# Motives for Mergers Among Family and Child-Serving Agencies

Hilda Shirk Wenger

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NORTH CENTRAL UNIVERSITY

# MOTIVES FOR MERGERS AMONG FAMILY AND CHILD-SERVING AGENCIES

A Dissertation submitted to

the graduate faculty of the Department of Business and Management

In candidacy for the degree of

## DOCTOR OF PHILOSOPHY

By Hilda Shirk Wenger

Lancaster, Pennsylvania
January, 2000

# DISSERTATION ABSTRACT

Name: Hilda Shirk Wenger
Degree: Doctor of Philosophy

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Location: Prescott, Arizona

Title of Dissertation: MOTIVES FOR MERGERS AMONG FAMILY AND CHILD-SERVING AGENCIES

Scope of Study: This dissertation explores what motivates not-for-profit social service agencies to merge and whether the merger achieves what was intended. It also looks at unanticipated problems and changes to mission statements as a result of the merger. A triangulation methodology incorporated a quantitative survey instrument and case studies to conduct the research. The agencies included in the study have experienced a merger since 1988 and are members of the Alliance for Children and Families, a national organization of family and child-serving agencies.

Findings and Conclusions: This study shows that agencies are merging to share resources and improve client services, in contrast to the findings of the literature that focus on mergers as a response to survival. This pro-active motivation for merger is more similar to that of for profit companies. The results of the mergers among not-for-profit agencies differ dramatically, however, from the two-thirds failure rate reported in the literature for for profit companies. The agencies included in this study reported substantial goal achievement overall, but particularly for improved client services. Less successful were goals related to administrative cost savings and organizational stability. This view of merger as an opportunity for growth rather than a reaction to a threat provides agencies an important perspective as they make critical decisions about the feasibility of strategic restructuring.

# NORTH CENTRAL UNIVERSITY

## APPROVAL

We, the undersigned, certify we have read this dissertation and approve it as adequate in scope and quality for the degree of Doctor of Philosophy.

Learner: Hilda Shirk Wenger

Title of Dissertation: MOTIVES FOR MERGERS AMONG FAMILY AND CHILD-SERVING AGENCIES

Dissertation Committee:

Judith L. Forbes 3 February, 2000

Chair: Judith L. Forbes, Ph.D. Date

Carol Wells 3 February, 2000

Member: Carol Wells, Ph.D. Date

Daljit Singh 3 February, 2000

Member: Daljit Singh, Ph.D. Date

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Getting through the dissertation process was manageable due to the unflinching optimism of my advisor Dr. Judith Forbes. I appreciated her ability to redirect and encourage me. Her broader perspective of the process was a critical balance to my myopic tendencies.

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To Chet, my husband of 25 years, I extend my thanks for unconditional support and space to complete my studies. No, you didn't have to type me through this degree (I was usually grateful for the computer), but you did provide critical empathy when the struggle was almost overpowering. I am grateful for the stable environment he maintained so that I could risk uncertainty and change.

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CHAPTER 1

# INTRODUCTION

Discussions about mergers are happening throughout the private, not-for-profit social service field. Mergers are the topic of conference presentations and informal conversations among agency executives. The pros and cons are debated, appropriate targets suggested, and cautions about the process are seriously enumerated. The talk includes who has merged with whom, why, and how it's going. But the discussion is primarily descriptive, based on individual experiences and perceptions. Scholarly studies have been lacking, although talk of research needed is beginning to emerge.

If social service agencies are going to follow the lead of the corporate world by merging in response to internal or environmental pressures, they need to better understand the phenomenon and the experience of those organizations that have chosen to merge. Although there are alternative affiliation strategies that agencies can effectively embrace, this study focuses on merger because it is the most dramatic option and the most difficult to reverse. Therefore, it is critical that organizations have as much information as possible before engaging in a merger process. The well-being of service recipients depends upon agency leaders making well-informed decisions.

## *Statement of the Problem*

The purpose of this research is to determine what forces drive the mergers of not-for-profit social service agencies, whether the mergers have an impact on those factors, and whether or not the agencies achieve their established goals. It also investigates unanticipated problems as the result of the merger and any changes in mission. The study focuses on family and child servicing organizations that have merged with similar organizations during the past eleven years through a mutually agreed upon process.

As traditional social service agencies look for ways to improve the quality of their service provision in light of increasing environmental and internal pressures, they need to know what mergers can and cannot do for them. There is much that can be learned from the experiences of those that have already responded to those pressures and restructured their organizations. Were they pleased with the results? Were the pressures better managed and less threatening to the organization? What problems did they encounter that they had not anticipated? What changes needed to be made to their mission statement? Changing organizational mission and structure are major undertakings and should be done with a solid base of knowledge. Currently, the field of child and family-serving nonprofit agencies does not offer that information in a collective, studious format. Without the benefit of learning from each other, every organization blunders ahead, knowing that change is critical, but not knowing what the chances are that a merger will result in the appropriate change. This study provides an overview of what is happening among a selected group of social service agencies that have merged and what can be learned about the phenomenon that will improve the chances for success in future mergers.

## *Definition of Terms*

A merger is defined as two or more organizations that join to create one entity. Although there are many different types, the definition covers them all, including acquisition, which is further characterized by involving at least one organization as a subordinate.

A not-for-profit social service agency refers to an organization with an IRS designation as a 501(c)(3) and a charitable mission. By comparison, a for-profit organization has financial gain as its primary goal.

The Alliance for Children and Families is the context for the agencies included in this study. It is a national membership organization servicing over 365 not-for-profit agencies that provide a range of services to children, families, and communities.

## *Brief Review of Related Literature*

A scan of the literature reveals a growing pool of information on the topic of mergers among not-for-profit social service agencies. It is rich with discussions and studies of corporate mergers and acquisitions and includes some mention of non-profit health care merger activity, primarily among hospitals. In the literature, the social service preoccupation with merger is in studying the culture of for-profit companies that merge, or the impact of the process on human resources. But there are scant references to the social service field focusing on its own institutions and their experience with merger.

What little is said about mergers is generally anecdotal, with lessons learned through personal experiences, and guidelines for best practices. It provides some insights into possible forces driving mergers. One study conducted in 1987 to look at organizational issues inherent in mergers concluded that overwhelmingly, the agencies had achieved their goals and were better off three years after the merger. Additional research is critical to fill a widening gap between the need for information and the availability of relevant literature.

## *Highlights of Methodology*

The purpose of this research is to determine what forces drive the mergers of not-for-profit social service agencies and whether they achieve what was intended. The method for answering this question is a triangulation form of research that combines a quantitative, non-experimental survey and a qualitative case study. This method improves the accuracy of the findings by collecting data in several ways and then identifying convergence in the results.

A questionnaire was sent to the 365 family and child serving agencies that are members of the Alliance for Children and Families, a national network of organizations. The survey focused on information about the forces that drove the organizations to consider and follow through with a merger, the results of the merger, the identified goals, and achievement of those goals. It also asked for a narrative response to questions about unanticipated problems and changes in mission statements as a result of the merger. These open-ended questions provided an opportunity for the organizations to comment on areas that the researcher did not consider in the other questions. The survey was conducted by mail, with telephone follow-up to ensure a response.

The researcher reviewed the responses to the survey to identify two typical-case agencies for further study. For those organizations, written data such as strategic planning documents, specific merger notes, annual reports, board minutes, and financial reports were reviewed, and a brief telephone interview was held for corroboration of the survey results. The data were analyzed for evidence of a relationship between the motives for merger and the results of the merger.

Ethical considerations included clear discussions with agencies that participated in the project to address the purpose and scope of the research, confidentiality of the information gathered specific to agencies, and the intended dissemination of the findings.

## *Limitations of the Study*

This study includes a very small sample of not-for-profit agencies, chosen from a defined group of high quality accredited organizations that access national resources to maintain their effectiveness. It is not the intention of this study to suggest that the experiences of these organizations are representative of all social service agencies, but rather that the field can learn from mergers happening within this arena of cutting edge organizations. In addition, the study stands without opportunity for comparison with previous research; therefore the survey instrument was designed specifically for this research, without tests for validity and reliability. A final limitation is that the findings are time and environmentally sensitive, reflecting current pressures and responses that may not be relevant at other points in time.

## *Research Expectations*

It is expected that this research, by answering questions about the results of mergers among not-for-profit agencies, will become a resource for organizational decision-makers looking for survival solutions. The opportunity to learn from the experiences of other similar organizations increases their likelihood of finding an effective strategy. This research challenges the assumption that mergers successfully address internal and external pressures and sheds light on what factors mergers do impact effectively and what goals can be achieved. It is also hoped that this study will encourage others to identify those aspects of mergers that warrant future research.

CHAPTER 2

# REVIEW OF THE LITERATURE

## *Introduction*

Mergers and acquisitions within the corporate world became a growing phenomenon in the 1980's with frequent media attention to the friendly and hostile takeovers and leveraged buyouts of high profile companies. (Golbe and White 1988) The popularity of mergers as a corporate strategy can be understood in part as a means of bringing about dramatic corporate change. (Walter 1985) The synergy of combined organizational cultures and structures is alleged to result in a super-company that exceeds the capabilities of the sum of its parts. (Rhoades 1983) The facts, however, paint a different picture. Mitchell Lee Marks and Philip H. Mirvis assert that "judged against any financial yardstick – combined earnings, sales, or growth rates - between two-thirds and three-fourths of all corporate mergers and acquisitions fail." (1992)

In the not-for-profit arena, there is a growing trend toward mergers as a survival strategy. (*Nonprofit World* 1992) To understand these mergers in the context of corporate mergers and acquisitions, it is critical to acknowledge an underlying difference. Because there is no stock to purchase and no one "owns" a not-for-profit organization, a merger can only happen with the formal agreement of the boards of directors, ruling out the possibility of an organization being acquired against its will. (*Board Member* 1997) Mergers in the for profit world happen with much less mutuality or broad involvement of the participants.

A search of the literature reveals growing attention to the topic of mergers among not-for-profit social service organizations. Early references to mergers in social service journals, however, tend to focus on studies of the culture of for-profit companies that merge or the impact of that process on human resources. A few references suggest best practices and cautions for the process of merger. But little has been written or studied about the phenomenon within not-for-profit institutions and agencies themselves, and even less that specifically addresses results compared to motives.

### *Types of Mergers*

Four types of mergers are generally referred to in the corporate world. Gordon A. Walter (1985) summarizes the types as:

- **Vertical**: mergers in which a buyer-seller relationship exists or could exist between two firms
- **Horizontal**: mergers between firms with identical products operating the same or different markets
- **Concentric**: mergers between firms with highly similar production or distributional technologies
- **Conglomerate**: mergers between two firms with no buyer-seller relationship, technical and distributional relationship, or identical products

Not-for-profit organizations look at merger types in a slightly different way. Big Brothers Big Sisters of America (1994) outlines six distinctive types based on function and reason.

- **Traditional** – Two agencies which substantially perform the same function merge to become one agency. One of the merging parties becomes the surviving corporation.
- **Consolidation** – Two agencies which substantially perform the same function merge to become one agency. Both agencies dissolve and a new corporate entity is established.
- **Conglomeration** – Two or more agencies which perform different functions merge together to form one entity.
- **Discretionary** – Two agencies merge. One agency has been under internal pressure to act due to financial or other problems. The weaker entity chooses to merge with a stronger one. This type is commonly referred to as a voluntary take over.
- **Involuntary** – The merger decision was essentially mandated by an outside body, which may control the bulk of their funds or have other oversight responsibilities. The agency has virtually no choice but to transfer their client base or go out of business.
- **Acquisition** – An agency acquires a program which has previously been under the administration of another agency.

Some mergers may have characteristics of more than one type, but the type of merger experienced by a company can impact merger results. For example, a merger between unequal organizations may mean that the weaker one will need to abandon its organizational culture and systems, seriously threatening its ability to bring value to the process. (*Board Member* 1997) Whatever the type, however, the process and implementation of merger and the potential for positive results involve many common issues. (VanderVelde, et al. 1993)

## *Motives for Mergers*

The motives behind merger are complex. Freidrich Trautwein was one of the first researchers to attempt to make sense of the various theories extended to explain the allure of mergers. He identified seven theories and looking at examples of organizations espousing that motive, investigated evidence of that motive and plausibility of the theory. The theories he examined are:

- Efficiency – Mergers are planned and executed to achieve synergies (financial, operational, managerial).
- Monopoly – Mergers are planned and executed to achieve market power.
- Valuation – Mergers are planned and executed by managers who have better information about the target's value than the stock market.
- Empire-building – Mergers are planned and executed by managers who thereby maximize their own utility instead of their shareholders' value.

- Process – Mergers are the result of strategic decisions made by individuals with limited information process ability, a reliance on known organizational routines, and motivated by political power. Haspeslagh and Jemison (1991) offer a different perspective on the definition of process theory. They describe it as a means to the end of corporate renewal, rather than an independent action.
- Raider – Mergers are planned and executed to transfer wealth from the stockholders via greenmail or excessive compensation of the executive.
- Disturbance – Mergers are caused by economic disturbances that change individual expectations and increase levels of uncertainty.

Trautwein used the test of plausibility to conclude that the most plausible explanations for mergers were valuation, empire-building, and process, with efficiency and monopoly showing little evidence of plausibility and raider and disturbance theories as implausible and unsupported upon examination. (1990)

Mergers are seen as one of the major forms of corporate growth. They offer the potential to transform companies and contribute to corporate renewal at a level not achievable through internal development. (Haspeslagh and Jemison 1991) There is an expectation that for companies involved in similar or related business, their combined efforts will yield economies of scale, needed technology, or control over chains of supply. There is an interest in the human resources and skills that can be acquired. And there