WUSC), Care Canada and CUSO.

A parent corporation is an umbrella under which several separate organizations can be grouped. Creating a parent corporation allows people to combine two or more previously separate corporations while allowing them to maintain some degree of autonomy.

Looking at one component of CECI's five-year vision – promoting the participation of Canadians in international co-operation through exchanges, internships, volunteerism, responsible consumption, social tourism and solidarity holidays – and the various programs associated with that component, versus the federal government's perception that there are too many volunteer sending agencies, CECI should seriously consider creating a joint venture with one or two existing Canadian volunteer sending agencies, and then transfer the management of its volunteer and partnership program. This option would have the least impact on its governance structure and mitigate the culture clashes likely to arise from a full-fledged merger. Benefits would include leadership in the volunteer sending agency (VSA) sector, increased visibility, less duplication of services, and improved and enhanced service delivery. However, this option would have impacts on some staffs and management. In order to mitigate these impacts, management should emphasise the renewal of volunteerism, increased visibility and enhanced delivery of the Canadian Volunteer and Partnership Programme as the main objectives of such change. This will probably lead most staff members to view this change as new opportunities rather than restructuring that is often accompanied by insecurity.

CECI, being specialized in reconstruction and second-degree emergency, is also looking in its five-year vision at being a privileged partner of front-line emergency humanitarian organizations. It would be strongly advisable first to complete the joint venture for the volunteer and partnership program, which is currently facing more challenges with the government. Embarking simultaneously on two distinct initiatives would probably exhaust the staff because of the energy that is required to achieve a successful joint venture operation.

Conclusion

The not-for-profit sector in Canada needs to consider reorganization in view of the sweeping changes it is facing. Organizations will need to look at co-operating in order to survive and thrive. Until they make a serious effort to identify their core competencies and develop a vision along with a strategy, they will have difficulty considering mergers as a strategic option. They will also have a hard time overcoming some of the difficulties inherent to the sector, with its missions, styles of leadership and organizational cultures. After having identified their core competencies and completed a strategic planning exercise, the first step when considering a reorganization will be to study the various types of alliances (joint venture, management service organization, parent corporation and merger) as strategic options, and decide which one is best suited to the organization.

If merger is retained as a strategic option, further elements are to be considered: the distinctions between amalgamation and absorption, the four forms of mergers (vertical, horizontal, conglomerate and concentric) and the driving forces behind mergers.

In order to achieve the merger, leaders of not-for-profit organizations will need to be innovative and expand their field of vision to global issues in the interest of social change. Then organizations will have to assess the type of leadership (competencies) best suited to carry out the merger. Their leaders will have to make sure that they possess (or else can acquire) the basic competencies necessary for facing the challenges that will emerge from the merger or reorganization.

Organizations will have to determine the nature of their organizational culture (power, role, task/achievement, or person/support culture) in order to identify strategies to mitigate potential cultural clashes from the merger or partnership.

An overall implementation strategy will need to be developed to ensure the proper passage from one type of organization to another and a successful reorganization.

Ultimately, it should be possible, through this process of thorough research and deliberation, to determine whether or not reorganization is the best option for meeting a given nonprofit organization's objectives, while ensuring that the not-for-profit sector will continue to thrive and to play its role in providing an adequate social safety net in Canada and in the world's developing countries.

Appendix

Focus Group Questions

From Jane Arsenault, *Forging nonprofit alliances* (1998), 188

The culture of an organization is encoded in the images, metaphors, artefacts, values, norms, ritual, language, stories, legends, myths, and other symbolic constructs that give form to the experience of everyday organizational life.

The following questions can be used as a resource material for focus group interviews.

1. What are the principal images or metaphors that people use to describe the organization? Examples: "This organization is like a many-headed monster." "This organization is like a very fragile antique vase."
2. What physical impression does the organization and its furnishing create? Does this vary from one place to another? Examples: "Modern, cool, businesslike." "Messy and disorganised."
3. How are visitors greeted or welcomed?
4. What are the formal processes for welcoming and providing orientation for new employees? What are the informal processes?
5. What beliefs and values dominate the organization officially? Unofficially?
6. What are the main dos and don'ts? Examples: "Always come to work at least ten minutes early". "Don't ever be late for meeting with an individual or group."
7. What are the main ceremonies and rituals and what purposes do they serve?
8. What language dominates everyday discourse? If professional jargon is used, what kind of jargon is it? What clichés or buzzwords can you identify?
9. What are the primary stories or legend about the organization's history that people tell? Choose one story that strikes you as particularly important and share it with the group.

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10. What actions are formally rewarded? What actions are formally punished? What actions are informally punished?
 11. If we were to eavesdrop on a typical group of employees engaged in informal conversation, what topics might we hear about?
 12. Name the three most influential people in the organization. For each, what characteristics do you feel relate to their influence?
 13. Are there identifiable subcultures (groups that seem to do their own thing)? What makes them different? Are they in harmony with the mainstream culture or in conflict?
 14. If there are subcultures, what functions do these groups serve for their members? Is the overall effect on the organization positive or negative?
 15. If you have an issue that needed to be communicated to your immediate superior, what form of communication would you use?

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