ONE BIG EXPERIMENT

Chronicling a Nonprofit Merger in Action

Prepared for
Boys & Girls Clubs of Calgary and
Aspen Family & Community Network

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Interim Report August 2020
Executive Summary

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This interim report captures early stage insights from a merger process currently underway between Aspen Family & Community Network (Aspen) and Boys & Girls Clubs of Calgary (BGCC). The Institute for Community Prosperity was asked by BGCC and Aspen to a) document this journey process, looking at questions of strategic fit and process, as well as the governance, financial, HR, communications and cultural aspects of the merger; and b) offer up a framework, based on these insights, surfacing key questions for other non-profit and human service organizations considering deeper forms of collaboration. This report draws on conversations with a selection of 25 key stakeholders, as well as from the literature on nonprofit mergers. A second, final report, after a follow-up round of interviews, will be compiled later in 2020.

On April 15, 2020, Aspen and BGCC publicly announced their coming together to create a new, unified organization. The announcement signalled that the new organization would serve as "One Big Door"; a holistic continuum of services for children, youth and families in Calgary and area. It presents an opportunity to create operational and administrative efficiencies, to provide a more seamless suite of services for children, youth and families, and to enable a greater collective focus on research and evaluation.

Nonprofit human service organization mergers are relatively uncommon, and nonprofit mergers are particularly rare in Alberta - there appear to be scarcely more than one or two mergers of human service organizations in the province per decade. Moreover, this appears to be the largest scale merger of community service organizations in the Calgary region. As mergers can come across as an aping of the private sector, with 'efficiencies' (manifest mainly through layoffs) being a prime driver, they are regarded with considerable suspicion in the nonprofit sector. Indeed, the experience of those who have gone through merger processes is mixed: They are successful only part of the time, and are fraught with logistical, financial, legal and cultural difficulties. Yet, they can be potentially quite positive in their impact on the community, if done for the right reasons, managed in the right way, and under the right conditions.

One of the key conditions for success, present here, is that there is no external driver: This merger grew out of discussions between the two CEOs, two of the key drivers being the quest to achieve a sufficient scale to serve as a high profile 'hub' and to ensure that the suite of services available to clients is more seamless through various stages of life. The boards of both organizations are supportive, as are funders, some of whom provided resources specifically for the merger. An ad hoc committee oversaw the initial stages of the merger, while engaging various consultants to assist with organizational design, strategic and financial studies, legal analyses, and culture integration. The organization was formally integrated in June 2020, and a new name for the merged organization will be announced by October 2020.

This report draws on the first of two rounds of video-conference-based conversations with key stakeholders, including board and staff members, consultants, donors and others involved in previous nonprofit sector mergers. Some of their specific concerns and questions are included as sidebars in this document. This first round focuses on experiences and observations during the initial stages of the merger supplemented with a scan of the literature on nonprofit mergers elsewhere. The second round will inquire into what actually transpired in the early stages of implementation and what may lie ahead for the longer term. It is important to note that the perspectives of clients have not been solicited and is a limitation of this report.

Will this remain a true merger or is it really an "acquisition"?

Will either, or both, cultures be lost?

Can the integrity of care be maintained to its current standards?

Are layoffs yet to come, and at what scale?

Will staff, management, and governance settle into what's comfortable?

Learnings & Insights to Date

Overall, while stakeholders generally agreed that the why of the merger is both clear and compelling, the questions of how the merger would actually unfold are more vexing. As such, learnings and insights are broken down into three main sections, according to the stage of the merger process: Stage 1: Considering the Merger; Stage 2: Integration Planning; and Stage 3: Reflection and Evaluation.

Stage 1 - Considering the Merger

Strategic Fit: The alignment of the organizations appears strong on many fronts, including mission, revenue sources, programmatic overlap, philosophy and approach to care, and physical assets. While there are important points of divergence, including size, brand recognition, population served, organizational structure, and communications style, many of these points of divergence are perceived not as hurdles, but as complementary strengths.

Why Merge?: Two main drivers of the merger were removing barriers to client access and finding financial efficiencies in an increasingly challenging funding environment. There is strong agreement that other forms of collaborations would not have addressed either problem.

CEO Selection - From 2 CEOs to 1: The impending retirement of Aspen's CEO was an opportunity that made it timely and 'safer' to consider merging. That said, while the departure of a CEO could potentially streamline the merger process, organizations need not wait for a natural vacancy before contemplating a merger.

Funder Roles & Expectations: Funder enthusiasm is critical in this as well as most other nonprofit mergers, with the caveat that their role is to support - not drive, force, or cajole - mergers. Organizations are more likely to be receptive to encouragement and financial incentives to merge once they deem it to be in their own strategic interests rather than propagating often simplistic narratives about the need to "eliminate duplication". A central concern in this merger is a fear that the overall amount of funding would decrease post-merger due to perceived efficiencies. A so-called, and often-experienced "merger penalty".

Role and Use of Consultants: In general, engaging external consultants is beneficial for nonprofit mergers, in this example and elsewhere, both for helping fill knowledge and process gaps and for bolstering confidence and validation.

Stage 2 - Integration Planning

Clients and Programs: Overall, there is agreement that the philosophies of each organization and the skills required of staff members were both complementary and compatible, and that merging would fill service gaps within each agency.

Human Resources (HR): Two HR issues rose to the surface: 1. Differences in organizational structure and compensation; and 2. Striking an appropriate balance of representation at all levels from each organization in the new merged entity, as one agency had additional levels of management in their structure.

Information Systems/Data: There are significant potential benefits of merging information technology (IT) and data management. The systems are either similar or complementary. However, systems integration takes time and will require new investment.

Governance: Despite early enthusiasm of both boards, governance may well be the biggest hurdle to this merger's success. The overall values of the boards matched well, but issues such as size, membership, specific roles, and workload have emerged as sticking points.

How will the many systems, electronic and otherwise, be integrated?

Will this integration be sufficiently funded?

As positions and compensation rates are melded, will good people be demoted, or lost?

Will the new name and brand receive broad buy-in and be inclusive of non-binary and LGBTQ+ clientele?

Despite the enthusiasm of funders now, will long-term funding dissipate?

Culture: Perspectives on the compatibility of the organization's cultures varied most widely of all the factors mentioned by stakeholders, with questions about leadership and reporting styles emerging most frequently. It is far too soon to predict how this will play out, and the COVID-19 pandemic makes integrating cultures significantly more challenging.

Space and Physical Locations: An unexpected theme that arose concerns physical space, both in terms of staff workspaces and client access. Space has been described as an "often overlooked factor behind an effective merger" and it may prove to be an important point of contention if not handled deftly.

Branding: Accurately capturing the work of both organizations in a new name will be challenging, though this certainly represents an opportunity, as there are unique issues and limitations with the existing brands of each organization.

Communications with Merger Stakeholders: An important consideration in mergers is deciding when to bring each stakeholder group into the conversation, and customizing communications to meet their unique needs.

Funders and Donors: Ensuring *a priori* support from donors is important, not merely to show good faith, but because donors have been shown to have the power to shut down a merger, or to otherwise withdraw their support from the organizations. Although funders are supportive of the merger, there are concerns about how branding and a name change will affect stakeholders, particularly individual donors who may have their own preferences.

Staff: Due to COVID-19 restrictions, managers and frontline staff were informed electronically, which is always challenging with announcements of such gravity. Reactions to the announcement ranged from fear to excitement, though few were surprised. Many are positive and hopeful about possibilities created by the merger, though there are fears about job security and loss of culture. Ideally, organizations considering mergers should inform staff early in the process and prioritize communication over confidentiality, but if that is not possible then it is important to ensure a high level of trust between staff and leadership.

Clients: Perceptions of how clients were reacting to the news varied based on the distance of the stakeholder from the client experience: Further from the front-line of services respondents assumed that clients would not likely be concerned or would be likely to embrace the seamlessness of service - the "One Big Door" envisioned. The reaction from clients is a blindspot here as the client perspective for this report is gleaned second-hand. Regardless, it will be beneficial to have a robust set of public answers to client questions prepared in advance so staff can reassure clients.

Other Stakeholders: There are additional stakeholders groups who should be considered in a nonprofit merger communications plan, if applicable, including organization volunteers, local media, local politicians, social media influencers, or other nonprofit or human service organizations that the agency already partners with. The influence of external non-client, non-donor stakeholders is becoming increasingly important, as factors such as social media have increased the power that these groups have.

Stage 3 - Post-Merger Evaluation

Measuring Success: Mergers tend to take far longer than people think to implement. In some cases, it may take many years for cultures and systems to blend, and to accurately assess if it was successful. There are additional evaluation challenges: costs are relatively simple to calculate, but successes (especially strategic benefits) are exceedingly difficult to quantify and measure. Also, the definition of "success" can be incompatible or contradictory between merging organizations or among funders. Although there is enthusiasm about embracing Aspen's data-driven culture and processes, the capacity to integrate, manage and evaluate data post-merger will be challenged.

Will governance issues lead to conflict or excessive board turnover?

How will a second wave of COVID-19, or a deepening recession, affect the merger?

Is there sufficient confidence in the merger rationale?

Is the merger moving too fast? Is it moving too slowly?

Is it stealing focus from the core work?

Impact of COVID-19 on the merger: Not surprisingly, the merger process has been profoundly influenced by COVID-19, magnifying issues while creating some positive unforeseen outcomes. Relationship-building is more difficult, yet confidentiality and scheduling are easier to manage. COVID-19 has also made funding more limited and organizations have to stretch dollars further. This, at a time when the prevalence of unemployment, financial or housing precarity, mental health concerns, partner violence and other dynamics exacerbated by the pandemic will increase client demand, at least for some programs. The timing of the merger ended up being serendipitous. While some funders and nonprofit pundits may believe that COVID-19 will spark more mergers in the sector, paradoxically, some noted that this merger would not have been a plausible option if the organizations had started the conversation amidst COVID-19.

Impact on the Nonprofit Sector: There is an expectation that living with COVID-19, provincial austerity, and a struggling economy will create a spark for more profound and existential conversations about the role of nonprofits in civil society. While others in the sector have in general reacted positively to this merger, it may be too early to make the prediction that a wave of new mergers will be unleashed. It will continue to be a challenge in the nonprofit sector to frame mergers as desirable. Additionally, it is difficult to predict if the recession and COVID-19 may cause other mergers, with evidence pointing to closures/dissolutions as far more frequent than mergers.

Worries Post-Merger: Stakeholders were asked what they were most worried or concerned about, post-merger. A sampling of these responses are included as 'sidebar' quotes in this Summary document.

(Towards) A Framework for Nonprofit Mergers

In the final report, a framework for nonprofit mergers will be offered up and specific advice to funders will also be provided. Having been asked to offer such advice, many stated it is too soon in the process to offer sound or confident recommendations to other nonprofit organizations. Others offered the following advice, which is blended with advice from those reflecting on mergers in the rear-view mirror, many years out:

Organizations should merge for the right reasons, using their values and vision as the guide, not donor, funder or government pressure. Merging is a means to an end, not an end in itself. Support for a merger should be secured early and with clarity, and external perspectives should be solicited to help illuminate blindspots or gaps in the process or the premise. Leadership must set aside any ego, establish clear roles and responsibilities, and communication to the staff and board should err on the side of openness, honesty, and with a high frequency and regularity through the process. The culture and processes of the new organization will be different than either prior organizations' legacy culture or process, so clinging to the past will be tempting but counterproductive. It is vital for all parties to not rush ahead too quickly, to be patient and to take the time to celebrate along the way. There are certainly some similarities in the way commercial and nonprofit mergers unfold, for example with respect to due diligence and change management. But nonprofit mergers are far more about relationships, and less associated with "redundancies" and layoffs. One key similarity nonprofit mergers have with commercial sector mergers is that they do not come cheap; They must be properly, and specifically, resourced.

Most nonprofit mergers have stood the test of time, and have improved outcomes for people, and for the common good. For those embarking on a merger process, there will be moments of severe doubt and regret, and the details will weigh heavily. But, as stakeholders in this process have emphasized, mergers have the potential to create positive change, primarily for clients, and to benefit staff, funders and the broader community. Though this bold journey is only mere months underway, it may still embolden other nonprofits to make a similar leap. A clearer picture will emerge in the final report, in the autumn of 2020.