2008

Getting to Yes . . . or No Nonprofit Decision Making and Interorganizational Restructuring

David A. Campbell
Binghamton University--SUNY, dcamp@binghamton.edu

@AT:Getting to Yes . . . or No

@AST:Nonprofit Decision Making and Interorganizational Restructuring

@AU:David Campbell

@AB:This article explores the decision-making process nonprofit organizations use to determine whether to pursue merger or other forms of interorganizational restructuring. The research uses a case study design, analyzing four examples of interorganizational restructuring. The findings describe both the structure and characteristics of the processes used in four cases. The research found that the decision-making processes used in the four cases had several core elements. Participants in restructuring customized decision-making processes to meet their needs, and power dynamics shaped those processes. Findings about the characteristics of the process emphasize the importance of communication and trust. How partners used power affected the decision-making process and had implications for postmerger success. Decision-making processes for cases involving two partners exhibited characteristics that were different from those involving multiple partners. Future research should consider the role of trust in restructuring decisions and the different responsibilities of board and staff in the restructuring assessment process.

@AIT:In the past decade, interorganizational restructuring involving nonprofit organizations (roughly defined as mergers and similar types of arrangements) has emerged as a significant topic of discussion among researchers and nonprofit management professionals. There are a wide range of issues associated with interorganizational restructuring; this article reports on the results of exploratory research that considers one aspect: the decision-making process organizations use to determine whether to restructure interorganizationally. As the leaders of nonprofit organizations continue to use interorganizational restructuring as a management strategy, they need to know how to determine if it is an appropriate strategy for their organization.

Literature Review

Interorganizational restructuring describes the coming together of two or more independent organizations in which partners alter governance, integrate service, and administrative operating systems and at least one gives up significant independent decision-making authority. It is a broad concept that includes a variety of different forms. Several researchers provide comprehensive descriptions of its variety (Kohm, La Piana, and Gowdy, 2000; La Piana, 1997; McCambridge and Weis, 1997; Bailey and Koney, 2000). This article discusses three forms of restructuring: merger, acquisition, and parent/subsidiary. Merger involves the coming together of two or more organizations in which one organization survives as a legal entity and the others dissolve to become part of the surviving organization. Acquisition describes mergers between unequal organizations; it is the complete integration of one organization into the other in which the integrating agency loses its independent existence and becomes part of the acquiring agency. Parent/subsidiary refers to a legal arrangement in which one organization, a parent, governs another previously autonomous organization, its subsidiary. This arrangement allows for greater independence by the subsidiary than would be possible in an acquisition or a merger.

Our knowledge of the decision-making process organizations use to determine whether to restructure interorganizationally comes from empirical research and practitioner texts. The two do not make essentially different claims; however, practitioner writing is more extensive and well developed on this topic. Merger case studies describe mergers as integrated phenomena (preconditions, process and outcome). Singer and Yankey (1991) identify decision making as part of a larger merger process; Harris and Hutchison (2001) describe the process as "negotiation" (p. 3). Yankey and Willen (2005) identify five typologies and synthesize them into a four-element process. No two process descriptions are identical; however parts of them are comparable. Practitioner texts, while not research-based, provide helpful "how to" advice to facilitate decision making. Their descriptions of decision-making processes are more detailed than case studies. These resources suggest there are two critical aspects of the decision-making process: structure and characteristics.

Process structure describes the core elements used by organizations to decide whether to restructure. Four elements are presented consistently as part of the process structure: (1) *Identification* of a partner compatible with one's organization and able to address the needs driving the search (La Piana, 1994, 2000; Yankey and Willen, 2005); (2) a *restructuring (or merger) committee* of board members and usually staff to coordinate the decision-making process for the partners (Big Brothers/Big Sisters [n.d.]; Giffords and Dina, 2004; Golensky and DeRuiter, 2002; Kohm, La Piana, and Gowdy, 2000; LeFevre, 1986; McLaughlin, 1996, 1998; Moyers; 1997; Norris-Tirrel, 2001; Singer and Yankey, 1991; Toepler, Seitchek and Cameron, 2004; Wernet and Jones, 1992; Yankey and Singer, 1991); (3) a *review of each organization* to assess compatibility, risk and overall benefit of restructuring (Kohm, La Piana, and Gowdy, 2000; McLaughlin, 1996, 1998; Singer and Yankey, 1991; Yankey and Willen, 2005); and (4) a formal *determination regarding whether to restructure* that includes two elements, development of a restructuring agreement and the vote on that agreement by each organization's board of trustees (Kohm, La Piana, and Gowdy, 2000; Toepler, Seitchek and Cameron, 2004).

Woven into the discussion of process structure is attention to the *characteristics of the* *process*, the qualities partners exhibit throughout the decision-making process. Writers identify two qualities as critical to an effective process: an emphasis on *communication* and the development of *mutual trust*. Nonprofit management professionals argue that ongoing communication with key stakeholders is critical to success (La Piana, 1994; McCambridge and Weis, 1997; McLaughlin, 1998; Moyers; 1997). Interorganizational restructuring presents significant potential for change in organizations. Those who could be affected by that change need information to address the anxiety it creates. Without mutual trust, partners will not have an interest in working together and will not be able to come up with an agreement through a merger committee (McCambridge and Weis, 1997; McLaughlin, 1996, 1998). Mutual trust may be reflected in personal compatibility, the development of a statement of common understanding or the ability of each organization to demonstrate it understands the concerns of the other (Golensky and DeRuiter, 2002; Toepler, Seitchek, and Cameron, 2004; Wernet and Jones, 1992).

The absence of theory about how organizations make restructuring decisions suggests the need to examine this issue more closely. Its consideration is important for several reasons. First, it would provide research based information against which to compare established practice guidelines. Second, it would support both the planning efforts of nonprofit organizations and effective restructuring assessment processes. Third, research would provide nonprofit sector stakeholders with information to use to strengthen decision-making processes. Finally, it would build theory. As a result, this research considered the following question: What process do nonprofit organizations use to make decisions regarding whether to pursue interorganizational restructuring?

Research Design

The research utilized a multiple case, descriptive case study design, following the strategy for case studies outlined by Yin (1993, 1998, 2003). Case study designs are useful in studying phenomena such as restructuring decisions that are difficult to separate (for purposes of investigation) from the context in which they take place (Feagin, Orum, and Sjoberg, 1991; Yin, 1993, 2003). They support investigations in which “the relevant behaviors cannot be manipulated” (Yin, 2003, p. 7) and they can both replicate theory and generate hypotheses (Feagin, Orum, and Sjoberg, 1991; Stake, 1995; Stone, 1978; Yin, 1993, 1998, 2003).

The study’s focus was the decision-making process used by organizations to determine whether to restructure interorganizationally. Data were collected from four cases of interorganizational restructuring among agencies that were members of the Alliance for Children and Families (ACF), a national membership organization of human service providers. ACF’s leadership identified approximately ten examples of restructuring that had taken place among its members in the several years preceding the study. The four cases were chosen from the ten because of the cross-section of different characteristics they presented. Given the exploratory nature of the study, it was important to learn whether there were decision-making patterns across cases with a wide range of circumstances. There has been some attention to differences in process based on the form of restructuring (Wernet and Jones, 1992; Kohm, La Piana, and Gowdy, 2000) and the status of leadership, defined as whether there was a vacancy in the leadership role (LeFevre, 1986; Kohm and La Piana, 2003; Kohm, La Piana, and Gowdy, 2000). While each case was considered separately, the research was structured to allow across case comparisons.

Data Collection and Analysis

The research involved two primary modes of data collection: interviews with key stakeholders and review of archival material. Data were gathered in face-to-face interviews with key participants in the restructuring process. Interviewees included the professional staff leader from each organization at the time the restructuring assessment began and board leaders in the restructuring process (usually board chairs). In total, there were thirty-two interviews. Each interview took place at least three months, and up to three years, after the completion of the events interviewees were asked to recall. The gap in timing may have made some parts of the process difficult to recall; however, the availability of support documentation mitigated timing concerns. In addition, the distance from the events may have provided interviewees with useful perspective in attempting to understand them. Archival data relevant to each organization's decision to pursue interorganizational restructuring as well as documents specific to the restructuring assessment process were reviewed. Board meeting minutes and restructuring process documents were available for each case. There was significant support documentation for each case; however, several organizations (in Cases B and D) did not make board meeting minutes available.

Utilizing Yin's (2003) model, data collection followed a protocol to outline areas in which data were needed, the likely sources for those data (interview subjects, archival documents, etc.) and to identify questions and data resources available to answer them. The protocol was used in interviews and archival data collection. It evolved following data collection at each site. In addition, theoretical propositions that governed data collection and informed analysis were developed from the literature review.

All interviews were transcribed and imported into the qualitative data analysis software Atlas ti. Individual codes were created for each proposition and interviews were broken into text blocks (quotations) corresponding to established codes. New codes were created as themes emerged. Data were organized and analyzed by reviewing text blocks assigned to individual codes and propositions. Archival data were reviewed to identify either confirmation of or divergence from interview data.

Triangulation was the primary method of determining what happened in each case. Case facts were established by data from two or more sources, either interviews or archival documents. In several instances, data were limited to one source, particularly in Case C in which only four interviews were conducted. Two modes of analysis were useful in analyzing the coded case data: pattern matching and explanation building. Pattern matching “compar[es] an empirically based pattern with a predicted one,” (Yin, 2003, p. 116). In some cases, multiple explanations for case patterns emerged, complicating data analysis. Because some of the theoretical propositions were not mutually exclusive, there were multiple explanations for phenomena. In those cases, triangulation was emphasized as a strategy to generate as much clarity as possible regarding what happened and why.

Explanation building was also used as a data analysis strategy. Explanation building seeks to develop a set of “causal links” (Yin, 2003, p. 120) between aspects of a phenomenon under investigation. It compares theoretical propositions with case data that are used to modify research propositions. The process was used first to compare propositions with an individual case and subsequently with the other cases.

Overview of Cases

The four cases selected are described below. Generic names are used and identifying information removed from the description. Case A considered interorganizational restructuring between a children’s mental health center and a family service organization. The children’s mental health center was interested in restructuring to add financial resources and create greater scale, though the organization's leaders did not describe its need as urgent. Early in the decision-making process, the executive director left the organization and the board named an interim. The family service organization faced serious financial pressures that worsened during the decision-making process; ultimately, it pursued restructuring to ensure its survival. Initially, the leaders of the process characterized it as a merger; over time, the leaders of the stronger organization, the children's mental health center, reframed it as an acquisition. Nine interviews were conducted for this case, including both executive directors and the interim director for the children's mental health center, two board leaders from one organization and three from the other.

Case B involved the acquisition of a child welfare organization by a family service organization. Like Case A, the partners initially described the process as a merger, but ultimately characterized it as an acquisition. One organization, the child welfare agency, faced serious financial challenges, due to the loss of institutional support; it also lacked the infrastructure needed to compete successfully for government contracts. In contrast, the family service organization was financially stable; it pursued restructuring as a means to broaden its service offerings, enhance administrative capacity and add strong community leaders (from the acquired organization) to its board. One of the partners, the child welfare organization, had a religious affiliation. There were eight interviews of participants in this case, including both executive directors and three board leaders from each organization.

Case C involved a family service organization and a children's mental health center in which the former became a wholly owned subsidiary of the latter. The family service organization's leaders identified several motivations for restructuring; most important was long-term positioning, generating the financial, board and service resources it needed to compete. The children's mental health center was financially strong and stable but interested in broadening its service resources. This form of restructuring allowed the subsidiary to maintain a separate existence from its parent, most notably, a separate board of trustees and operating structure; the subsidiary kept its name and identity in the community. The parent organization, however, maintained control over the organization through its ownership of the subsidiary and its power to name the subsidiary's trustees. There were four interviews for this case, including both executive directors and two board leaders.

Case D involved the merger of four comparably sized organizations—the process began with seven interested organizations. The motivations for merger (identified by at least one representative from each organization) were the need for greater financial, service and board resources, all to make the organizations more competitive. Some researchers might characterize this form of restructuring as a consolidation (Bailey and Koney, 2000). The term merger is apt because it contains the elements commonly understood by that term: the combining of agencies in which each partner loses its previous corporate existence; the partners reform as a new corporation. The case was selected to compare the decision-making process for two partners with multiple partner arrangements. Eleven participants in Case D were interviewed: six board leaders (at least one from each organization), five executive directors, and one interim director, who took over for one organization later in the merger process.

Findings

The findings are divided into two parts, process structure and process characteristics.

Process Structure

The six findings describe the initiation of the restructuring process and its shape. In particular, the findings identify how the multi-agency merger process in Case D differed from the three others.

Finding 1 *The financial strength of partner agencies played a critical role in restructuring processes. Financial strength equated to power, particularly for partners paired with financially weak organizations.*

Finding 2 *In Cases A, B and C, the weaker agency, the one most in need of an interorganizational solution to its problems, initiated the process.*

Finding 3 *The process structure was shaped by the power dynamics between partners.*

Cases A, B and C involved restructuring in which one partner was financially stronger than the other. The extent of the disparity in financial strength varied, but it made the most difference in the cases which became acquisitions, those in which the long-term viability of the weaker organization was in question (Cases A and B). Financial strength determined which organization initiated the process and the power dynamics between partners. Financial condition also affected the interactions between the board and staff leaders of the organizations (most notably in Case A). This finding supports earlier research about differences between the decision-making process for mergers and acquisitions. Partners in mergers have equal "power and resources," while participants in acquisitions are unequal in those areas (Wernet and Jones, 1992, p. 370).

Astley and Zajac (1990) suggest that resource dependencies, such as those exhibited by the weaker partners in Cases A, B and C may not fully explain the behavior between partners in those cases. They found "functional centrality" and "interdependence" (p. 495) explain the power of sub-units in intra-organizational systems. This research found that resource dependencies *did* explain dyadic relationships, the power dynamics between partners, in particular. The extreme financial weakness of the two organizations in Cases A and B may have overwhelmed other factors in the process. At the same time, the interdependence of the partners within the larger social service delivery system, may account for the interest of the stronger organizations in restructuring and provided limited leverage to their weaker partners.

In the cases involving two agencies (A, B and C), discussions regarding interorganizational restructuring were introduced by leaders of the weaker of the two. In each, the weaker organization faced greater challenges than its stronger partner and was in more immediate need of a solution to those problems. In Cases A and B those needs were primarily financial and urgent. Both experienced the loss of resources and budget results in which expenses exceeded revenue. In Case C, the need was more long term in nature. The leader of the initiating organization viewed it as stable for the short-term but vulnerable in the future due to its lack of capital, scale and community awareness

A more urgent need to restructure by one partner over another creates an unequal power balance. The extent of the urgency experienced by the initiating organization defined the level of inequality between partners. The leaders of the family service organization in Case A and the child welfare organization in Case B initiated restructuring discussions when they faced an urgent need to do something about their serious financial resource needs. In contrast, the director of the family service organization in Case C, initiated discussions at a time when it did *not* face an urgent need to restructure. Consequently, the inequality between the organizations in Case C was not as great as in Cases A and B.

Following the initiation of the process, each organization needed different information to decide whether to restructure. In Cases A and B the stronger partners dictated parts of the process structure to address the questions they, as the stronger partners, had about restructuring, most notably through due diligence. For example, the leaders of the children's mental health organization in Case A delayed decision making and extended the due diligence process to ensure they could adequately address the concerns they had about the acquisition. Due diligence is a technical term describing a systematic review of the financial and legal risks (such as outstanding debts and potential legal liabilities) posed to each organization through interorganizational restructuring. Each partner understood the necessity for a due diligence review, however; the boards of the organizations that would become responsible for financial and legal liabilities due to the restructuring (the acquiring agencies in Cases A and B and the parent agency in Case C) would not proceed until they knew the results of that review.

The urgent need of the family service organization in Case A and the child welfare organization in Case B contributed to the willingness of their leadership to allow stronger partners to shape the process. The possibility that their prospective partners might not agree to acquisition seriously threatened their long-term viability. They acceded to the process structure requests regardless of whether they believed all of the steps were necessary. The stronger partners' power elevated their assertions of what they needed in the process over their weaker partners.

Finding 4 *Three elements were common to most of the processes that led to a vote to restructure: an exploration of compatibility (in all four cases), due diligence (in all four cases), and board negotiation of critical issues (in three of the four cases, not in Case D).*

Finding 5 *Staff initiated restructuring discussions; board leadership became central to each* *process as it developed.*

Finding 6 *While the four processes took the same overall form, the participating agencies customized the processes. Each process allowed agencies to answer whether they should proceed with interorganizational restructuring.*

The restructuring assessment process looked different in each case; however, in all four there were a common set of elements. Table 1 summarizes those elements. The process structure is consistent with the various process elements compiled by researchers and practitioners and discussed in the literature review. This finding develops that framework further, expanding the process categories. One difference is that the finding breaks the review of each organization into two parts: exploration of compatibility and due diligence. Each organization conducted those parts differently. Exploration was a flexible process, open to definition, in which each partner developed criteria for establishing compatibility or incompatibility. Board and staff participated in the exploration. In contrast, due diligence was less flexible, proscribed by legal and financial norms and conducted by outside counsel from those fields. The assessment of risks to organizations identified through due diligence were subject to less interpretation than assessments of compatibility.

Notably, the negotiation process in three of the four cases builds on the notion that partners develop a restructuring agreement at the end of the process. In Cases A, B and C there were critical differences between the partners at the end of the process that required considerable negotiation. For example, Cases A and B required the partners to agree on the name the organization would take following acquisition; Case C required negotiation of the status of the executive director of the family service organization, the form of alliance and the number of trustees who would participate in the newly developed governance structure.

In each case, the idea for pursuing interorganizational restructuring began with staff. In most cases, staff leaders persuaded trustees to become enthusiastic about interorganizational restructuring. Executive directors viewed the assertion of this strategy as an extension of their role as agency leaders, a position consistent with previous work on staff roles (Campbell, Jacobus and Yankey, 2006). Board members, in most cases, exhibited leadership at the end of the process, as they recognized that they would make the ultimate decision regarding whether to restructure. In Case B, for example, the executive directors of the two organizations oversaw the exploration process; however, the board of the family service organization took the lead at the end of the process to negotiate key elements of the acquisition, those they saw as most critical to their role as stewards of the organization. There were two notable exceptions to this model of leadership, both defined by vacancies in the executive director position. In Case A, the executive director of the children's mental health center resigned during the acquisition process. Following that departure, several board members (no one leader in particular) provided day-to-day leadership of the acquisition process. In Case D, the executive director of the family service organization also resigned during the decision-making process. The organization's new board chair played an active role in the process, both with the leaders of the other organizations and in the community at large. Transitions in leadership led to greater board involvement in the decision-making process. For the family service organization in Case D, the transition made the decision to merge easier. This finding is consistent with other research (LeFevre, 1986; Singer and Yankey, 1991); for the children's mental health center, board members treated the departure of the executive director as separate from its consideration of acquisition.

All four cases utilized a similar process framework, but each applied concepts within that framework differently. Each case's process structure emphasized the unique interests, perspectives and key questions of the participants. For example, the representatives of the child welfare organization in Case B emphasized the organization's critical need to find a solution to address its resource challenges. Its board members wanted the process to assess the compatibility of the two organizations and determine that its proposed partner would continue the organization's core services and keep its staff. Its prospective partner, the family service organization, was more interested in the service and financial impact of acquisition. Therefore, the process emphasized the needs of both organizations: 1) an exploration of service compatibility; 2) an assessment of the financial viability of the child welfare agency's programs; and 3) a determination of whether the family service organization could integrate the child welfare agency into its operation in ways perceived as fair but not financially burdensome. Only after their process had addressed those concerns satisfactorily could they make the acquisition decision.

Process Characteristics

Findings about the characteristics of the process affirm the important roles trust between partners and communication within organizations play in the consideration of interorganizational restructuring. The findings introduce three additional process characteristics related to power dynamics, leadership and consensus decision making.

Finding 1 *Partners in each case emphasized regular communication as critical to the success of their process. In particular, communication among board members and with staff was important.*

In all cases, interviewees identified sharing information about what was happening in the restructuring assessment process as critical. Representatives of only one organization, the child welfare organization in Case B, did not identify communication as a high priority (even though the partners in Case B engaged in several joint staff meetings to share information about their process). At the board level, trustees identified that it was critical to keep the full board informed of developments. Not all trustees played an active role in the process; only those who were involved had automatic access to information about it. Trustees emphasized that communication was important in keeping trustees informed and allowing them to raise issues of concern early enough to address them effectively. Identifying concerns was of particular importance because, in the end, all trustees voted on whether to approve the restructuring. Trustees in each case described continued efforts—most often at board meetings, but also informally—to make sure all other trustees agreed with the gradual movement toward approval of restructuring. This effort was particularly important in Case D because of its duration and, for a long time, uncertain outcome.

In each case, staff interviewees emphasized communication. This emphasis was notable in organizations in which staff faced leadership and personnel status changes. For example, the proposed merger in Case D meant a reorganization of operations in the four participating organizations, changing individual roles, employee benefits, lines of supervision and interdepartmental relationships. Interviewees from Case D indicated that they prioritized communication with staff to avoid rumors and misinformation that could have negatively affected the decision-making process. In that case, as in others, communication meant providing honest information about where the organizations were in the decision-making process, most important, what issues leaders had decided and what remained to be decided.

Finding 2 *In each case, trust between partners was critical to success. In the one case in* *which there was not clear trust between partners, there was ambivalence about the proposed restructuring.*

There were high levels of trust among partners in three of the four cases (Cases B, C and D). In each, the partners described trust as an essential element in the success of the process. The common elements of trust in each case were: 1) confidence that participants understood and appreciated the mission and service priorities of their partners; 2) a shared vision for the new organization; and 3) belief in the essential honesty of their partners (that they kept their word). In Case B, the trustees from the two organizations knew each other prior to the acquisition; their familiarity made the process easier because they began with mutual respect. In Case D, the partners built trust through their work together, most notably, through participation in a several day conference about strategic alliances, away from their home, at which they began to get to know each other through a set of shared experiences.

The high degree of trust among the partners in Case B mitigated concerns about one key difference between the two partners. The weaker child welfare organization was religiously affiliated; the acquiring family service organization was not. Interviewees from the child welfare organization consistently expressed confidence in the professional and board leadership at the family service organization. The leaders involved in the acquisition had known each other for a long time. The interviewees suggested that the religious affiliation of the child welfare organization was insignificant to the acquisition (except for differences in providing service regardless of ability to pay, defined as a mission difference, which they acknowledged had contributed to their weakened financial position). Given the relative homogeneity of their community, they were confident the acquisition would not affect the values that had shaped service delivery in the child welfare organization.

In contrast, there was not a high level of trust between partners in Case A. There was less communication between partners; unlike Case B, board members did not know each other before they began the acquisition process. The family service organization interviewees were wary of the leadership of the children's mental health center throughout the process. They felt its board leadership controlled the decision-making process, stopping it, restarting it and stretching it out in ways that, at times, appeared unreasonable. They felt excluded from critical decisions (particularly in the selection of a new executive director), and were uncomfortable with questions their prospective partners asked about the family service organization's professional leadership and finances. The children's mental health center interviewees raised trust issues with the family service organization as well, attributed to an underlying discomfort with the organization's leadership and its financial management. Ultimately, both partners experienced a general lack of trust, and the family service organization expressed ambivalence regarding whether their decision to allow acquisition was the right one. Recent literature addressing both decision-making processes and how organizations fare post-restructuring identify trust as critical to success at both stages (Kohm, La Piana, and Gowdy, 2000; Toepler, Seitchek and Cameron, 2004; Yankey and Willen, 2005). The absence of trust between partners in the decision-making process in Case A suggested the potential for post-merger difficulties. Board members interviewed from both organizations discussed a lack of interest in (or difficulty) working together post-acquisition, potentially complicating implementation of the acquisition and preventing the children's mental health center from taking advantage of the family service organization's board resources (including specialized expertise and involvement with successful fund-raising events).

Finding 3 *In Cases A and B, organizations not facing an urgent need to restructure*

> *interorganizationally (stronger organizations) exercised power over partners with a more imminent need to solve problems through interorganizational restructuring (weaker organizations). In those cases, the stronger organizations made very different choices about how to exercise their power that affected their partners' perceptions of the decision-making process.*

As noted, power dynamics were most evident in Cases A and B. The two weaker organizations faced financial challenges that, if not addressed, might have led each to cease operation. They acceded to the demands of their stronger partners, despite misgivings, because of the weakness of their positions. They recognized that if they did not accede, they risked their partners' refusal to proceed with the acquisition. Pietroburgo and Wernet (2004) describe financially vulnerable hospices that considered but ultimately decided not to pursue restructuring. They identify that the organizations "maintained their financial viability through diverse fundraising efforts" (p. 127). They characterize the leaders of these organizations as planners. That description fits the leader of the weaker partner in Case A; however both that organization and the child welfare organization in Case B were not financially viable in the short to medium-term; their boards felt that saying no to acquisition would lead to the dissolution of their organizations. Without a realistic option to say no to restructuring, weak organizations are much more vulnerable to the demands of stronger partners.

The stronger organizations were financially stable and therefore more powerful; acquisition, while desirable, was not essential to their continued success. They exercised power differently; these differences affected their partners' perceptions of the effectiveness of the decision-making process. For example, both stronger organizations had specific due diligence concerns because of the poor financial health of their respective partners. In Case A, the children's mental health center pursued a due diligence process that the family service organization perceived as unilaterally defined and open-ended. As the process evolved the children's mental health center's board established demands that the family service organization had to meet in order for the acquisition to proceed. The demands evolved as the board learned new information, generally about the financial health of the family service organization. The family service interviewees described feeling helpless because of their lack of power and unhappy because of their inability to have input in key decisions. The children's mental health center interviewees acknowledged their power and the way in which they carried it out, but noted that their approach was necessary to ensure that the decision to acquire did not endanger the financial health of their organization.

The strong organization in Case B exercised leverage over the weaker child welfare organization, but sparingly, and only at the end of the process. For the most part, the decision-making process was interactive and the partners made decisions by consensus. The partners discussed the due diligence process, including what it would involve, how long it should take and its role in decision making about restructuring. This approach appears to have been possible, at least in part, because of the mutual trust and familiarity between the partners. In final negotiations, the stronger organization was unwilling to yield on several outstanding demands its trustees perceived as necessary for its protection. To resolve the issues, the board leaders reframed the terms of the restructuring, asserting it was an acquisition and not a merger of equals. Acquisition meant that the child welfare organization had to yield on several remaining issues (such as the name of the organization post-acquisition and certain personnel matters) or the process would not continue. The child welfare organization yielded. Trustee interviewees revealed that they did not perceive the family service organization's final set of demands as unreasonable and that they acknowledged the power inequality between organizations. The child welfare organization was much more positive about the stronger partner's exercise of its power than was the family service organization in Case A. The differences between the two processes are that in Case B the stronger partner treated its weaker partner as an equal—even though it was not—until it felt it had to assert its power to avoid endangering the organization. In contrast, in case A, the stronger organization asserted the inequality of the partners from the start, perceiving that such an approach was necessary to avoid harm to the organization.

Finding 4 *The process followed in Case D, the only multi (greater than two) organization case, was characterized by consensus decision-making and partner equality.*

Case D was the only case involving more than two agencies. None of the partners involved expressed an urgent need to restructure interorganizationally and all described the partners as equals. There were no clear differences in organizational power that affected the decision-making process. The partners were of relatively equal size. (The smallest had an annual budget of $500,000; for the largest, it was $3 million.) Six of the seven leaders of the organizations that began the process (three of the four from the organizations that eventually merged) had worked together as colleagues in their community for ten or more years. They shared mutual respect and trust. Their initial reasons for coming together included this shared history as well as the similarity of the services provided by each organization and each one's motivation to enhance its capacity to accomplish its mission. Moving ahead required consensus about direction and process. No one organization could exert leverage over the other partners because no participating organization had an urgent need to find an interorganizational solution to its problems. If the group made decisions about direction without consensus, it risked the loss of members who did not agree with the decision. Only at the end of the process, when the group made ultimate decisions about structure (that the form of restructuring would be merger), was there a lack of consensus. At that point, the process lost two participants; neither needed nor wanted to merge, despite their keen interest in the potential of interorganizational restructuring.

The process followed in Case D reflects the unique dynamics of a multi-agency case. It is hard to imagine how a multi-agency case could generate power dynamics like those that emerged in Cases A and B. The six partners who participated in Case D through most of the process had somewhat different interests. The partners could not manage the process without attention to each one's interests. If the partners had widely different power relationships, it would have been difficult to exercise power as it was in Cases A and B because multiple partners have multiple, competing interests. A consensus driven approach appears much more critical in cases involving multiple agencies compared to those involving just two.

Finding 5 *Leadership was not defined by organizational role; the organizational position of leaders varied by case.*

In each case, there was at least one key leader, defined as a person credited with making the interorganizational restructuring happen, with a vision of its value to the organizations involved and to the community. La Piana (1994) identifies "process champions" (p. 2) as important elements in successful decision-making processes; this research found at least one person in each case who embraced that role. In each case, the organizational role the key leader played was different. The finding suggests that people in any number of roles have the opportunity to lead the restructuring process. As organizations customize the processes by which they determine whether to restructure, *who* leads that process may also vary; however, there appear to be limits to the organizational roles available for leading such a process. Those described as process leaders were exclusively executive directors and board members. Leadership was not limited to the organization perceived as strongest. In Case A, the director of the family service organization played a critical leadership role. She was committed to the mission of the organization and finding a long-term solution to its financial challenges and advocated hard for acquisition. While the children's mental health center was reluctant throughout the process, the perseverance of the family service agency director pushed the process along. Case D provides the best example of board leadership. Although the group of executive directors advanced the idea of alliance consistently, so did two board members from different agencies. The two were young and relatively new to their organizations and shared a vision for the potential of the merger (as a benefit to the clients, the community and staff). The family service organization board chair raised the community profile of the proposed alliance and championed the idea with his board. The other board member, the chairperson of a second partner organization, pushed the other board members throughout the process to do the things they needed to do with their boards to avoid obstacles to reorganization.

Discussion

It is difficult to place the research findings in a broad research context because of the limited empirical research about organizational decision making and interorganizational restructuring. Regardless, several critical implications warrant more exploration and provide helpful observations for practice.

Power and Trust

Each case reflected the role trust played in moving the decision-making process forward. Trust was most complicated in Case A, in which the partners expressed consistent concern about their ability to trust each other. The absence of trust made the decision to restructure more difficult and uncertain. The research suggests that partners need to prioritize the development of mutual trust. Cases B and C demonstrate that despite stronger partners' ability to shape decision-making processes, mutual trust is necessary to ensure an effective process. The lack of trust in Case A contributed to bad feelings throughout the decision-making process and led to challenges for the acquiring agency after the acquisition. The case suggests there would be value in exploring the relationship between trust and power and resource dependencies. For example, would the family service organization's decision have been different if it was less dependent on the children's mental health center for needed resources

Board Roles

The differences in the role of the board across cases was notable, given that whether to restructure is a fundamental board responsibility. Further research regarding how boards delineate staff roles in restructuring and whether the assignment of roles contributes to the effectiveness of decision-making processes might be useful. For example, the family service organization trustees in Case C relied on the leadership of its executive director; its board met with its potential partner only once before making a final decision to restructure. In contrast, the board of the children's mental health center in Case A led the restructuring discussion and de-emphasized the executive director's role. The decision-making process in each case had different characteristics. Did the different board roles make a difference?

Two-Agency Versus Multi-Agency Restructuring

The research included three examples of two-agency restructuring and one example of a four-agency restructuring. The characteristics of the process in the four-agency restructuring were significantly different from the other three. The process dynamics change dramatically when restructuring involves more than two agencies. The four-agency merger was the most interactive and consensus-oriented of the cases. The difference in characteristics appears to have been related to the need to keep all the partners committed to the process. Managing relationships between four (and at times in that case six or seven) organizations is more complex than managing relationships between two. It is difficult to draw conclusions about restructuring involving more than two agencies with only one case. It would be useful to know, for both theory and practice, whether and to what extent the number of partners involved in a proposed restructuring affects the process. Are interactivity and consensus building critical for success, and are they more so than in two agency restructuring? Multi-agency restructuring may look more like Wood and Gray's (1991) theory of collaboration. Their emphasis on interactivity is comparable to the experience of the partners in Case D.

Process Customization

Each case developed its own process for determining whether to proceed with restructuring. Although a comparable process structure existed in all four cases, each customized that structure to meet its needs. It would be useful for researchers and practitioners to understand the choices that drive process customization. This kind of information would assist with the development of best practices for interorganizational restructuring processes.

Practitioner Versus Academic Literature

The literature review used both academic and practitioner literature, noting the level of development and the extensiveness of the latter. This research supported several key concepts practitioner literature identified: the process structure in each case was comparable to practitioner outlines as was the emphasis on communication and trust. There is a great deal of information available to nonprofit management professionals through practitioner pamphlets and non-academic texts. Practitioners who have written on this topic and are referenced in this work have also successfully pursued interorganizational restructuring. Researchers continue to need to learn from practitioner experiences, particularly, ways to make more connections between academic research and practitioner writing.

Conclusion

This article provides exploratory research about the decision-making process used by nonprofit organizations to determine whether to restructure interorganizationally. It identifies three core elements partners use to make restructuring decisions: exploration of compatibility, due diligence and board negotiation of critical issues. Partners in decision-making processes adapt these elements to address the particular concerns of the partners in that process. The research identified that the financial strength and weakness of partners played a significant role in the decision-making process. Financial strength equated to power; stronger organizations used that power to shape decision-making processes to meet their needs. How stronger partners used their power played an important role in the process. Weaker partners trusted stronger partners that used their power in ways that weaker partners perceived as reasonable or appropriate. The perception by weaker partners that stronger partners used power arbitrarily negatively affected decision-making processes and the potential for long-term success postrestructuring. Finally, trust between partners and ongoing communication throughout the process were critical elements in successful decision making.

This research increases our knowledge in an aspect of nonprofit management that has received relatively little attention until recently. It adds to other work focused on the motivations for interorganizational restructuring, broadening our understanding of the phenomenon. As important, it provides guidance to practitioners about decision making, specifically, what questions to ask, how to interact with prospective partners and what characteristics are most important to maximize the potential for a successful decision-making process.

David Campbell is an assistant professor in the Department of Public Administration, College of Community and Public Affairs, Binghamton University, Binghamton, New York.

References

Arsenault, J. *Forging Nonprofit Alliances.* San Francisco: Jossey-Bass, 1998.

Astley, W., and Zajac, E., "Beyond Dyadic Exchange: Functional Interdependence and Sub-unit Power." *Organization Studies,* 1990, *11*(4), 481–501.

Bailey, D., and Koney, K. *Strategic Alliances among Health and Human Service Organizations: From Affiliations to Consolidations.* Thousand Oaks, Calif.: Sage, 2000.

Big Brothers/Big Sisters of America. *Merger in a Big Brothers/Big Sisters Agency*. Philadelphia: Big Brothers/Big Sisters, n.d.

Campbell, D., Jacobus, B., and Yankey, J. "Creating and Managing Strategic Alliances." In R. Edwards and J. Yankey (eds.), *Skills for Effective Management of Nonprofit Organizations* (3rd ed.). Silver Spring, Md.: NASW Press, 2006.

Feagin, J., Orum, A., and Sjoberg, G. (eds.). *A Case for the Case Study*. Chapel Hill, N.C.: University of North Carolina Press, 1991.

Golensky, M., and DeRuiter, G. L., "The Urge to Merger: Lessons from the Nonprofit Sector." *Nonprofit Management and Leadership,* 2002, *13*(2), 169–186.

Giffords, E., and Dina, R. P. "Strategic Planning in Nonprofit Organizations: Continuous Quality Performance Improvement—A Case Study." *International Journal of Organization Theory and Behavior*, 2004, *7*(1), 66–80.

Gray, B. *Collaborating*. San Francisco: Jossey-Bass, 1989.

Harris, M., and Hutchison, R. "Success Factors in Nonprofit Mergers: Lessons from the HIV/AIDS Agencies in the UK." Paper presented at the Association for Research on Nonprofit Organizations and Voluntary Action Conference, Miami, Nov. 2001.

Kohm, A., La Piana, D., and Gowdy, H. *Strategic Restructuring: Findings from a Study of Integrations and Alliances among Nonprofit Social Service and Cultural Organizations in the United States.* Chicago: Chapin Hall Center for Children, 2000.

La Piana, D. *The Nonprofit Merger Workbook*. St. Paul, Minn.: Amhert Wilder Foundation, 2000.

La Piana, D. *Beyond Collaboration: Strategic Restructuring of Nonprofit Organizations*. Washington, D.C.: National Center for Nonprofit Boards, 1997.

La Piana, D. *Nonprofit Mergers: The Board's Responsibility to Consider the Unthinkable.* Washington, D.C.: National Center for Nonprofit Boards, 1994.

LeFevre, R. *A Case for Merger: The Story of Planned Parenthood of Northern New England.* Burlington, Vt.: Planned Parenthood of Northern New England, 1986.

McCambridge, R., and Weis, M. *The Rush to Merger*. Boston: Management Consulting Services, 1997.

McLaughlin, T. *Nonprofit Mergers and Alliances: A Strategic Planning Guide.* New York: Wiley, 1998.

McLaughlin, T. *Seven* S*teps to a Successful Nonprofit Merger*. Washington, D.C.: National Center for Nonprofit Boards, 1996.

Moyers, R. (ed.). "The Power of Mergers: Finding New Energy Through Mission Based Restructuring." *Board Member,* 1997, *6* (special issue).

Norris-Tirrell, D. "Organization Termination or Evolution: Mergers in the Nonprofit Sector." *International Journal of Public Administration,* 2001, *24*(3), 311–322.

O'Brien, J., and Collier, P. "Merger Problems for Human Service Agencies: A Case Study." *Administration in Social Work,* 1991, *15*(3), 19–31.

Pietroburgo, J., and Wernet, S. "Joining Forces, Fortunes and Futures: Restructuring Adaptations in Nonprofit Hospice Organizations." *Nonprofit Management and Leadership,* 2004, *15*(1), 117–137.

Schmid, H. "Merging Nonprofit Organizations: Analysis of a Case Study." *Nonprofit Management and Leadership,* 1995, *5*(4), 377–391.

Singer, M., and Yankey, J. "Organizational Metamorphosis: A Study of Eighteen Nonprofit Mergers, Acquisitions, and Consolidations." *Nonprofit Management and Leadership,* 1991, *1*(4), 357–369.

Sjoberg, G., Williams, N., Vaughan, T., and Sjoberg, A. "The Case Study Approach in Social Research: Basic Methodological Issues." In J. Feagin, A. Orum, and G. Sjoberg (eds.), *A Case for* *the Case Study*. Chapel Hill, N.C.: University of North Carolina Press, 1991.

Stake, R. *The Art of Case Study Research*. Thousand Oaks, Calif.: Sage, 1995.

Stone, E. *Research Methods in Organizational Behavior*. Santa Monica, Calif.: Goodyear, 1978.

United Way of New York City. *The Strategic Alliance Fund: Lessons Learned Year One*. New York: United Way of New York City, 1997.

Toepler, S., Seitchek, C., and Cameron, T. "Small Organization Mergers in Arts and Humanities." *Nonprofit Management and Leadership,* 2004, *15*(1), 95–115.

Wernet, S., and Jones, S. "Merger and Acquisition Activity Between Nonprofit Social Service Organizations: A Case Study." *Nonprofit and Voluntary Sector Quarterly*, 1992, *21*(4), 367–380.

Wood, D., and Gray, B. Toward a Comprehensive Theory of Collaboration. *Journal of Applied Behavioral Science,* 1991, *27*(2), 139–162.

Yankey, J., and Singer, M. "Managing Mergers and Consolidations." In R. Edwards and J. Yankey (eds.), *Skills for Effective Human Services Management*. Silver Spring, Md.: NASW Press, 1991.

Yankey, J., and Willen, C. "Strategic Alliances." In R. Herman and Associates (eds.), *The Jossey-Bass Handbook of Nonprofit Leadership and Management* (2nd ed.). San Francisco:

Jossey-Bass, 2005.

Yin, R. *Applications of Case Study Research*. Thousand Oaks, Calif.: Sage, 1993.

Yin, R. “The Abridged Version of Case Study Research: Design and Method.” In L. Bickman and D. Rog (eds.), *Handbook of Applied Social Research Methods*. Thousand Oaks, Calif.: Sage, 1998.

Yin, R. *Case Study Research* (3rd ed.). Thousand Oaks, Calif.: Sage, 2003.