MERGERS, AMALGAMATIONS & ACQUISITIONS

IN THE AUSTRALIAN NOT-FOR-PROFIT HUMAN SERVICES SECTOR

A Joint Research Report by RMIT University & CPA Australia

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Legal Notice

Ethics Declaration

This study was granted ethics approval by the RMIT University Human Research Ethics Committee.

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First and foremost, we would like to express our sincere gratitude to the participants of this study who have generously shared their lived experience and deep insights into the mergers, amalgamations and acquisitions (M&As) in the Australian not-for-profit (NFP) human services sector. Their collective knowledge and wisdom has shed much needed light on the various risks and challenges confronting the M&A process, and the critical factors for successful organisational restructure.

Further, we would like to sincerely thank the following individuals for their many insightful comments and support, namely Professor Lee Parker, Distinguished Professor of Accounting (RMIT University), Professor David Gilchrist (University of Western Australia), Professor Geoffrey Stokes (RMIT University), Ms. Karen Mahlab (ProBono Australia), Mr. Michael Goldsworthy, and the participants at the RMIT Roundtable on Not-for-Profit Governance.

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FOREWORD

The Australian Productivity Commission research report (2010), entitled *'Contribution of the Not-for-Profit Sector'* recognised the substantial contribution made by the nearly 600,000 entities in the Not-for-Profit (NFP) sector to the national economy. Nevertheless, the NFP sector is experiencing unprecedented pressures to reform in the face of funding shortage, growing demand for human services, changes in government funding policies, and increased marketisation and competition. Many Australian charities and NFP entities are compelled to review their strategic stance and alliances, and undertake organisational restructure through mergers, amalgamations and acquisitions (M&As) with the hope of gaining scale efficiencies, expanding market size and remaining competitive.

The option to undertake an M&A arrangement is available to all community organisations in Australia, regardless of their legal structure (i.e. incorporated associations, companies limited by guarantee, indigenous corporations and co-operatives). While M&As have grown in popularity in the Australian NFP human services sector, there is also evidence of de-mergers and cause for concern over the efficacy and outcomes of M&A initiatives.

The overarching aim of this research project is to identify and assess the dynamics among the key motivations, risks, barriers and opportunities associated with M&As in the Australian NFP human services sector. The data for this study is derived from twenty-one (21) in-depth interviews, conducted in 2017, of board members, Chief Executive Officers (CEOs), senior management and finance officers of NFP entities, including four who are specialist NFP governance consultants and legal representatives who have lived experience of M&As. Where possible, we reviewed the annual reports and media news information on M&A announcements.

Our findings support M&A uptake as an effective strategy for organisational growth, gaining scale efficiencies and enhancing service choice and quality within the NFP service sector. The M&A process itself however is often complex, time-consuming and can be costly. Some of the critical M&A success factors include board and CEO leadership, clarity of the social mission and goals, a well-designed merger plan, proactive communication and stakeholder engagement. We utilise the 4-P M&A framework, representing 'purpose, people, process and policy' to elucidate the connectivities among the four different factors, and recommend a range of good practice guidelines for M&A success.

As the pressure for higher organisational efficiency and accountability continues to escalate within the Australian NFP sector, further study on the efficacy of the M&A process is both timely and warranted. We hope our findings will inform and sprout further inquiry into the risks and opportunities offered by M&A strategies for the Australian NFP sector.

On behalf of the research team

Nava Subramaniam

4 EXECUTIVE SUMMARY

Key Findings

Main Motivations For M&A

Almost all participants from NFP entities stated that they had either completed or considered an M&A restructure for strategic organisational growth. Being larger in size is seen to confer several primary and secondary benefits.

The primary benefits are scale efficiencies, improved financial position, wider revenue base, increase in market size, provision of wider range of services, and acquiring critical technological and human expertise. In some cases, the M&A meant an opportunity to rationalise service offerings, close low demand services and remove operational inefficiencies.

The secondary benefits are perceived advantages derived from the primary benefits, which include enhanced reputation, being competitive in the market, improved capacity to win larger grants, and have stronger social impact.

A smaller proportion of participants reported 'rescuing another organisation' as a M&A driver, and this tended to more easily occur when there are gains anticipated from an additional revenue line or cost savings, or transfer of specific assets that are of benefit to the acquiring entity.

Risks, Barriers & Opportunities at Different M&A Phases

While many NFP CEOs are constantly on the look-out for M&A opportunities, there are various risks, barriers and opportunities in the different phases of an M&A set-up.

At the Pre-Merger Phase

- Finding the right partner/s, particularly those with similar social mission and values can be difficult.
- Board resistance, legacy Issues, and member resistance can topple negotiations.
- CEO and board have limited vision and understanding of the M&A process.
- Lack of resources (both financial and human) for conducting proper planning, due diligence and negotiations.
- Not spending enough time on assessing the congruence in social mission, and rushing into due diligence and discussions on governance structural issues instead.
- Poor understanding of the 'merged' or new business model and its financial implications.

At the Post-merger, Integration Phase

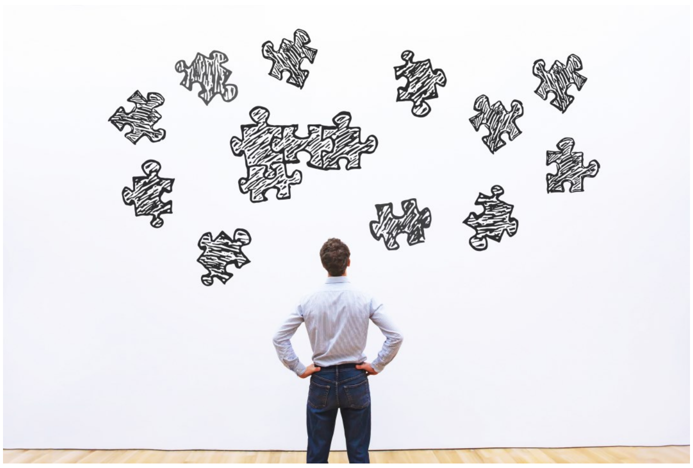
- Difficulties in integrating two or more different financial systems and operational procedures, resulting in running dual systems instead.
- Poor understanding and communication of the new organisational identity and its values. These act as barriers for bringing staff from different organisations to think and act as one.
- Attachment to legacy organisational cultural values and work norms. In some cases these did not surface until well after signing the agreement, affecting employee morale and productivity.
- In several cases, the revised board had difficulties working together, partly due to lack of trust, and partly due to having to deal with a more complex organisational structure.
- In cases of high workforce redundancies, and poor communication, there was low staff morale and loss of critical staff with important social connections.
- In many cases, there was a lack in IT system capacity to handle larger and more complex organisational activities and transactions.
- Lack of clear implications on workforce, where often M&As may result in job loss or job sharing for some staff and in some cases loss of staff with critical expertise and social capital.
- Concerns over changes in performance management and reporting systems were consistently found to be a highly sensitive issue among staff.
- More than half the respondents indicated synergies and benefits anticipated at the beginning of the M&A process were not achieved in the expected timeframe.
- In almost all cases there was a lack of data to assess the full costs and benefits of M&As.

Outcomes of M&As

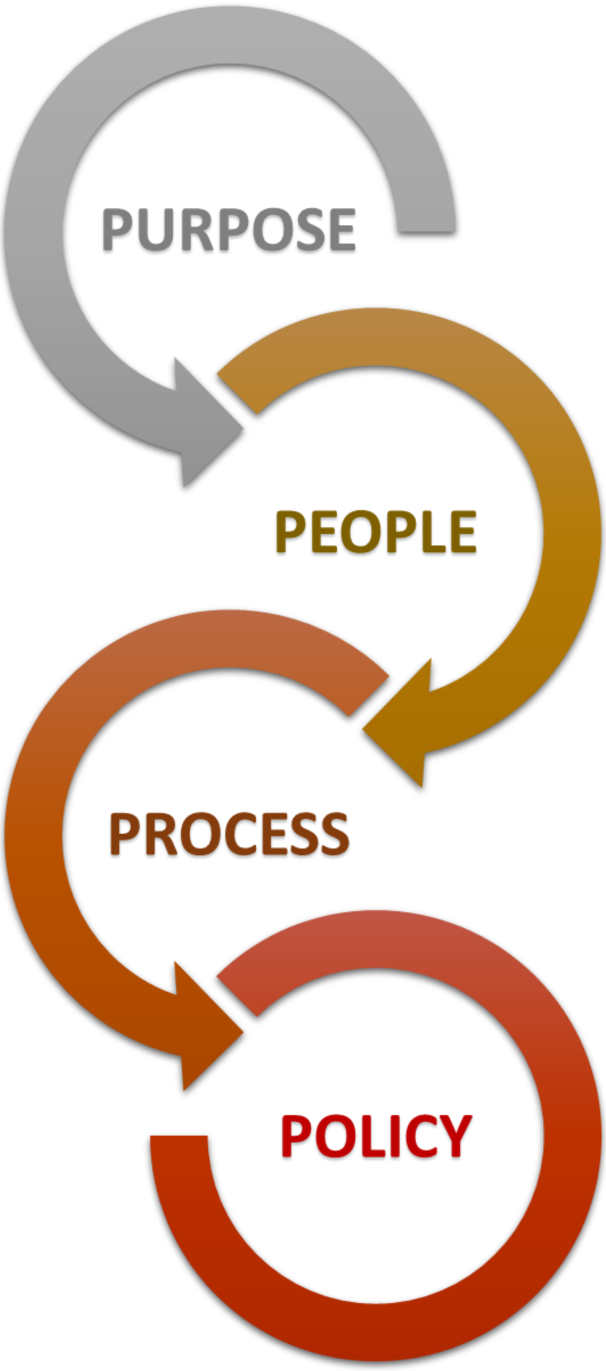
- The four most commonly cited positive outcomes are stronger market position, cost reductions, increase in services and programs for clients and opportunity to review and improve internal processes.
- On the downside, the three most common complaints are loss of organisational identity, increased workload and cultural disconnect among staff.
- In some cases, where a proposed merger did not eventuate, there was still value derived from the attempt to do so as it enkindled boards to become more pro-active in exploring and choosing alternate opportunities to improve their viability.

Descriptions - Mergers, Amalgamations and Acquisitions

- In a **merger** arrangement, two organisations may consolidate to form a new organisation where the assets and liabilities of both organisations are owned under a new organisation.
- An **amalgamation** is very similar to a merger and it only applies to incorporated associations operating in the same state.
- An **acquisition** or a take-over occurs when one organisation takes ownership of assets and liabilities of another organisation which will then cease to exist.



RECOMMENDATIONS FOR BETTER PRACTICE



The findings of this study indicate the M&A restructure pathway as an important and viable means for NFP service providers in Australia to gain market share and scale efficiencies, improve productivity and deepen their social impact.

The M&A process is a dynamic function underpinned by the interconnections among the 4P M&A framework, comprising the following elements:

1. **Purpose**
2. **People**
3. **Process**
4. **Policy**

In this section, we offer several recommendations related to the 4P M&A framework for enhancing the process and benefits offered by an M&A restructure. We also acknowledge that these recommendations are not exhaustive.

Purpose

- All M&A parties need to have a clear understanding of their purpose i.e. mission and vision and the value proposition of the merger to that purpose.
- Conduct an open and frank discussion of the alignment of the work-related values and norms of the merging entities.
- Jointly set new goals, if needed for the merged organisation.
- Be consistently guided by the social mission, and at different intervals of the M&A process evaluate whether policy and processes are aligned with the mission statement.

People

Board Capacity and Incentives

- Develop board members' knowledge and skills in evaluating the risks and opportunities associated with M&As. The board's ability to assess the financial, cultural and social impacts of an M&A restructure is vital.
- Foster a culture of proactive, forward thinking and agile decision-making. In particular, actively manage or remove legacy members who are a hindrance to change.
- Board members need to declare any potential conflicts of interest and be guided by a code of conduct in M&A negotiations and decision-making.

CEO Independence and Incentives

- Establish CEO independence and objectivity safeguards which may include use of an independent recruitment agency, oversight by a remuneration committee, and having a code of conduct. This is because CEOs tend to face various self-interest threats in M&A situations (e.g. loss of his/her job, prospects of higher remuneration, changed work conditions, etc).

Specialist M&A Consultants; Legal Counsellors, Accountants and Management Consultants

- Gaining expert, external professional advice is always helpful, particularly in the pre-merger negotiation phase. Utilise professional consultants, legal and financial experts to help in due diligence and better understand the risks and opportunities arising from the 'revised' financial and business model as a result of the M&A.
- With a general lack in accounting and financial technologies within the NFP sector, accounting professionals can play a stronger role in supporting M&As. For example, management accountants and financial consultants can help NFP clients to build more rigorous and comprehensive financial models. They can also be involved in performance measurement and compliance audits to help enhance due diligence reviews.

Process

Establish an M&A Lead Team

- Establishing an M&A team to lead, negotiate and oversee the various phases of the M&A process is important. Build a diverse yet inclusive team with members who hold valuable organisational memory and social capital.

Have a Clear Understanding of Expected Costs and Outcomes

- Evaluate the new business model's viability in relation to re-structured workforce, customer demands and needs, and operational processes.

Develop More Effective Stakeholder Communication

- Ensure timely, honest and clear communication on the M&A process and outcomes with stakeholders. Although maintaining confidentiality and information proprietary to the organisation is equally important, shared understanding and acceptance of work-related values play a central role in NFP organisations. Articulating the organisational identity to reflect the full revised purpose of the merged entity is critical.

Respect and Value Workforce

- Treat workforce, staff and volunteers with due respect and consideration. Keep them engaged and connected with M&A developments, and utilise both formal and informal socialization processes to align entity and staff interests.

Enhance Performance Measurement and Reporting

- Evaluate the appropriateness and effectiveness of extant performance measurement and reporting systems. Co-create impact measures with service customers/beneficiaries where possible to fully assess and report on social impact.

Leverage Digital Technologies

- There are new technologies that can help with scenario-building and decision-making. Invest in digital technologies to better visualise and analyse how two or more organisations can come to successfully work together.

Policy

There are various regulatory policies and guidelines that government, regulatory agencies and professional bodies could develop to help NFPs cope with the different risks and challenges in the M&A path.

Support Grants

- Cost of restructuring can be high, particularly for smaller NFPs and those in regional areas. While there are probono advisory services offered to NFPs seeking to re-structure, additional private and public funding schemes that incentivise M&As restructure may help in improving sector efficiency.

Data Registry & Analysis

- Develop a public register of M&As, so as to track and understand the changing structural trends in the NFP sector. Further information on the number of mergers, types of mergers, changing governance structural arrangements can inform policymakers and other stakeholders, and enable large scale studies.
- Compare and benchmark M&A regulatory policies with that in other countries e.g. New Zealand and Canada, where the policy suites are seen as being more varied and rigorous which will engender the development of high quality, globally comparable M&A ecosystems in Australia.

Innovative Funding Schemes

- Develop initiatives that encourage social impact investing and reduce regulatory barriers.
- Encourage more proactive, innovative sources of funds e.g. social bonds, social enterprises etc that will potentially better support organisational growth and related social innovations.

PROJECT BACKGROUND

The NFP Sector

NFP entities form a large and important component of the Australian economy (Price Waterhouse Coopers and Centre of Social Impact, 2014). In 2010, the Productivity Commission's report 'Contribution of the Not-for-Profit Sector' estimated that 600,000 NFPs were operating in Australia, of which 58,779 were classified by the Australian Bureau of Statistics (ABS) as being 'economically significant' and contributing to approximately 4.3% of GDP (Productivity Commission, 2010). The report also recommended government funding engagements with the sector be premised on 'best-value-for money', advocating market-based approaches (Productivity Commission, 2010). Subsequent changes in government funding terms, conditions and other related policies e.g. procurement contracts, encourage marketisation, escalated competition and the pressure on NFP entities to become more cost-efficient. Organisational size and market share became critical to evidence service delivery capacity. These various developments, individually and collectively, subsequently escalated the pressure on many NFP entities to either merge, amalgamate, develop resource sharing alliances or simply shut down.

The report titled *Impact of the Economic Downturn on Not-for-Profit Organisation Management*' by the Australian government's Department of Social Services in June 2009 (DSS, 2009), found that 15% of charities surveyed were considering a merger. Two more reports, titled *Our Community - Commonwealth Bank Survey* in 2014 and in 2015, likewise suggest an increasing appetite for M&As. The 2014 survey for instance found that 23% of survey respondents were in favour of a M&A restructure, 48% responded "It depends on the circumstances", while the remainder (29%) were not in favour.

A recent survey by Australian Institute of Company Directors (AICD) (2016, p. 18), entitled *NFP Governance and Performance Study,* notes that over a third of the participant directors reported that their organisation had discussed a merger in the last 12 months, eight per cent noted that their organisation was undertaking a merger, and six per cent indicated having completed a merger. Further, the reasons for considering mergers are as depicted in Figure 1 below. The top three reasons for mergers being to 'better meet our mission', 'market share' and 'improved services to existing users'.

"A Not for Profit environment of more competition from for-profits … a tight funding environment and higher demand for services, has created the perfect storm for some organisations to consider a merger" …Ronalds (2015)

The study also contended that collaboration and mergers are a key area that can boost NFP performance.

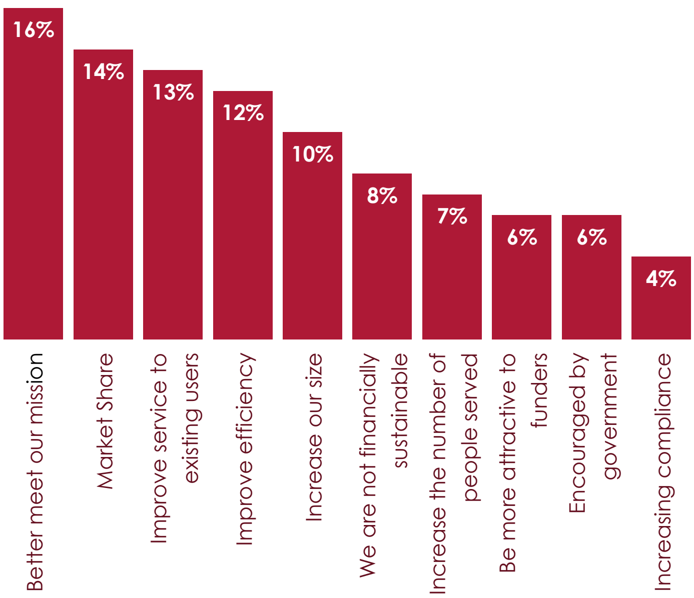


Figure 1: Reasons for Merger - AICD Survey (2016)

International Evidence

Our review of international studies on M&As, likewise reveals a similar appetite for organisational restructure within the NFP sector. The *Charity Aid Foundation's* report, titled *Social Landscape,* released in February 2017 reported that three in five charities in the United Kingdom (UK) have either restructured in the past 12 months, or indicated that they were intending to do so in the next 12 months. This report, one of the largest survey of charity chief executives in the UK, also found one in ten charities had plans to merge with another organisation over the next 12 months. The UK's 2016/17 *The Good Merger Index Report* similarly found a small increase in mergers of charities (Eastside Primetimers, 2017) with financial drivers as the main driver of mergers, followed by strategic reasons, namely to improve fund raising profile.

Another international study, the 2016 *Metropolitan Chicago Nonprofit Merger Research Project*, involving an analysis of 25 completed mergers in the US, provides substantial evidence on the success of such organisational restructures (Haider et al., 2016). The findings suggest that in 88 per cent of the mergers the NFP entities felt that the organisation was better off after the restructure, particularly in terms of achieving organisational goals and increasing social impact. Further, they also found that the most successful mergers saw acquirers seeking to expand operations by pooling similar services and operations, or by trading assets, competencies and markets. Interestingly, initiation of the merger discussion was undertaken by the acquired entity in 60 per cent of the cases, with a larger proportion of the acquired organisations seeking growth and cost efficiencies rather than solving a financial crisis.

Overview of Policy-Driven M&A Risks

We provide a brief overview of two government policy initiatives as examples that potentially shape NFP entities' approach to organisational restructure. These are the National Disability Insurance Scheme (NDIS) bill, and the Consumer Directed Care (CDC) model affecting the aged care sub-sector.

National Disability Insurance Scheme (NDIS)

The establishment of the National Disability Insurance Scheme (NDIS) in 2013 marked a ground-breaking reform in relation to how disability support funding and services are organised and provided in Australia. The NDIS is estimated to cost A$22 billion per year (once fully implemented in 2019). The key elements of the NDIS are that it is national funding system and involves a model of Individualised Funding Packages (IFP) (promoting increased choice and flexibility for people with disabilities) replacing block funding models. It is driven by a services market, based on the classic neoliberal principle that competition between service providers and consumer demand will shape better services and more efficient use of public funding (Productivity Commission 2017, David and West 2017, TASCI 2017).

Aged Care Sector

The introduction of CDC homecare packages is having significant impact on aged care (and retirement village) service providers. Since Feb 2017, Older Persons (aged 65+ years) now have the opportunity to purchase chosen services utilising a homecare package (the amount based on an external assessment). The use of the CDC packages requires Older Persons to have significant IT capacity to access online portals, make budgetary decisions related to the homecare package and source service providers for support. Further, CDC homecare packages require Older Persons to have informed decision-making capacity to choose a service provider, the type of service they require and amounts that will be utilised in purchasing varying services (Egan 2014, Jusufspahic 2014).

Both these initiatives represent a national trend towards towards individual driven market frameworks. While human services tended to be traditionally funded by government blockfunding of various service provider agencies, the individualised funding empowers service users by providing them with the option of freely selecting a package of funding and the services from the market i.e. for profit as well as NFP entities (Fisher et al 2010, Laragy 2015, David and West 2017, TASCI 2017).

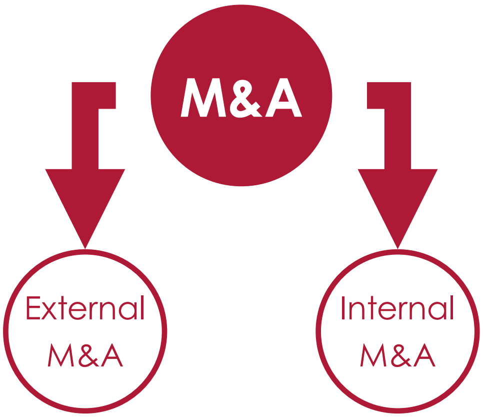
Examples of Key Pressures on NFP Service providers

Drawing largely from The Productivity Commission Report in 2017 on Government Services, some of the key pressures for Australian NFP human service providers include:

- Fixed unit pricing for services currently prescribed by the NDIS which puts cost pressures on service providers.
- Entry by large international for-profit service providers, and subsequent loss of market share.
- Pressure on NFPs to hold adequate working capital and cashflows to meet their financial obligations as they at times have to wait for results of their service programme evaluations.

ORGANISATIONAL FORMS OF M&As

M&As Can Vary in Form and Intent



Internal M&As

Organisations within the same parent entity, typically across different regions or states are re-organised under one structure, and often motivated by internal cost efficiencies. In general, the challenges for re-structuring relate to the legal form of the different entities and asset transfers say from trust to an incorporated entity.

External M&As

Separate and distinct organisations come together to work together, and they vary in the extent of legal and structural integration can vary.

M&A Classification

For this study, we utilise the five classifications of M&A structures that were initially developed by Richard Gutch (2012) in the Good Merger Guide, and subsequently amended by the first Good Merger Index report (Litchfield, 2013/14): merger, takeover, subsidiary model, group structure and swapping services/assets. While we acknowledge that there may be other approaches to classifying M&A forms, the typology presented by the Good Merger Guide is adequately comprehensive for the purposes of this study.

Each type of organisational form deals with issues of identity, composition of leadership teams (specifically the senior executives and the Trustees), branding and language used in communications in different ways. The fifth type of organisational re-arrangement, which is not a M&A, is a type of strategic alliance where only resource sharing is agreed to.

Figure 2 on page 15 provides a brief description of these different configurations possible for NFP entity restructures. Source: Good Merger Index report (Bidgood, 2017).

Merger

A new brand identity arising from two organisations coming together. Governance of the new organisation is normally representative of the two merging organisations. Evidence that the top executive team for the newly enlarged organisation has balanced representation from the legacy organisations:

- Organisation 'A' transferring its assets and activities to Organisation 'B'. The merged entity then establishes a new identity with a new leadership team under the identity of Organisation AB (with A ceasing to exist or becoming dormant).
- Organisation 'A' and Organisation 'B' transfer their assets and activities into a new Organisation 'C' and then both either dissolve/become dormant or continuing trading as subsidiaries as part of a group structure.

Amalgamation

An **Amalgamation** is a type of merger where the process is set out under law. If an incorporated association is looking to merge with another incorporated association in the same state, then the statutory process of 'amalgamation' is an option available (in all states and the ACT, with amalgamation an option in Western Australia from July 2016) - so organisation A and organisation B legally become organisation AB. Organisation AB has all the assets and liabilities of Organisation A and Organisation B. Because a statutory process is used, there is no winding up of the old entities.

The identity and brand of the subsidiaries are retained, and distinct to the parent, but with a reference to being part of a larger group; There is a group CEO and Chair who have key leadership roles and they devolve executive powers to separate individuals who have responsibility for running the subsidiaries; Different models of governance can be created which means that it is possible for Trustees to continue to have a role at the subsidiary level.

Merger – Takeover (Acquisition)

Organisation B transfers its assets and activities to become part of Organisation A. The legal vehicle of the transferring organisation is either dissolved or exists but remains dormant. The identity of the acquired organisation is either discarded after the takeover, or is retained as a division of the acquirer entity. The positions of executives from the acquired organisation are often reviewed and the composition of the merged board tends to be generally smaller than the sum of both boards. The Trustee Board of the acquired organisation is generally disbanded and stood down.

Merger – Takeover (Subsidiary)

This type of takeover is achieved by Organisation B becoming a 'wholly owned' subsidiary of Organisation A. The transferring organisation retains a separate board and identity. Job losses at management level are minimised; Ultimate control is nevertheless retained by the acquiring organisation; Only a minority involvement, if any, of Trustees from Organisation B on the main board of Organisation A; Could be a step towards the formation of a group structure.

M&A – Group Structure

One or more organisations transfer activities and assets to become part of a group and operate as one of a number of wholly-owned subsidiaries. This is similar to a Conglomerate or Holding Company model in the private sector. The parent group owns two or more subsidiaries, each with their own governance.

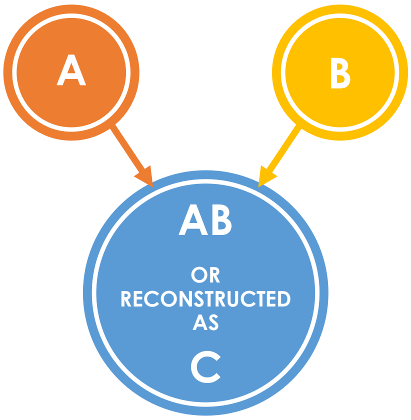
Strategic Alliance (Swapping Services/Assets)

No impact on legal structures or the Trustees of either organisation. All organisations retain their separate market identity and operate as normal. Organisations come together to share resources with cost minimisation as dominant objective.

A special type of alliance is a **consortium**, where there is a new legal structure and constitution, and each organisation operates under the umbrella of the consortium.

Other forms of collaborative initiatives by NFP entities include contract transfers e.g. bed licenses in aged care, child care licenses, employment services contract transfers, and joint ventures e.g. two or more organisations come together to pursue a new opportunity such as a government contract.

1. Merger



Summary

Two or more organisations join to form a new organisation either through:

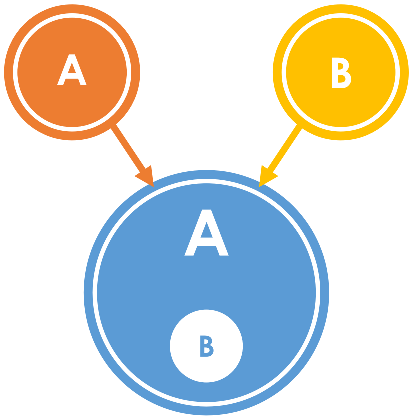
i) Organisation A transferring its assets and activities to Organisation B. Organisation B then establishes a new identity with a new leadership team; or

ii) Organisation A and Organisation B transfer their assets and activities into a new Organisation C and then either dissolve or become dormant (or for housing associations, continuing trading as subsidiaries as part of a group structure)

Key Features

- Often acknowledgement in the new brand identity of two organisations coming together, or a completely neutral new brand is created.
- Evidence that the top executive team for the newly enlarged organisation has a balanced representation from the legacy organisations.
- Governance of the new Organisation must be representative of the two merging organisations.

2. Takeover



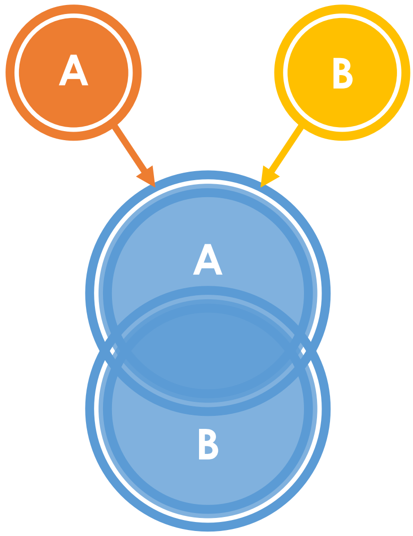
Summary

Organisation B transfers its assets and activities to become part of Organisation A.

Key Features

- The transferring organisation is dissolved or exists but remains dormant.
- The identity of the acquired organisation is lost after the takeover, or is retained but only as a service or project.
- Executives from the acquired organisation do not hold roles at the same level of seniority as they did before.
- The Trustee Board of the acquired organisation is disbanded and stood down.

3. Subsidiary Model



Summary

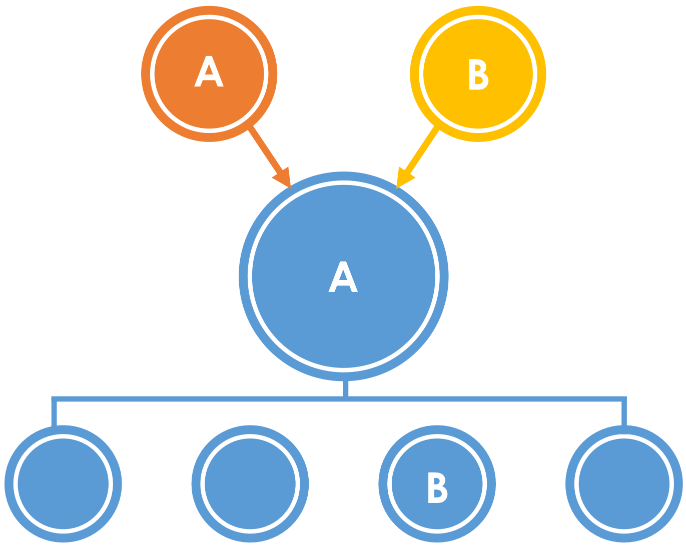
This type of takeover is achieved by Organisation B becoming a 'wholly owned' subsidiary of Organisation A.

Key Features

- The transferring organisation retains a separate Board and identity within a group-wide strategy or business plan.
- Job losses at management level are minimized.
- Ultimate control is nevertheless retained by the acquiring organisations.
- Only a minority involvement, if any, of Trustees from Organisation B on the main board of Organisation A.
- Could be a step towards the formation of a group structure.

Figure 2: Types of Merger

4. Group Structure



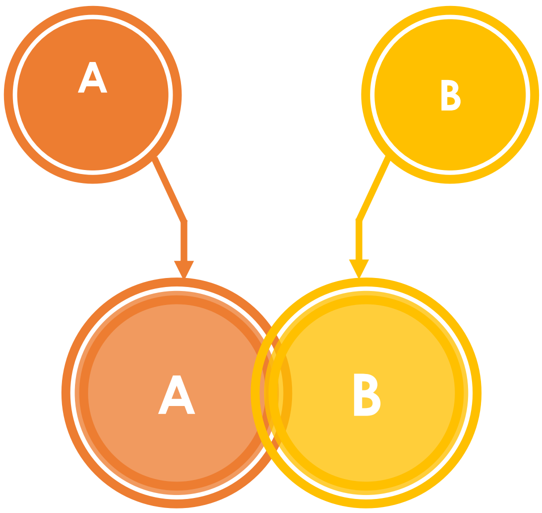
Summary

Two or more organisations transfer activities and assets to become part of a group and operate as one of a number of wholly-owned subsidiaries. In more developed groups, particularly those in the housing association sector, front line services and accountability is largely pushed down to the subsidiaries and the group company has responsibility for overall management and central services. This is similar to a Conglomerate or Holding Company model in the private sector.

Key Features

- The parent group owns two or more subsidiaries each with their own governance.
- The identity and brand of the subsidiaries are retained, and distinct to the parent, but with a reference to being part of a larger group.
- There is a group CEO and Chair who have key leadership roles and they devolve executive powers to separate individuals who have responsibility for running the subsidiaries.
- Different models of governance can be created which means that it is possible for Trustees to continue to have a role at the subsidiary level.

5. Swapping Services or Assets



Summary

The transfer or swapping of services, and in some cases assets, in order to help organisations to achieve a more balanced portfolio of activities, income and cost.

Key Features

- The identity of the service that is moving is absorbed into the branding of the acquiring organization.
- Employees will be TUPE'd.
- No impact on legal structures or the Trustees of either organisation.

Figure 2 (cont.): Types of Merger

Source: Bidgood, 2017, The Good Merger Index, Pp 14 - 15

8 RESEARCH OBJECTIVES AND METHOD

Research Objectives

The overarching aim of this study is to identify and better understand the key motivations, risks, barriers and opportunities faced by Australian NFP sector entities in undertaking organisational restructure through M&As.

The project was designed to capture the roles played by external socio-political issues, internal organisational and individual-level factors in affecting the dynamics of the M&A process and its outcomes. The focal research objectives are as follows:

- To identify the types of motivations, risks and opportunities in undertaking and M&A organisational re-structure by service providers in the Australian NFP human services sector,
- To assess the strategic planning and governance needs and challenges associated with M&As, and to understand how they affect the outcomes of M&A initiatives, and
- To develop a set of exemplar case vignettes on M&As that will aid knowledge sharing and improve the governance and risk management practices of health sector service providers.

Methodology and Approach

The project adopts a qualitative research approach based on in-depth interviews with 21 senior executives, managers, industry professionals, past and present employees of service providers with lived experience of mergers, NFP governance consultants and legal representatives in the Australian NFP health and community service sub-sector. Identification of organisations that have undergone a merger were initially identified from web-based media sources such the Probono Australia and Community Council of Australia news websites, followed by telephone calls to the CEO requesting an interview. Subsequently, a snowball approach through participants knowledge of entities seeking to merge or have merged facilitated identification of more participants. We also sought to get a national view and chose organisations from four Australian states: New South Wales, Queensland, South Australia, Tasmania and Victoria. The organisations ranged in size from those with revenue less than 1 million to more than 100 million AUD. Please refer to Figure 3 for overview of sample description with anonymised names of entities.

Of the 21 interviews, 11 participants were from organisations that merged, 6 participants were from organisations that were either considering merging or had embarked to merge but did not proceed, and 4 governance professionals and legal representatives. Two thirds of the participants (14) were male. In addition to the interviews, we also reviewed publicly available information and media reports on M&A announcements and reports where possible. Such information was helpful in constructing the five exemplar cases provided in the Appendix that aim to provide more deeper insights and analysis of the M&A dynamics within organisations.

We adopted an interpretive approach towards data analysis which enables interpretation of social realities based on the human experiences and social contexts that frame their perceptions, attitudes and actions. The strength of this approach for this study is its capacity to identify and translate the rich contextual dynamics among institutional, organisational, and individual-level factors in M&A situations while paying heed to the organisational members' value orientations. In doing so, the challenge of developing a more agile, proactive NFP human services eco-system can be anchored in lived experiences as well as practical ideas and solutions.

Figure 3: SAMPLE DESCRIPTION - NFP ENTITIES

Organisations that merged

M&A considered or attempted but did not proceed

Disability Service Provider, QLD Revenue: $1-10 million Board size: 8 Staff: ~200	**Mental Health Support Services, SA** Revenue: $10 -50 million Board size: 6 Staff: less than 50	**Youth Support Services, NSW** Revenue: $1-10 million Board size: 4 Staff: ~100
Aged Care Service Provider, VIC, NSW and QLD Revenue: more than 100 million Board size: 11 Staff: ~800	**Aid Development Agency, NAT** Revenue: $50-100 million Board size: 11 Staff: ~500-1000	**Employment Training and Support Services, WA and NT** Revenue: $1-10 million Board size: 3 Staff: ~50-100
Disability Services and Respite, SA and VIC Revenue: $10 -50 million Board size: 8 Staff: ~300	**Disability Support Services, NSW and VIC** Revenue: more than 100 million Board size: 8 Staff: ~more than 1000	**Aged Care and Community Nursing Services, VIC, NSW, QLD** Revenue: $10 -50 million Board size: 8 Staff: ~500-1000
Aged Care Service Provider, SA Revenue: $10 -50 million Board size: 9 Staff: ~500-1000	**Community Services Advocacy, NAT** Revenue: $10 -50 million Board size: 10 Staff: ~100	
Community Services Advocacy, NAT Revenue: $1-10 million Board size: 10 Staff: ~50-100	**Aged Care Service Provider, NT** Revenue: $1-10 million Board size: 7 Staff: ~50-100	**Aged Care Service Provider, QLD** Revenue: $10-50 million Board size: 10 Staff: ~100 - 500
Aged Care Service Provider, VIC Revenue: $1-10 million Board size: 10 Staff: ~100 -500	**Education Resource organisation, TAS** Revenue less than 1 million Board size: 5 Staff: less than 50	**Aged Care Service Provider, WA** Revenue: $10 -50 million Board size: 8 Staff: ~100 - 500

Range

Revenue	Less than $1 million to More than $100 million
Board Size	3 to 11
Staff	Less than 50 to More than 1000

Please Note: The names of all organisations in Figure 3 have been anonymised, and details provide a guide to size of firm and board.

9 FRAMEWORK FOR DATA ANALYSIS

The M&A process involves differing motivations, multiple stakeholders, numerous negotiations, and is generally not a simple process. Although each M&A can be viewed as being unique, there are also various issues that commonly arise in the exploration, decision-making and integration phases of the M&A process.

There are too many NFP entities with many struggling to survive financially and deliver proper services.

Competition among NFPs is high. This means achieving economies of scale, broadening revenue bases, and delivering 'value for money' services are critical for survival.

Private service providers still have upperhand in terms of size and scale efficiencies.

Organisational restructure is essential, an M&A is only one of the potential solutions.

The main findings of this study are discussed in the following four sections, starting with motivations for M&A, followed by the process of initiating and establishing M&As, categorized under

1. Pre-M&A
2. M&A Integration Process
3. M&A Outcomes

Please see Figure 4 for an overview of key findings.

Section A - Motivations for M&A's

This section describes the motivations for M&As, many of which relate to changing government funding, increasing market competition, and expanding stakeholder needs and expectations in the NFP sector.

Section B - Pre-M&A

This section discusses several critical issues that arise prior to the formal agreement to an M&A e.g. evaluation of whether an M&A is necessary, finding an appropriate organisation to merge or amalgamate with, and conducting due diligence, getting board approval, and communicating with key stakeholders.

Section C - M&A Integration

The risks and challenges associated with developing and implementing the integration plan is discussed in this section. Often the operational systems and policies of the merging organisations, including communicating the new organisational identity and 'way of doing things' to stakeholders becomes a central challenge.

Section D - M&A Outcomes

In this section both positive and negative outcomes of the M&A is discussed. The outcomes can be both financial and non-financial in nature.

Figure 4: Overview of Key Findings

A . Motivation for M&As

Government funding/policy changes; Financial Threats; Gaining Scale Efficiencies; Increase Market Size; Expand Revenue Base; Resource Sharing; Acquire New Skills and Technological Capacity; Improve Service Choice and Avoid Service/Organisational Closure

B. Pre M&A

Key Issues

- Clear understanding of purpose; i.e., social mission pursued
- Finding a suitable partner organisation
- Undertaking Due Diligence
- Communication & Cultural Issues
- Board Expertise, Attitudes & Dynamics

C. M&A Integration

Key Issues

- Changes in Business Model and Work Practices
- Financial, Human Resources and Other Operational Systems
- Staff Workforce Impacts
- New Performance Management
- Cultural Barriers

D. M&A Outcomes

Key Issues

Positive Outcomes:

- Stronger market position
- Cost Reductions
- Increase in services/ Programmes
- Internal Process efficiencies

Negative Outcomes:

- Organisational identity loss
- Increased workload
- Cultural Disconnect
- Potential for Break-up still exists

Section A

Motivations for M&As

Government Policy Changes – Threats and Opportunities

There are a variety of reasons as to why NFP service providers may seek to restructure their organisations through an M&A. Some of the widely-held perceptions and assumptions that can underpin the approach towards an M&A include the belief that there are too many NFP entities and that many struggle to continue meeting service demands and are not financially viable. Competition among NFP service providers is seen to be high, particularly with the entry of newer for profit service providers who are often larger with scale efficiency advantages.

National level Government Funding and Regulation

Changes in funding and regulatory oversight from a State-level to a Federal level government were seen to elevate the pressure on delivery of cost-efficient services. For instance, several participants in the aged-care entities felt that the move by the Federal government in taking over the regulatory oversight of the aged care sector nationally meant that a large core of their services were going to be exposed to increased competition. Another point of pressure for M&A uptake was the need to align with government preference for dealing with fewer agencies e.g. dealing with one national agency rather than several different agencies in different states. As noted by one participant:

"...with funding, government were saying that they only want to deal with one organisation, a national one, and they did not want to contact 8 organisations if there was a change in something. So fundamentally, it was how do we make things better with our programs and services; in some cases there are very good reasons for variation, but in this case, it (the merger) just was better as the separate states were making things more difficult".

Financial Threats

Changes over time in government funding policy from block funding models to case-based funding, and more recently to outcomes-based funding is seen as being disruptive for service and workforce planning and management. In some cases, well-qualified employees did not like being on short-term contracts as the organisations could not commit to long-term commitments in a situation where the solvency of the service provider is not clear or certain. There was fear that such changes may in fact further advantage the larger service providers who are able to absorb working capital changes. Take for example, the following comments expressed by the following interviewee working in a disability service provider entity:

"there are now cash flow issues; so effectively instead of getting the money in advance, you have now got 30 days or sometimes 60 or 90 days post delivering the service and post incurring the labour cost, which is often…".

Scale Efficiencies, Cost Savings and Resource Sharing

Most of the participants who merged or considered a merger cited gaining scale efficiencies, cost savings and resource sharing as their main reasons for considering an M&A. In some cases, a merger allowed one organisation to benefit significantly from the technological, fund-raising and human resources held by another organisation. In Case Example A in the Appendix, the motivations for M&A to a view for not only improving market share but also to modify the business model to the changing funding policy associated with the NDIS policy. Cost savings were also gained from a review and renegotiation of workplace enterprise bargaining arrangements (EBAs).

There were several cases where acquiring another entity meant gaining a social enterprise and this was seen to help the bottom line. For instance, in Case Example B in the Appendix, several acquisitions were undertaken and at least two were related to acquiring social enterprises to boost revenue growth. In general, participants also felt that an M&A can be a convenient route to upskill the workforce and address their skills shortage.

For-profit Competitor Threat

"...the for-profit sector were entering the market for the first time, and we realized that it was going to be significant. We knew it was going to be very competitive, and the government whispers were that they weren't going to fund a lot of small organisations and that they were really interested in just looking after larger organisations, ...so the CEO before me had just started discussions with the board as to if they should look at a merger, and it would be a merger with a larger organisation so that we could sustain the organisation".

...participant manager

Improvement in Range of Services and Delivery Quality

Many of the participants also noted a merger with another organisation was attractive as an opportunity to acquire broader and better services. In Case Example B (see Appendix), multiple acquisitions were based not only to increase their range of services but also strategically help the youth from one programme to transit to another where after acquiring certain skill sets they can be employed in another section of the organisation. For some, this transition can help maintain their social connections from earlier programmes.

Forced – No choice Attempts

Alternately, an M&A can also be pursued where more oppressive, survival needs impose the search for partners i.e. an organisation is forced to look for support from another organisation to save it from closure. One concern with this type of M&A is the loss of or a change of mission and goals of the acquired post merger. In another case, we found three financially struggling organisations attempting to merge, however this can take a long time and the risks are high.

Section B

PRE-M&A's Issues

The Pre-M&A Stage is a critical phase involving finding a suitable organisation to merge or amalgamate with, undergoing due diligence procedures, and reaching agreement on the M&A terms and conditions. The presence of trust, honest and open exchange of values and shared vision of the 'mission at hand' are found to be just as critical as the technical paperwork and legal eligibility assessments. Participants were critical that often interested merging partners do not fully engage with an open and honest sharing of the vision, mission and goals envisaged from the M&A.

In the following subsections, we report on the risks and challenges faced in relation to five key facets at the pre-M&A phase, and highlight procedures that may help facilitate M&A success.

Clear Understanding of the Purpose/Social Mission

An M&A opportunity may arise for a service provider in several ways:

- Proactively approaching another party through their own volition i.e. an internally driven decision to merge with them or acquire them, or
- Be approached by another party with an offer to merge or to be acquired.

In any of the possible situations, the interested parties need to be very clear on their motives, and the expected benefits and costs of the decision to re-structure. Several interviewees reported that there are instances when the real purpose of an M&A gets lost in the process. In particular, the risk of financial goals superseding the social goals or mission is high. As exemplified in the following direct quote by the interviewee, poor judgement of expected benefits from a merger can result in a disappointing result.

Poor judgement of expected benefits

"BB was a really good organisation (in employment placing), they had some good practices, but they weren't very good fiscally, they didn't manage their money very well which then caused them to get into a situation where they had to look at merging with another like-minded organization.

CC was a very good compliant organisation (in workforce training) but frankly they had even worse board and management issues… so things were a mess, but overall they (BB and CC) seemed stronger together.

(However)…CC sort of got the short end because the dollar is worth more with employment than with training; and ...it transpired very quickly that the merger between those two was an absolute disaster!"

...participant consultant

Finding a Suitable Partner Organisation

Two common and distinct approaches to finding a suitable partner were evident.

The first approach is a CEO-driven one where the CEOs of the two organisations have come to each other and have come to share a common purpose through initial informal discussions. This usually occurs among CEOs operating either in a local region or in the same service sector.

The second strategy is a board-inspired M&A. The M&A partner scouting process is typically outsourced to a consultant and the consultant works to find an organisation of a suitable match. The role of professional consultants is seen to be invaluable, particularly for smaller organisations with limited public presence, as explicated in this case:

Consultant aided M&A

"...they [the consultant] came and met with the board, and the board were impressed …so we all signed an agreement and then they started the search; they did that by first meeting with the board and then meeting with individual staff and talked about what values we would look for in finding an organisation that we could merge with... … so we had this sort of brief of what we wanted (in a partner organisation)- whether they were accredited, whether they were not-for-profit, so it is sort of like doing a business analysis of what was out there; and I can't remember the exact number at the time but it might've been something like four or five organisations that were potentials... So when we finally selected an organisation we started going through the due diligence process"

...participant manager

Undertaking Due Diligence

Due diligence is when the 'interested' organisations gain important information about each other in order to firstly assess their eligibility to merge or amalgamate, and understand the nature and scope of their operations. Often financial, legal, stakeholder, and other related information are exchanged in order to assess any material business risks and liabilities and to check and ascertain if there are any other matters for clarification and verification. Before embarking on an M&A, it is highly important that firms share the relevant information, and guided where possible by professionals such as lawyers, accountants and NFP governance specialists. Some of the challenges faced when conducting due diligence include:

Incompatible Legal Structure/Forms

The first issue to resolve at the very beginning of an M&A is whether legally the two organisations are allowed to do so. For example, amalgamations are commonly allowed among incorporated associations but not between say an incorporated association and an incorporated company limited by guarantee. In such a case, a restructure based on a merger may be preferable where the incorporated association is wound down and a new entity is created with all assets and liabilities owned by the 'new' merged entity.

Finding Information can take longer than expected

In another case, what appeared initially as a simple enquiry into a merger/acquisition, turned into a long negotiation where completion of government contracts had to occur, followed by changes to the legal structure of the entity to be acquired. Such a situation can be highly resource hungry - financially and time-wise, and the real value offered by the M&A became questionable.

Communications and Cultural Issues

Gaining an understanding of the values and norms inherent in a potential partner organisation is a key element raised by all participants in determining whether to proceed with an M&A partner. This is not always easy, and around 50 % of interviewees who did not proceed with an M&A proposal expressed lack of mission and cultural fit to be a major reason for their decision.

M&A's take longer than you think!

"…around 4 years ago, the organisations developed a management agreement, so one organisation would manage the day-to-day operation and the other managed the trust and larger assets… so one organisation had most of its assets in trust, and the trust sitting in the background created complexities… they couldn't work out how to get all of the assets across for a merger to work, because they belonged to a trust which they were told could not be dissolved… So about 2 years ago… they went to Supreme Court and it was ruled that they could transfer the assets from the trust and the trust would no longer be active, and that is when the two organisations were able to merge together"

...participant consultant

There were also concerns expressed on the impact of an M&A on stakeholder perceptions and attitudes, as exemplified by this quote:

"...if you are going to acquire anyone you need a cultural alignment, the legislative frameworks and the financial frameworks are probably the easiest part to deal with, the cultural alignment is what is required to not disenfranchise the community in which that organisation may sit".

"Seek to Understand Fundamental Values"

"in planning for the merger, we spent a reasonable amount of time on creating artifacts of the merger… a mission and vision statement for the merger organisation, we looked at values which is nothing unusual there, but for us both organisations had reasonably long histories… so we had an exercise where we brought both teams from both organisations together with a facilitator, to look at those matters, and that included service delivery people, a marketing person, a property guy… So it was quite a disparate bunch, but it was necessary for both organisations to try and finesse and discuss things, so it wasn't just word-smithing, it was…but it was foundational matters and concepts that we needed to work through"

...participant manager

In one case, having a more diverse group of negotiators at the discussion table was found to be helpful for getting a whole of organisation perspective in terms of trying to understand the new business model of the merged entity and aligning the cultural values with such a model.

Nevertheless, the time and effort spent by CEOs and directors can be substantial in the early phase of due diligence and negotiations. Some CEOs said that they were pretty much burnt out by the end of the process as they had limited resources and felt that had to almost run two jobs at the same time.

"M&As can be complex and tricky"

"…so we are creating a new company limited by guarantee, because we are currently both incorporated associations, and the new company will be called (X)…the two incorporated bodies will continue to run, being ruled by the new entity…we have got government contracts sitting within each of the associations that need to run out before we can wind down into associations… becoming a company limited by guarantee was essential in order for us to work across state borders; as an incorporated Association is governed by state regulations and bodies and we were working across state boundaries now"

...participant manager

Stakeholder Communication

This was viewed as a vital, and as one of the most difficult procedures to deal with during the merger process. Yet, often a degree of secrecy and confidentiality is required from the executive, which potentially creates a situation where trust can be eroded almost instantly when the news of the M&A is either 'leaked' or 'announced' without necessary consultations.

Participants in management spoke of often needing to deal with and placate gossip, queries and talk related to the merger by staff/workforce, and the stress of needing to maintain confidentiality. One former CEO participant spoke of the experience of informing the staff/workforce of her organisation of a merger that they had just completed and of the response of staff being ferocious and hostile. This matter was made worse as the acquired organisation had a strong grass-roots style decision-making and employees were upset that they had not been given an opportunity to be involved in the discussions. Some key staff even left the organisation consequently.

When to announce M&A plans?

"I often reported that there was nothing to report, but often that was because I couldn't report it because there were confidentiality agreements, so that was often challenging; and due diligence took a while, with the legal due diligence and the financial due diligence…"

...participant manager

Developing Trust among merged workforce

Developing trust is another fundamental element in the pre-M&A phase. Trusting another organisation does not happen easily, but over time especially if they jointly collaborated in specific projects in some way. As highlighted by one interviewee who had completed an M&A rather seamlessly:

"the two organsations were already pretty much working very closely together, with one of the organisations already managing the operations of the other. So it (the merger) was to stop duplication… both organisations worked in the same sector, so legally we wanted to recognise what was already happening; there was an acknowledgement that a small organisation was going to have trouble in just trying to exist… everyone was aware that once the merger occurred, it would create an organisation in the top five in size in the state".

Board Expertise, Attitudes and Dynamics

Understanding whether an M&A is an appropriate strategic option and getting governing boards to make a decision to embark on a restructure was found to be a major challenge for many organisations. Our findings indicate there are multiple reasons why board responses can be inefficient, in terms of making the right and timely decision. These are discussed in the following subsections, and exemplified in the Case Examples C and D in the Appendix on resistance to mergers.

Inadequate Understanding and Analytical Skills

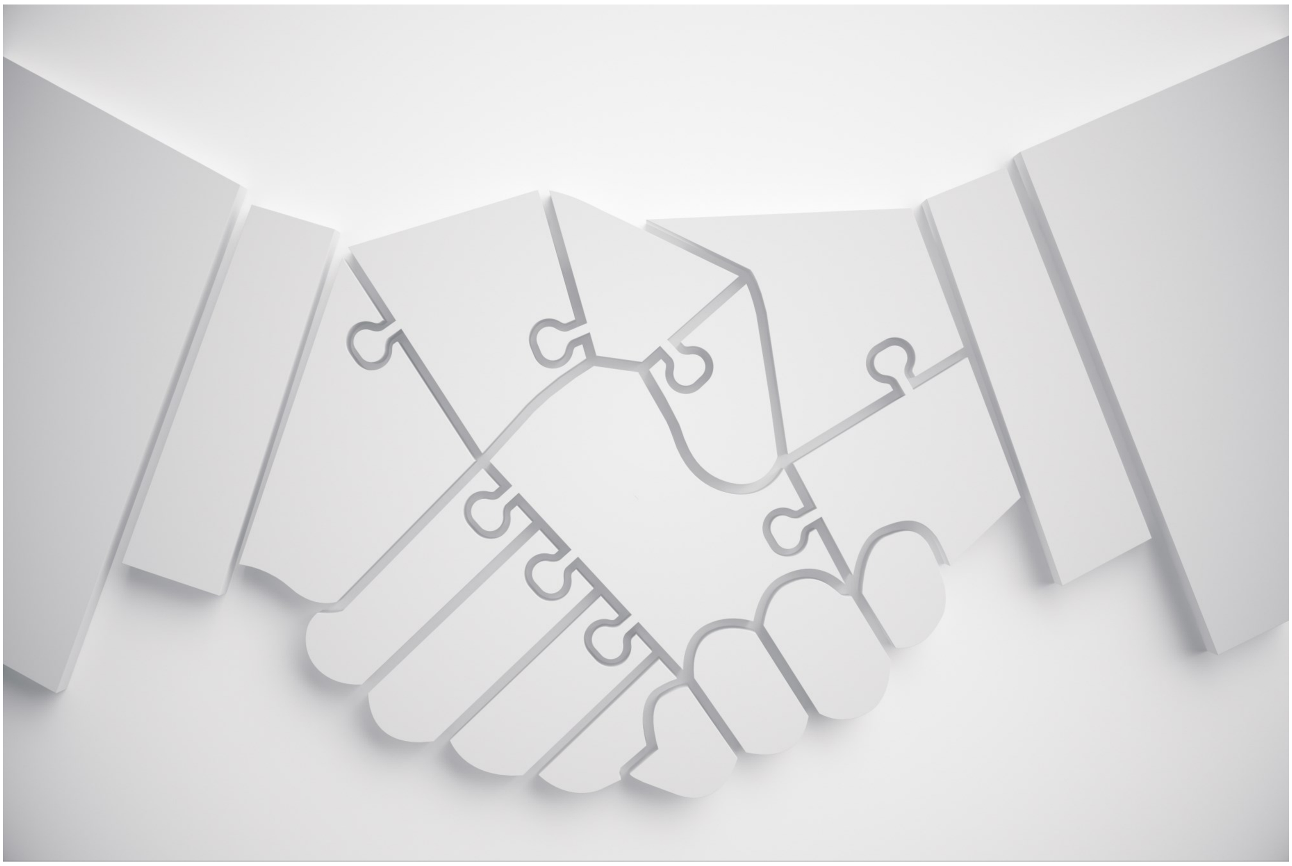
The lack of proper information and analysis on the outcomes of the M&As can often deter board members to retain status quo or delay making a decision. The business model rationale for an M&A is also not clearly understood by some boards. The relationships among revenues, costs, programs, workforce capacity, etc. can not only be complex within one organisation, but when merging two or more, the new business model can be complex. The shortage of financial and technical expertise within NFPs boards has been a long-standing problem, and in M&A cases such skills are critical. Time is also seen as another important factor for staff from two organisations to work together and iron-out problems, as exemplified in this instance:

"...it is more than culture and it just takes longer than what you anticipate; and unfortunately what happened (was) the staff …weren't taken forward into the new space …so it felt like there was too much too soon, of getting the organisations aligned… It might have been better if it had been a window of time where there had been a slower merger and shifting of the roles...".

Organisational Culture Critical

"it has to be about the ethos - the history of the organisation and what it has represented to date, the moral and ethical obligations it has to its own community, whether they are rural or remote or metropolitan or whatever that is… have to be able to be achieved, and then the rest follows… you need to put the financial model around all of that…"

...participant consultant



Complexity of Board Restructure

In many of the mergers, the 'new' board is generally smaller than the sum of members from the preceding boards of each entity. This also means loss of directorships for some. As such, there is an inherent resistance to M&As. Further, the process involved in setting up a new board can also be complex, protracted and tumultuous. There is often reticence to this change, and 'board politics'. In one case however, past chairpersons were not eligible to chair the board, which seemed to have helped in managing issues related to chair independence.

Legacy Directors

The appetite for change can be hindered by legacy board members i.e. those who have been on the board for a very long time and are strongly identified in such a role. Participants spoke of the difficulties they have had with board members, especially 'legacy' members who often feared relinquishing power and status, and other changes that an M&A inherently brings. One participant described the board of the prospective acquiree to be lacking in vision as follows:

...The 'Legacy Block' Story

"...I'll say the word parochial because... I felt, it was without a view to the future of what was possible, and whilst their CEO and I spelt it out in detail what might be achievable over the next 5 or 10 years also, they couldn't get past the 'this is our board... our [service]... our management' type thing... so we thought 'ok, end of story'... we had given it our best shot, and I learnt from it, and I was thinking 'do I really want to go into business with people who could only see 2 feet in front of them and not 20 feet?' and I decided 'no I don't'!"

...participant CEO

CEO Role

We find the CEOs role and leadership to be instrumental in several ways. Often CEOs who come with past experience are able to oversee due diligence. They keep the board informed, engaged and in some cases even motivated. Further as noted in this CEO's claim, the anticipated benefits are often multi-faceted and can take some time to clearly determine.

Nevertheless, there were also concerns over having safeguards around CEO involvement as in many M&A cases one of the CEOs tends to either lose their job or be hired in a different capacity e.g divisional manager. There are self-interests issues that may need independent review of CEO decisions, conflict of interest declarations and code of conduct

We also found that organisations with specific affiliations such as religious-based organisations or a specific advocacy agenda may at times have difficulties in finding another organisation to align with. Participants who were professional / legal consultants in this study note that this a real concern for some of their clients, and in turn protract the M&A process considerably. As echoed by one of the interviewees:

"we are an overtly (religion x) organisation and that is a fundamental foundation in how we do anything, so if we were looking at acquiring anything or a merger... let's say you're taking-on a workforce in a particular [aged care] home, we would be very cognisant about what we might like with the operation and performance... and it might be in the right area, but will we actually be able to get that to work?... not so much the client mix, but with the staff mix - that would be an issue for us...".

Professional Consultants

Interviewees' description of the importance of a professional consultant varied between minimal contribution to absolutely essential. Those interviewees who described the use of a specialised merger consultant as absolutely essential felt that their board did not have the skills and capacity to either find a merger partner or undertake the required legal and organisational due diligence to successfully coordinate the merger processes, and that the ultimate success of the merger had been directly related to use of a consultant.

By contrast, a number of other participants noted that a consultant had not been utilised with their merger because either the board had sufficient legal and accounting expertise to complete all of the required due-diligence, or because the merger was defined as an internal merger within state branches or existing organisations of parallel identity (e.g. similar to separate franchises of one brand merging).

However, some participants in hindsight said they would not seek to undertake an M&A themselves again given the substantial amount of time and effort needed to complete the due diligence process. Often NFP CEOs tend to be resource strapped, and experience considerable job stress, as expressed by one of the participants:

"...I chose not to use a consultant, feeling we could do all of the work internally. However, in hindsight, I felt that although there were some positives, the merger process put too much strain on the executive staff ...I almost broke my staff, particularly the management, where I put a lot of pressure to get the job done… what I should have done is brought in some extra people on the ground they could help us through that process – we did it well, but it just almost broke us".

Nevertheless, in one case as explicated below, the M&A involvement also presented a major learning experience.

A Learning Experience

"...there was so much to do … during that period with the due diligence process. You know the board being voluntary… and because of the confidentiality agreement, we couldn't delegate anything; so I had managers but they were not privy to who we were merging with, so they couldn't do any of the groundwork to help me, so… yes a lot fell on me, and it was stressful …but it was also exciting; very busy but yes exciting … you are doing a 12 hour day to try and get everything finished …it was certainly a learning curve for me, because I had never been involved in a merger before; so that busyness was sort of like a positive stress …but it was very stressful during that period"

...participating manager

Section C

M&A Integration Process

This phase can been described as "the process through which two or more NFP organisations bring together their people, programs, processes, and systems into a unified system". (La Piana, 2004, p.2).

Haider et. al. (2016), based on their study of 25 NFP merger cases in the US recommends that integration should begin before legal execution of the merger. The earlier the visioning and planning of how the merger integration can be rolled out, the better the chances of reflecting and reorganising resources towards achieving the goals of the restructured entity.

The present study finds that a well constructed merger integration plan needs to start with a full and frank discussion between the M&A parties. There needs to be clarity around anticipated changes in operational procedures, especially workforce and service delivery issues. Such issues are highly sensitive and fundamental to how problems get solved post-merger. Most of participants also reported that various plans did not go ahead as expected and concessions and revisions to the planned integration needed to be made. We further delineate several specific risks and challenges as faced by the interviewees of this study in the integration phase.

Changes in the Business Model and Work Practices

Participants who had undertaken an M&A spoke of considerable changes in how services and programs were provided by their organisations pre and post the merger. This included changes in the volume and the type of the services and programs to be offered. In several cases, the acquired entity had to either close operations in one section or change the nature of service delivery as the acquirer did not want to carry additional risks or potential losses from continuing the service. For example, one of the NFP entities that dealt with youth at risk acquired another organisation that dealt with youth homelessness as well as mental health. The volunteer support workers were used to meeting youth very late at night, sometimes in lonely, dark alleys and parks. In this case, due to legal liability and safety risks, the board of the merged entity ceased the late night consultation, although it was an highly effective mode of communication with some of the youth and checking on their well-being. This change in turn led to the discontent and even departure of some highly valued and effective staff, leading to additional costs in finding replacement staff. A more thorough analysis of what are acceptable and not acceptable safe work practices in the pre-merger phase, and preparing staff for needed changes is thus critical for a smooth transition.

Employee and other stakeholder disapproval or backlash

Often due to confidentiality agreements in the pre-merger phase, executives had to hold back critical M&A information. Employee disapproval and backlash can happen when the full details of the M&A are made apparent. For example, where selected services had to be discontinued, and stakeholders only got to know about such decisions post-merger, there was often anger and disappointment. There were also concerns that time is needed for the community itself to understand and accept the newly merged entity, as exemplified in these quotes:

"...so, we weren't able to talk about who we might potentially be partnering with… So that caused a lot of anxiety, there were a lot of rumors; … Because what was happening parallel to the merger process was the transition to the new way that the services were to be delivered".

"if you do a merger, you don't take the brand away until the community understands that this new relationship has been formed, and that the new name or potential name becomes a part of their mindset, and that is going to take a lot more than a year or two, particularly if you have been the second largest brand in that particular area".

Staff/Workforce Impacts

The impact of mergers on staff and workforce in general was also an important cause for concern among interviewees. Most interviewees who had been through a merger described redundancies associated with each merger, and spills-and-fills where staff were required to reapply for fewer number of available positions within the new entity caused much tension and fear of job loss. In one case, changed work conditions caused major problems for EBA arrangements, and was seen to have substantially added to the cost of the M&A. It was also found in several cases that some employees were aware that once the M&A was complete, they would be unemployed without a work-role under the M&A arrangements, resulting much tension in the overall workplace.

In another case, the interviewee reported that many people left on their own accord post-merger as geographically it was more difficult to get to work for some staff given that their changed role meant going to a new office location. A period of high uncertainty and job ambiguity not surprisingly also was seen to elevate the level of distrust in the period immediate to the merger.

Financial, Human Resource and other Operating Systems

Our findings indicate that integrating financial, human resource and other operating systems call for substantial effort and time in many cases. The more complex the organisational structure and activities, the more difficult and time-consuming the integration. In fact in one M&A even after several years post-merger, two different systems continue to run.

Lack of financial and human resources often puts pressure on existing staff to somehow carry out their routine tasks, while trying to handle changes in work procedure integration as well. In one case, the entity continued working with two separate staff wages and awards systems:

'there is a tremendous amount of work that had to be done and is still underway with having two HR systems, two payroll systems, two financial systems and then different care systems, so there is a huge investment in moving across to single systems; as the less suitable ones mature and expire, we can pay out the contract and divert that money, And there is a mountain of work around that is still underway. Just trying to ensure that we had the different teams within those support service centres coming together, ...took some time'.

By contrast, in another case, while the running of two systems seemed like resource duplication, it also meant giving time for the new integrated system to evolve more organically over time. As explained by one of the interviewees:

"our operational strategy allowed the current strategy of each individual organisation to continue running and to coexist, so it didn't say 'okay we are going to go there or here, and you go in this direction and not that direction, and we'll close down this or close down that'. We needed to allow both to come together and focus on the project integration to get the efficiencies and the cost savings out of that etc…and we needed to take the strengths where they clearly existed (that is) the leadership in particular areas in each of the organisations".

New Performance Management Systems Can Be Daunting

Another critical element to plan for is the operationalisation of a new or revised performance management system. Given that this issue directly affects the career progress of employees, there can be a lot of worry and angst, especially if an acquired entity's employees are used to a different, possibly a more flexible system. As noted by one participant:

"...for the first time staff had KPIs, they had never had them before, and they had to achieve a certain number of placement and outcomes…So they were under quite a bit of pressure compared to what had been in the previous organisation".

More Than Legal and Financial Barriers, Cultural Barriers Can Be Insurmountable.

NFPs tend to view their mission and vision as unique. Yet, the mission, goals and modus operandi can differ dramatically among entities within a sub-sector. A popular saying is – 'While for-profits are about tangibles, NFPs are about intangibles! The values and the way in which services are delivered in alignment with certain values can become a major barrier to full integration. So different stakeholders can perceive the same sort of service delivery as differing in value depending on their cultural background or their work-related values. At times, it can also be differences in opinion on professional standards including work-safety issues, as exemplified by this participant's quote below:

"I think absolutely there was personality stuff; even I was uncomfortable myself with the way some of the people conducted themselves, even in the office, and then how they worked with the young people, and some of the program staff..., it is just that they probably needed to professionalize".

Section D

M&A Outcomes

“A successful merger is one that meets the needs and goals of all the parties involved, and leads to improved services and/or increased impact” (Haider et al., 2016, p.20). The participants of this study who had completed an M&A provided a range of responses in relation to the success and outcomes of the restructure. Their views indicate that there are at least two types of merged organisations. On one hand, there were those that were content with minimal outcomes in terms of gaining say a new revenue line, reducing costs or simply absorbing the activities of another organisation that was failing, and continuing operations as per normal. The other type of organisation involved in an M&A aspired to be leaders in their field. They learnt from their experiences, and further explored how to leverage from their organisational growth. Often larger meant larger market size and potential for scale efficiencies. Being larger with a national presence was also seen as desirable for making an impression and convince service delivery potential to be enhanced.

The four most commonly cited positive outcomes are

1. **Stronger Market Position**
2. **Cost Reductions**
3. **Increase in Services and Programs for Clients**
4. **Opportunity to Review and Improve Internal Processes**

Most participants reported feeling optimistic in becoming larger in size, and remaining competitive in the market place. In some cases, the transfer of

selected assets e.g. building or land brought immediate benefits in terms of an enhanced asset structure supporting long-term capacity. The areas where cost savings were most evident were in administrative and back office expenses, marketing costs, and investments in IT upgrades. For instance, as noted by the following interviewee:

"I was very keen to grow [org name], particularly using the (X) software, I could see that we would be very competitive, and could obtain some large efficiency gains and economies of scale with the software we had developed".

Some of participants indicated surviving the threat of organisational closure due to merger takeovers can greatly help specific community groups serviced by smaller organisations offering niche services. One example as expressed by this interviewee:

"better for the board, better for the organisation and better for the clients, because if we didn't exist, then the clients wouldn't have a service that would be mental health specific, and I knew it would impact on them, so I knew that it was the right decision (to merge)'.

In another case, where more than one merger takeover had been concluded, one of the positive outcomes was the opportunity to build a suite of related services in different divisions resulting in a wider choice of services complementing each other. Several participants expressed keen interest in finding profitable social enterprises a strategy to both grow and support other programmes. For instance, in the Case Example B (see Appendix), accommodation were found for homeless youth, and subsequently some were also able to be included in the employment and training programme. As explained by this interviewee:

"After all of the difficult work, we have now begun to create synergies from the reformulation of the many different programmes (that) we initially had; immediately after the M&A…so the young people that have come through from P1's BUILD program, we're just starting to see them come through into the NY employment programs, and that is very exciting for me. To me, that is the whole reason why we should be doing it".

There was also a general view among those participants that the real benefits of merger often cannot be fully understood until at least a few years after the merger. For some there were unexpected benefits such as improvements in work safety and in the skill-sets of staff where the merger facilitated much needed professional skills training which enhanced individual staff career progress.

On the downside, the three most common complaints or disappointments post-merger were loss of organisational identity affecting customer loyalty, increased workload and cultural disconnect among staff. A small number of participants also questioned the real costs and benefits of the M&A restructure, and if the time and effort of completing the lengthy and costly due-diligence processes had really placed them in a better market position. Some were skeptical that the private providers will still out do them due to their size.

Some participants noted that considerable distraction from normal operations can occur during the M&A process, resulting in employee fatigue and poor attention to day-to-day problems. In one case, there were concerns that relinquishing the established identity of the organisation with the M&A in retrospect may have led to loss of clients and staff moving to other service providers.

For example, the following comment in terms of staff loss:

"some of the gold - and I mean that in terms of the (loyal, well-performing) staff, weren't taken forward into the new space …and therefore (there was) a hole, and it wasn't able to be fixed with any known solution. It possibly would have been better to have had some of those staff stay around in the roles that they had been doing".

Eighteen months ago, Community Council for Australia chief executive David Crosbie made a public call for charities to either close or merge, in an environment of dwindling donations and government grants. Yet there has been little action, he says, because many struggling organisations are leaving it too late to be able to create a successful merger.

Mergers and collaborations are very resource-intensive, so the worst time to do it is when two organisations are financially struggling, he says.

(Smith, 2017)

The measurement of M&A success nevertheless remains to be complex and difficult. While performance judged using quantitative metrics may seem objective and easy to track, it is the qualitative service impacts that are often sought by stakeholders. The multi-dimensional nature of human services further adds to the challenge of understanding whether an M&A initiative had been fully successful. This is emphasized in the following participant's response:

"…one of the significant challenges for a broad-based, multidisciplinary structured organisation is how to measure outcomes when there is such a diverse area of operations. So it is difficult to have simplified, desktop measures of organisational strength and client service delivery, it is really very difficult, at a logistical level, so many of your services are so different, so many of your activities with clients are really intense So you might have a residential aged care client, who might've been with you for three years who is 24/7 and there are multiple daily interactions with staff and family… somebody else might just comes in for emergency relief… so those kinds of client interaction, they can be episodic and very spasmodic; so if you think of some of the clients at the light touch end then the more intensive touch end, it can be challenging to get anything that gives you a coherent sense of strength of client relationship and quality of service because of how it is structured… so that is a problem [going into a merger]".

Finally, a general observation is that to truly leverage the benefits offered by an M&A, organisational leaders need a positive and proactive attitude. Those who had good, successful experiences were willing to share the knowledge, and some even demonstrating innovative leadership by setting up support structures for other organisations in the sector. For example, in one case, one of the service providers helped to replicate a system that coordinates sharing of office costs so that other smaller NFPs in the rural areas can participate and save costs. As highlighted by the following interviewee:

"as a part of the learnings from both of those processes (M&As), we now have confidence to source new programs and products, we suck it up and say this is an investment, and we spend the money on resources- so that it is done well!".

Cost Efficiency Success Story

Organisation A was a well-established, state-based, NFP organisation running 3 aged care residential facilities in a regional area. They completed an amalgamation with Organisation B, an owner of 2 retirement villages in the same region, as a rescue amalgamation, but also in seeking to extend their 'care continuum'. The amalgamation enabled them to not only extend their product range from early/minimal aged care support based on independent living through to high-care aged care needs, but significantly increased their presence and competitiveness in the region as the second largest provider of aged care service in the region. In transferring all of the back-end operating systems of Organisation B into a restructured Organisation A, they were able to achieve cost efficiencies in utilising shared administrative systems, catering, laundry and maintenance services plus a shared pool of workforce across the 5 facilities.

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CONCLUSION

M&As continue to pose a viable and attractive pathway for organisational restructure and growth within an increasingly competitive and resource-constrained NFP sector in Australia. This study presents individual accounts of various levels of M&A success. Successful outcomes from the M&A process included improved economies of scale, wider service choice, better service quality and stronger organisational capacity were achieved.

Nevertheless, an M&A involves organisations with different histories and 'ways of doing things' coming together. Consequently, many risks, barriers and challenges can potentially arise along the M&A process. We conclude that not only the 'why' but also the 'how' of a merger underpins the success of the M&A journey. In the previous section on 'Recommendations for better practice', we offer various suggestions based on - purpose, people, process and policy for enhancing the M&A process. Looking ahead, we suggest several focal areas for improvement and development so as to fully enhance the prospects offered by M&A -based organisational restructures.

- Firstly, leadership is central for M&As. M&As need to be taken for the right reasons and with the right approach. Such leadership however not only resides at the level of the board and CEO, but also in the voices of the community an NFP seeks to serve. For an NFP, the social mission and goals is its raison d'etre, and thus the planning for the success of any M&A must be undertaken accordingly. There is no room for legacy biases which can easily topple an M&A and threaten the very existence of the service organisation. We found time and time again, participants of this study relating incidences of resistance and reluctance to change.
- Another area of concern is the impact M&As can, and have had, on the NFP workforce. This includes paid employees as well as volunteers. Listening to the voice and concerns of your workforce is crucial for M&A success. It is often only in the post-merger phase that the loss of critical staff and their attributes becomes evident. Some of these staff will have held valuable organisational memory and social capital, and thus assessing the skills and capabilities of the new workforce in relation to this knowledge is important. The NFP sector has always prided itself on its ability to draw on its social capital. Thus how merged organisations treat their employees and volunteers is a crucial area of consideration. Nurturing an organisational learning culture can also help merged entities to explore how they can learn from each other, and produce new knowledge and skill-sets. Targeted investment into processes that engender trust and mutual respect of staff in the merged organisations is pivotal for staff well-being and productivity as a whole.

- The third focal issue relates to gaining a clearer understanding of the costs and benefits of M&As. CEOs and boards can spend an enormous amount of time chasing prospective partners which can often be futile. In an already resource constrained environment, the full cost and benefits of M&As remain questionable. Additional professional advisory support, especially in undertaking due diligence in the pre-merger stage, can be valuable for many NFP boards. The increasing expectations by donors and funders for greater social impact also puts the onus and spotlight on how organisations measure and report on their M&A success and failures. Further, there are also opportunities for NFPs to widen their revenue sources through M&As, particularly through acquiring social enterprises and similar ventures which balance commercial and social goals. Gaining financial and accounting knowledge, and skills to better develop more complex business models after an M&A is also another crucial step forward.

- An added issue is that NFP service providers need to be able to assess other options for organisational restructure besides M&A, such as resource sharing alliances or consortiums (e.g. sharing of infrastructure facilities, back-end office, administrative and marketing costs). Further research evaluating the efficacy of these different organisational restructure options is required to build better knowledge on and to improve the efficiency of NFP eco-systems. The current lack of any public register of M&As tends to cloud any systematic and comprehensive view on the changing trends and impacts of M&As within the Australian NFP sector.

Nevertheless, the uptake of M&As is likely to trend upwards as the NFP sector continues to be pressured towards gaining further efficiencies in a landscape of increasing competitive advantage and entry by larger providers (many being for-profit entities). Gaining economies of scale and developing creative resourcing behaviours will continue to matter, and so will staying true to one's social mission.

We trust the summary of outcomes of this study has helped to further define the factors that contribute to the complexity and intricate dynamics of the M&A process in the Australian NFP human services sector. It is envisaged that the findings will also contribute to developing appropriate organisational strategies and foster better organisational restructure policies and guidelines that are nuanced to the overarching landscape of the NFP sector.

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APPENDIX - CASE EXAMPLES

Case Example A

Full Merger – New Identity

Industry | Disability Support Services

Background

DisC21 is a state-wide NFP organisation that seeks to empower people with a disability. It's main vision is to bring disability support into the twenty first century, by providing support services that facilitate individual choice to employment, education, relationship, style of accommodation and lifestyle. DisC21 aims to provide this support by engaging with a quality, individualised and well trained workforce, and having responsive systems that support decision making.

Beginning as two small disability organisations in a large city in the early 1990s, WAbility and CareQual provided respite/community activities and in-home supports respectively. Their merger led to the formation of DisC21 in 2014, bringing together 20 odd years of experience to provide in-home support, group community and recreation activities, search support with employment and education needs (outside of school setting), and some residential accommodation services and respite services on a state-wide level.

Their client base is now over 500 people with a disability who have all transferred onto the NDIS and thus purchase all DisC21 services using their package of NDIS funding. Approximately 450 disability support workers are employed with DisC21 with 2/3 of the workforce in permanent part time positions.

Total revenue of DisC21 is over 10 million AUD. It currently remains financially viable and is providing quality services following the merger while facing transition pressures from block-funding to individualised funding with the rollout of the NDIS. In early 2017, it gained considerable growth in taking on five DHS residential accommodation houses and their 20 clients following the state government withdrawal as a service provider of disability services.

Pre-Merger

The CEOs of WAbility and CareQual knew each other, and they shared similar ideas and knowledge. They were also aware that they provided good quality services, had great staff and a whole range of similar services. The motivation of the merger, according to the acquiring CEO, was the worsening financial situation of CareQual:

"...so they were in a nearby region where we weren't operating, but they got into financial difficulties, and we looked at them and thought 'well why do we need to compete with them?' …(and) we thought we would come together as one organisation; and so given their position, they said 'yes, let's do it'… their financial problems, - that was a key driver for them to merge".

The legal structure of the new organisation was established as a company limited by guarantee to enable potential for growth into nearby states and potentially a national presence at a later stage.

Other anticipated benefits of the merger included shared client-base, back-end processes, financial and IT systems and payroll under a single organisation. Further, the creation of a new organisation enabled a renegotiation of the enterprise bargaining agreement (EBA) of the respective organisations to better match work conditions of disability support worker staff to the needs of the NDIS structures of service provision. There were however some concerns over the impact unions had on such negotiations, protracting negotiations as CareQual workforce was heavily unionized.

The due-diligence was undertaken within a year, but it was seen as being somewhat rushed in assessing the compatibility and contractual commitments of the merging organisation. In particular, considerable inefficiencies as well as differences in 'the way of doing things' were found in the smaller organisation post due diligence. Poor understanding of the business model also exarcebated the situation, as described by one interviewee:

"...basically people were spending money that they didn't have, providing extra support to clients… so morally they (CareQual) were a great organisation, but financially they were very poor, because they did not have good financial controls or understanding of where they were actually losing money'...so even though we did due diligence with both organisations, there was a very different culture underlying things".

In terms of the board restructure, it was negotiated that it would go 50-50 - both previous organisations had eight people on the board and 4 board members from each organisation had to step down so a new board could be formed:

"...that was done by discussion within each of the organisations - looking at skill set and used a skills matrix, and a number of board members agreed to step down… so it was fairly amicable".

The CEO also chose not to use a consultant to help with the M&A process, feeling they could do all of the work internally. However, in hindsight, he felt that although there were some positive outcomes from the M&A process, it had also put too much strain on the executive staff:

"..I almost broke my staff, particularly the management, where I put a lot of pressure to get the job done… what I should have done is brought in some extra people on the ground they could help us through that process – we did it well, but it just almost broke us".

The stress was compounded by the need to begin restructuring the new organisation to get ready for the NDIS at the same time, which he felt probably put them a year behind and prolonged stress on the executive staff:

"...it was a really sharp learning curve for us, it was not just the changes for the merger that we went through, after that we needed to get back on the bike to change the organisation with the NDIS".

There were a considerable number of redundancies through the merger process. They identified 3 staff positions that were just a double up, and then with the restructure when they started working on the NDIS, a number of disability support workers were moved out, and a cohort of new disability support workers were recruited people based on personal attributes.

Post Merger

DisC21 is financially in a good position, looking forward to ongoing rollout of NDIS and achieving their mission of supporting people with disabilities to have opportunity and choice. They have recently invested in a good IT system, which will be a strength. Despite the increasing marketized environment, they have maintained their client-base and are providing high quality support. The merger had in fact allowed them to increase their market share.

The good working conditions under the new EBA reduced staff turnover, which in turn lowered recruitment costs. They are also piloting an innovation related to duplication of staff training where support workers that work for multiple organisations (where each goes through its same sort of training regime), have their training acknowledged and therefore don't need re-training on the same training components with different organisations. Being larger and careful reorganization of resources enabled a positive look to be maintained.

Lessons / Outcomes

- Keeping a positive and flexible approach to reviewing the various barriers and risks encountered in the M&A process is important.
- M&A can provide opportunity to renegotiate EBAs to create improved and more relevant work conditions for workforce, and ameliorate negative workforce cultures.
- Look out for the unknowns and surprises even after the merger. Learning and dealing proactively with changes—both as a result of external and internal developments is critical.
- Cultural compatibility is fundamental for two different workforces to come together. Investing in communication and staff relationship building is important.
- Ensure there are proper resources prior to undertaking an M&A. Investment into IT systems that support a larger organisation is vital for growth.

Case Example B

Merger - Multiple Acquisitions

Industry | Youth Support

Background

NfpYouth (NY) is a national NFP organisation that seeks to improve the social and economic capabilities of youth that are at most risk in Australia. Their vision is to give every young person a chance to work, and reduce the numbers in Australia's youth justice systems.

NY was founded by its CEO in the late 90s, and since then it has gone through three mergers, with three other organisations: P1, P2 and P3 in 2015, 2016 and 2017. P1 specialised in providing youth with practical assistance for homeless youth, while P2 focused on improving the physical, mental and social wellbeing of young people and their schools and communities. P3 excelled in providing information, support, advocacy, referral and case management services to assist young people with varying needs. They also conduct work training projects and majority of youth are from Aboriginal background. NY run four social enterprises of which two of them came with the last two merger acquisitions. Total revenue of NY is in excess of 10 million AUD, and NY group operates in all 5 states.

Pre-Merger

The merger with P1 came about somewhat by serendipity. NY needed to move premises and P1 had space in their building, and soon conversations developed towards a merger-acquisition. So while NY was looking to expand its activities, this opportunity arose unexpectedly. Interestingly, in this instance the entity being acquired had added power in the negotiations.

With P2, NY saw an opportunity for broadening base of services and complementary objectives through acquiring a social enterprise. The social enterprise provided both a training ground and an opportunity to employ youth, as noted by the interviewee manager: "the merger just made sense. This arm of the organisation enabled adding to the well-being of youth".

However, setting up social enterprises was also complicated in the NFP space, as each was needed to be set up as a distinct NFP company. This process was yet another learning experience for senior management.

With P3, the impetus for merging was to grow its national identity and reach by accessing its wide national networks. A significant amount of physical assets were also acquired by NY through this merger acquisition. Here the lesson was how to deal with interstate mergers as P3 operated in another state.

Over the three years, the decisions by NY to merge and the choices of partners made evolved from a simple consideration of gaining a critical asset to a broader strategy of ongoing growth and building complementarity in service delivery.

Learning Curve

The merger process with P1 was somewhat rushed, with the CEO of P1 planning to move to another organisation. NY's executive team had to work very hard to learn and deal with problems on a small budget and limited information. There were significant system and cultural integration problems as well.

"...when we first started, there was no information on not-for-profit mergers in Australia, there was nothing, that was 2011; there was one that I found online, and it was all about corporate merging".

However, the mergers with P2 and P3 were much more efficacious, because they had acquired 'the knowhow' from the first merger. They used the knowledge from preceding mergers for planning, and meeting due diligence requirements.

Post Merger

While the overall impact on NY's financial outcomes indicate increases in asset ownership and some growth in revenue, it still was not making surplus funds. Part of the reason related to the costs associated with legal and due diligence matters, and also increased competition in the business managed by its social enterprises. Consequently, the CEO ventured into more creative fund raising initiatives such as walkathons and used social media outlets to create greater awareness of the social mission. According to the interviewee "...so our CEO, he's an entrepreneur, without him, we wouldn't be where we are today; I could do the CEO job from the point of view of running the organisation, but I couldn't bring in the money for the support that he does; he has got a shameless but remarkably effective approach to getting [sponsors] passionate about young people".

With multiple mergers, NY quickly became a more complex structure. One of its main and continuing challenge is the integration of the accounting systems of the different entities, and tracking the performance of the different business units. There was inadequate resources for full integration of backend systems which meant getting financial and operational information could be time-consuming. As emphasized by the interviewee, assessing their performance has been difficult, a better understanding of the costs associated with the entire business model remained an unknown:

"…it is really hard for me to tell you how much it costs to run this place every year; and we basically just build up our budget looking at what we spent last year, and then we just try and find the money to match that rather than saying this is what we want to do this year and where are we going to find the funding".

Lessons / Outcomes

- There are strategic benefits in multiple mergers, but there can also be short-term impacts on cash flow and losses e.g. one acquired entity sometimes can run at a loss, while the other does very well.
- Lessons learnt well in each merger helps to build competence and confidence in M&A opportunities.
- Leadership is critical. Having a CEO with a strong entrepreneurial spirit and the agility in decision-making with strong board support are important.
- Accounting and resource planning skills and expertise are vital for building and communicating more comprehensive business models.

Case Example C

Resistance to merger

Industry | Support for Informal Carers

Background

Supporting All (SAI) is a state-based NFP organisation that seeks to support carers providing care to a family member, partners or children with [medical condition] by advocating for rights and providing information to these carers in that state. SAI operates independently as a state branch within a federated national peak body of SAI organisations, but is strongly networked to the other state/territory-based organisations across Australia. In their home state alone their client/membership base is over several thousand members. Their vision is to ensure that responsibilities of support are shared formally and informally, and that 'carers are given an opportunity to improve their lives too'.

Why explore M&A?

With changes in Australian government policy, most funding for community services is moving onto a national platform, including education, support and advocacy. The Sal national peak network proposed the consolidation of its 8 state/territory-based organisations across Australia into one single, national organisation with the view that it would give the organisation a stronger voice, a national presence and better coordinate the provision of its information services. It would also provide a better platform for competitive tenders for the new nationally-based funding grants associated with advocacy and information sharing – 'all of the funding is going national'. There was increasing realisation that as the states decrease their involvement in advocacy and information, that the independent state-based SAI organisations will have difficulty in bidding against other national players in trying to obtain national tender–based grants.

Another motivation for the M&A was that in creating a new organisational entity limited by guarantee, this would allow for renegotiation of all of the workforce EBAs across the states/territories to adjust job quality and work conditions of staff to align with the national, individualised landscape of service provision rolling-out across Australia.

Pre-Merger Process

The principal issue for all of the Sal organisations nationwide and the federated Sal peak network overall, was the requirement of 'approval thresholds' within each SAI organisation. For any merger, amalgamation or change to the organisational structure to occur, each Sal organisation is required to meet member guidelines and take any decision to a member vote where a majority of member votes must be obtained for any change to occur. So although the executive and board of a SAI organisation may agree to a decision and have unanimous support for change from within, any changes to the organisational structure of the organisation, such as a M&A, must be sent to a member vote. Although democratic in principle, this process is cumbersome, lengthy in time and costly in terms of the required campaign to communicate the value of carrying out the change to members, and particularly where the voting procedures require printing of ballots and informing members of potential changes with mailouts (unless done electronically).

Extensive due-diligence was undertaken for over a year in assessing the potential for a restructure into a national organisation. The decision to merge into a single national organisation was then sent to the board of each state-based Sal organisation for consideration. Out of all of the state-based Sal organisaions, 6 of the boards of the state SAIs supported the national M&A proposal, and 2 state SAIs voted the decisions down.

The national Sal peak were keen to proceed however as they had a majority of states in agreement. So of the 6 state SAIs where there was board approval, a member vote on consolidation through an M&A process was undertaken:

"...we have just sent all the papers for the special general meetings to the mail house, so they go out on Monday to members, so the next thing is the members vote at their special general meetings… so the members of all 6 associations need to vote yes, and then we can proceed; if any of the associations are no, we're back where we started''.

Following the votes, each of these states achieved member approval for the semi-national M&A consolidation. As such, a semi-national, consolidated SAI organisation was formed – 'the coalition of the willing states' as it was sometimes referred too.

Post-Merger

At present, the 6 consolidated state SAIs are now merged and operating as a single semi-national peak Sal which operates alongside of two separate SAI state entities.

Considerable time, effort and resources have been spent in seeking to obtain a fully national SAI. However, there have been cost benefits, efficiencies and mission consolidation with achievement of the semi-national M&A. The semi-national SAI team feel this may be an initial stepping stone towards the later achievement of a fully national SAI M&A.

The two remaining individual SAI state organisations face substantial pressures to revise their business models and find ways to improve their financial position. There is fear that due to their size, they will be uncompetitive with larger national players in winning grants.

Lessons / Outcomes

- When developing a new 'national identity', member buy-in is critical. Be prepared for board and member resistance when dealing with state/territory-based entities, particularly if consolidation means loss of identity.
- The effort and resources required for conducting a member vote on an issues can be costly and potential delay much needed organisational restructuring. The benefits of this lengthy process need to be carefully considered. Explore other ways to gain consensus over merger e.g. transitioning onto a cheaper and quicker electronic based voting platform for members.
- Put in place safeguards to deal with downside risks such as loss of ability to gain government funding such as seeking other avenues of funds e.g. social impact investors and individual and philantrophic organisation donor funds.

Case Example D

Merger Resistance

Industry | Aged Care Residential Facility

Background

MountainCare is a small NFP that has been operating aged care residential facilities in regional district for over 35 years. The organisation owns two aged care facilities with around 100 beds in total, both situated relatively close in the same remote regional area. The infrastructure of both facilities are becoming rundown and require renovations and upgrades. The organisation in recent years has been struggling financially with changes to government funding frameworks and sharpened unit costs, and with reducing numbers of people living in the remote regional area requiring aged care support.

The organisation historically has a strong presence in the regional community, and it is the main source of employment for most people in the regional town and surrounding areas. The board members are committed to viability of the community and in insuring the town economy keeps going. Many of the board members have been on the board for over a decade and have strong legacy, identity and community status related to their positions on the board.

Pre-Merger

MountainCare was approached by ViewpointCare, another not-for-profit in aged care residential sector operating in a somewhat nearby regional area. Through local knowledge, ViewpointCare were aware that MountainCare were struggling financially, and offered to sit down and have some discussion on negotiations about the potential of a survival merger or amalgamation so the organisation could continue to operate.

The board of MountainCare were very reluctant to meet, however given their worsening financial situation, agreed to at least discussions. Some plans were made about what a potential merger integration would look like, how the new board would be formulated and the potential benefits of a merger. However many of the board members of MountainCare and were still reluctant about the merger idea, voicing that they did not wish to lose the identity of 'their' organisation, that an amalgamation would see them absorbed and disappear, and they were worried about what would happen to customers when they handed over control. Foremost, the risk to the employment within the town linked to the aged care facility was of issue - they needed 'to keep the town going'. After a few months of discussion, ViewpointCare felt that the lens of MountainCare was highly parochial and were concerned about their entrenched view related to town identity.

"...this other local provider was struggling and we knew that; and it was one very similar to us, community wise and that they were not-for-profit… so we had lots of conversations with them and some joint board presentations and all of the things that you do, to try and get people to a point where they could see the clarity in and around a merger… we got a long way down the track, and I found that it was going well until we were getting near the pointy end of the deal, and then board members decided that they only really wanted to be committed to their own town, that was probably the beginning of the decline in the deal, and that is habitually what they had done for some decades… there were a lot of set ideas in and around what they were there to do, and that was to serve the town primarily and provide employment".

After two years of attempted negotiations, and many meetings with both of the boards, it was decided not to proceed with any merger because they were unable to work through the cultural differences and issues related to the two boards. MountainCare felt that they had capacity to continue independently and had at least a small revenue stream even though big picture landscape of aged care funding was changing and most likely this revenue stream was at risk.

ViewpointCare in hindsight felt that taking on a struggling organisation would have been too much effort because it required them going in and fixing everything, and the cultural issues were too big a barrier:

"...I'll say the word parochial because it was, I felt, it was without a view to the future of what was possible, and whilst their CEO and I spelt it out in detail what might be achievable over the next 5 or 10 years also, they couldn't get past the "this is our board… our [service]… our management" type thing… so we thought 'ok, end of story'… we had given it our best shot, and I learnt from it, and I was thinking 'do I really want to go into business with people who could only see 2 feet in front of them and not 20 feet?' and I decided 'no I don't".

MountainCare is continuing to operate but in addition to further increasing financial pressures, it has failed to meet a number of service standards of a recent audit and is struggling to find further revenue to address service delivery and non-compliance issues .

Lessons / Outcomes

- Cultural value alignment is closely associated with organisational identity, and is a critical factor for agreement on in merger negotiations.
- Legacy issues at board level can topple M&A proposals that make financial sense.
- It is acceptable if an M&A does not take place, particularly if there are no significant negative impacts.
- However, if organisational sustainability is compromised, other options can be explored e.g. finding another potential partner for merger, or sharing back-end resources, etc.
- Use the attempted M&A experience as an opportunity to explore internal restructuring and business development.

Case Example E

Alternate to M&A Consortium

Industry | Aged Care Residential Facilities and Independent Living Units/ Retirement Village

Background

Tropical Life Villages (TLV) is a local regional NFP organisation in Queensland that seeks to provide living supports to Older Persons. Low level support is provided through available Independent Living Units that provide on-call attendant support, building maintenance and minimal nursing support as required alongside of accommodation. Higher level support is provided within the aged care residential facility with full personal care and nursing services, meals, leisure and community activities, all within a modern, multi-bed facility. TLV has approximately 150 separate independent living units (both single and partner units) and 300 individual residents in the aged care section. Their vision is to take-on personal responsibility at an organisational and workforce level deliver high quality services with empathy and kindness. Total revenue of TLV is in excess of 20 million AUD plus an extensive property asset base.

TLV has been operating as a stand-alone organisation in their local township and serving the surrounding regional area for just on 50 years. The area also has a high Older Person age demographic. The funding for these works and the previous unit purchases were made solely by TLV.

Pre-Consortium – Motivation

In 2013, the first of many changes to the Australian government's aged care policy framework was introduced. The 'Living Longer-Living Better' reforms restructured how government funding was distributed across the aged care sector, and a competitive, marketised service landscape based on individualised funding was soon established. A lot of larger for-profit corporates moved into aged care service provide r arena.

At about the same time, the TLV CEO attended a local service provider industry skills seminar that discussed the concept of consortium alliances. The session highlighted the many benefits of consortium alliances, such as retaining organisational identity while sharing back-of-house office system for efficiencies and such. In 2014, TLV formed a Consortium Alliance with four other NFP Aged Care Service Providers in the region. The specific motivations for TLV to enter into an alliance consortium arrangement was about maintaining their independence yet having critical mass, and 'sharing operational information and diversification' for supporting higher quality aged care services:

"...the idea of the consortium was probably to be able to have a bit of a voice… it was about critical mass and having a voice for our community … [and] the underlying benefit in it".

Also, the threat of competition from big players entering the local market was worrying, so there was a thought that some of the local organisations might need to come together to try and obtain a critical mass to gain purchasing power.

TLV was initially the lead organisation in forming the consortium with its CEO taking strong leadership. It started off contacting several organisations about the concept of a consortium. Inclusion criteria was that they had to be a NFP community organisation with similar boards and legal structures. An additional incentive offered to prospective members was an 'opt-in or opt-out' system, so if an organisation didn't want to do something, it did not have to. Some organisations elected not to become involved, others decided they would be alright on their own, some of the other community organisations sold out to bigger for-profit entities, leaving at least 5 entities wanting to be different and taking risks with a consortium structure.

The consortium was officially formed and named TADRE after the initials of each consortium members. As TLV noted:

"...we are still independent, but we formed the consortium to have a different look at things… we have made a leap of faith".

TLV received a grant from the state government after applying for funds from the WorkForce Planning (WFP) initiative. The WFP incentive funding was used to support the operational formation of the consortium. The TLV business advisor helped them put together the business plan, based on the premise that even though they were all consortium partners, each individual organisation would retain individual boards and each organisation would keep its individual vision and mission.

Consortium Process

The finance function of the TADRE Consortium involved a consolidation across the five sites where a common software was used. The five CEOs, the directors of each facility and two members of each organisation's board comprised the advisory committee of the TADRE Consortium. The consortium was awarded the status of a public benevolent Institution (PBI), and successfully consolidated all of the back office financial functions:

"...so that means payroll, accounts, table accounts receivable, P&L, all of those sort of issues… an all of the rostering is handled at the TADRE office".

Leadership in this type of alliance was seen to be strongly reliant on trust, patience and a willingness to work with other entities. There was also the need to plan for investing in new systems and human resources, and accepting to do things in a different way. It has taken time:

"...you have to get five CEOs to agree on the way forward… [and] we have moved from one financial system to another, things like procurement and staffing …so that has all been a significant change for us; but in the end hopefully it will produce a better result for us… it is also about bringing the boards along… if I was a publicly listed company, and had the grunt, it would happen a lot quicker and things would be moving a lot quicker, but that would be a merger or takeover type situations; whereas this is us trying to... moving things cautiously and making sure we are getting there things ticked off".

Future of Consortium

TADRE is further streamlining its governance processes related to the clinical indicators, policies and procedures, and service quality. They have also been working at benchmarking their financials related to care and hostel services costs with industry averages to try and bring about some efficiencies there.

In regards to their workforce, they are currently working through an EBA with unions and staff that covers the whole of the TADRE Consortium and which will give staff opportunity to work across multiple sites (if they wish), more permanent hours, and work towards more full time employment if they choose. It is hoped that this will increase workforce retention rates, decrease workforce turnover and save on costs of inductions and training. In turn, a better quality of service will be provided with permanency and stability of their workforce:

"...currently we you have got the double taxation situation that affects the worker, all of those sort of things, so we have to try and solve that problem; I suppose once we get the EBA up across TADRE, we can have a collective staffing pool… we will be able to rely on our own pool to fill vacancies when needed through sick leave or annual leave; instead of using agency staff".

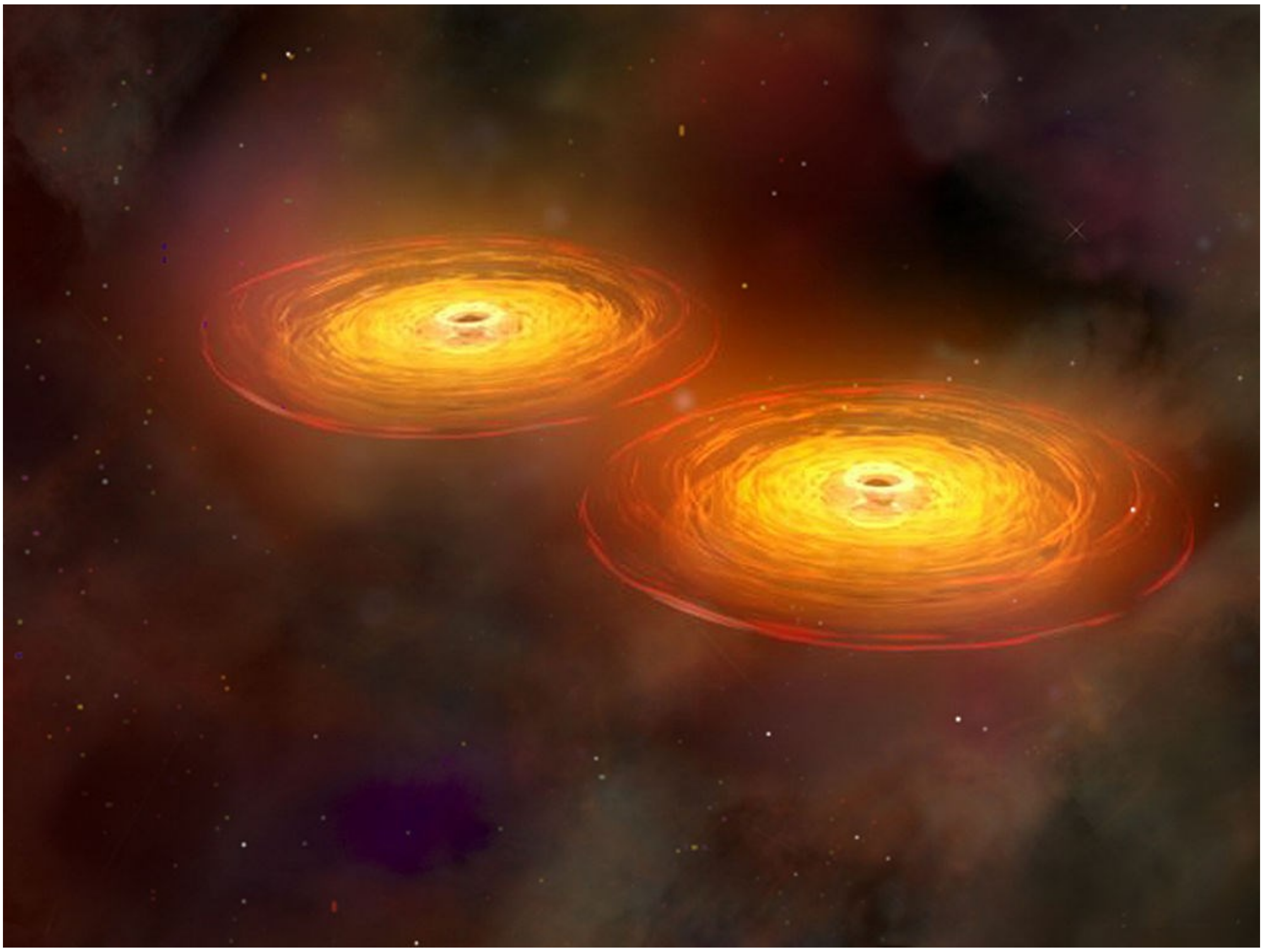
There was also a strong feeling that a consortium arrangement like TADRE may lead to a future a full merger:

"...I wouldn't say a merger is off of the table, but I suppose this is the first step, …your boards become… very passionate about their patch… yes, their time and their reputation, 'you know I am on the board at RJ, it is the largest employer in the region' sort of thing… if we were trying to talk about a merger from the start, I think it would've scared off a fair few people… I could see this (the consortium) as a stepping stone".

Lessons / Outcomes

- A consortium structure may be more appropriate for some organisations rather than an M&A, particularly for those organisations that strongly value their identity and history.
- Clear inclusion criteria, proper governance policies and trust among the collaborating organisations are important factors for consortiums to work.
- A consortium could be stepping stone to an M&A.

Please note the details of the case examples provided in this study do not relate to any one specific organisation, but from generalised observations of strategies, behaviours and perceptions of participants within the respective sub-sector.



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Quotes from Interview Participants

Importance of Leadership

...I call them the leadership group, so a lot of the stability is around that, if you can get good consensus around that group you usually will find a way forward (for merger decisions), and you will be amazed at how well the organisation can go and how far they can progress...

The Small Service Provider

...The smaller providers bring history, longevity, connection to their community, credibility in the marketplace,, they bring those factors to the table...

Cultural Alignment

...if you are going to acquire anyone you need a cultural alignment, the legislative frameworks and the financial frameworks are probably the easiest part to deal with, the cultural alignment is what is required to not disenfranchise the community in which that organisation may sit...

M&A

Heart vs. Dollar perceptions

...And I think that the problem with mergers is that a lot of not-for-profit's… There is a heart to them, and in a commercial sense a merger and acquisition would make sense when it all comes down to numbers, but I think with the not-for-profit's they are different, because people have hearts...

Size of M&As - Large is Good

…every time that I go to a board meeting, our CEO reports on you know what is happening in the industry, and most meetings, someone else is in trouble or has shut down or someone is going to be shutting down… You know there is a lot of closures… And a lot of people in trouble… So yeah… And I think if you are looking at mergers and acquisitions,, you would probably have to go large, because even the small to mediums are going to struggle...

The 'Blocked by Legacy' Story…

...I'll say the word parochial because… I felt, it was without a view to the future of what was possible, and whilst their CEO and I spelt it out in detail what might be achievable over the next 5 or10 years also, they couldn't get past the 'this is our board… our [service]… our management' type thing… so we thought 'ok, end of story'… we had given it our best shot, and I learnt from it, and I was thinking 'do I really want to go into business with people who could only see 2 feet in front of them and not 20 feet?' and I decided 'no I don't'!...

14 THE RESEARCH TEAM

RMIT University Team

Prof. Nava Subramaniam: Her research interests cover corporate governance, management controls and assurance, corporate social responsibility and the accounting profession. She has led two ARC-Linkage funded research projects in the areas of 'Corporate Governance in the Public Sector' and 'Carbon Emissions Risk Management'. Her positions at the College of Business, RMIT University are Director of Governance, Accountability and Law and Professor of Accounting. She also co-chairs the Australian NFP Governance Research Network.

Prof. Alan Lowe: His research interests include the impact on management accounting systems of changes in management philosophies, methods of performance measurement, and the application of qualitative research methodologies. He is a Professor of Accounting in the School of Accounting, and the joint editor of the prestigious British Accounting Review.

Dr. Yesh Nama: His research cover social studies of accounting and finance, methods of performance measurement and valuation practices with a strong orientation towards case study and qualitative methodologies. He has held positions at ESSEC Business School (Paris) and Kings College London.

Dr Raelene West: Her research areas include examination of support service frameworks for People with Disabilities and Older Persons, concepts of marketisation and individualised funding, abelism, social equity and legal frameworks of human rights. She has a PhD in Sociology and Disability and has been on numerous disability advocacy committees. She is a social researcher at the Social and Global Studies Centre (S/G), RMIT University.

CPA Australia Team

Ram Subramanian: Is a policy adviser in Reporting within the Policy & Corporate Affairs team at CPA Australia and holds technical expertise and knowledge to effectively communicate key messages in reporting to finance professionals and others with a stake in business and social enterprises.

Kerry Mayne: Is General Manager Public Sector Engagement for CPA Australia whose portfolio covers members and stakeholders in government and not-for-profit sectors and member volunteering initiatives. Kerry has had a number of roles with CPA Australia across two decades including external affairs, government relations, professional development, marketing, business development and prior to joining CPA Australia she worked in the university and community sectors.

About RMIT University

One of Australia's original tertiary institutions, RMIT University enjoys an international reputation for excellence in professional and vocational education, applied research, and engagement with the needs of industry and the community. Founded in 1887, it is one of the nation's largest tertiary institutions with more than 84,000 students, including 13,000 at postgraduate level.

Research at RMIT aims to solve critical global problems and to deliver significant economic, social and environmental impact. World-class people, leading edge resources and our multidisciplinary approach to responsibly conducted research is distinctive and highly valued. Outstanding international researchers and the development of quality Higher Degrees by Research candidates drive our high-performance research culture.

RMIT University's College of Business also hosts the Governance, Accountability and Law (GAL) Research Priority Area. GAL aims to be a premier knowledge hub that fosters the development of innovative, agile and effective governance and accountability systems with a view to supporting Australian organisations achieve superior and sustainable performance. Researchers in GAL adopt a multidisciplinary approach to studying evolving legal, environmental and social demands on corporate governance, accounting, and regulatory policies, with a view to translating research into practice.

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