

# RESEARCH PAPER



**Aged & Community  
Services • Australia**

# Rural & Remote Viability

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# Contents.....

<b>Introduction</b>	<b>3</b>
<b>Literature Review</b>	<b>4</b>
<b>Mergers of Rural Organisations</b>	<b>5</b>
Local Ownership and Mergers	5
Culture in Relation to Mergers	6
<b>The Research Aim</b>	<b>9</b>
<b>Methodology</b>	<b>9</b>
<b>Research Results</b>	<b>10</b>
<b>Community Identity and its impact on Mergers/Alliances</b>	<b>10</b>
<b>Managing Community Ownership in a Merger/Alliance</b>	<b>11</b>
Identification of Local community Ownership	11
Management of Local Community Ownership Issues	12
<b>Results of the Merger Process</b>	<b>13</b>
<b>Cross - Cultural Issues</b>	<b>14</b>
<b>Review of Research Results</b>	<b>14</b>
<b>Recommendations</b>	<b>16</b>
<b>Bibliography</b>	<b>17</b>
<b>Attachment 1</b>	<b>19</b>

## Introduction

The context of the proposed research relates to organisations delivering health and aged care services in small rural and regional communities throughout Australia.

Due to the many changes involving health and aged care services, together with the many challenges facing small rural communities, there has been an effort on the part of government to encourage the amalgamation of providers of health and aged services<sup>1</sup>.

A feasibility study into the amalgamation of two aged care providers in a small rural community revealed the potential of turning two small struggling organisations into a financially viable and sustainable unit through merging<sup>2</sup>. Another two larger regional organisations, which have recently merged, anticipate a financial turn-around of almost \$1,000,000 in their first year. However amalgamations have been largely ignored by organisations in many communities<sup>3</sup>.

Reasons for this lack of interest appear to stem from two major issues. The first relates to amalgamations of organisations within a community. The second relates to amalgamations of organisations across two or more communities.

In the first instance, perceived differences in the values or culture of the two organisations have been given as a reason for not pursuing amalgamations. In the second instance the issue of local ownership and independence has been given as the reason for a lack of interest in merging with other organisations.

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<sup>1</sup> eg. Commonwealth Department of Health and Ageing initiatives including “Multi-Purpose Services” and the “Uniting in Care” program in Aged Care Approvals Round 2000. See also NSW Government, 2000 *A Framework for Change*, NSW Ministerial Advisory Committee on Health Services in Smaller Towns

<sup>2</sup> MacKinnon, P. (2000) *Feasibility Study into Amalgamation of Emmerton Park Hostel and Ambrose Nursing Home*

<sup>3</sup> As revealed by a senior public servant in the Department of Health and Aged Care at a meeting in May, 2001

There is little research into mergers of non-profit organisations in Australia, so any evidence for the above is largely anecdotal and has come from informal conversations in groups representing rural health and aged care providers<sup>4</sup>. However a review of the literature on mergers reveals the resolution of issues of organisational culture and organisational independence are key to whether a merger is successful or not.

A number of rural organisations have merged in Australia, and apparently with some success. One of these mergers occurred in Central Gippsland in Victoria involving a number of smaller health and aged care organisations. Other mergers have also occurred in rural New South Wales and Queensland

This research will attempt to evaluate a number of rural organisations that have merged, with particular reference to the impact of organisational culture and local ownership issues on the merger. From this research it may be possible to develop a model of merging organisations that resolves the issues of cultural differences and local ownership, so that rural organisations are better placed to take advantage of some of the positives of amalgamations.

## Literature Review

The literature review examined three major issues.

1. Issues surrounding mergers of rural organisations.
2. The issue of local ownership and organisational independence in relation to mergers of non-profit organisations.
3. The role of culture in relation to mergers.

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<sup>4</sup> The writer is a member of a national committee for rural health and aged care providers. The issue of mergers was discussed at a meeting in October 2002, and there was agreement that the two issues were the primary reasons why rural organisations were not considering or pursuing amalgamations.

## Mergers of Rural Organisations

A review of literature revealed only one research report into collaboration between rural non-profit organisations<sup>5</sup>, and there were no reports on amalgamations between rural organisations. The report on collaboration between rural organisations dealt largely with a number of processes that promoted “service integration” but which fell short of the merging of organisations. However the report did note “tight, small town identities could inhibit the formation of regional collaborations”, even though these type of partnerships between organisations were of critical importance to rural communities.

Given the finding that small town identities could inhibit loose partnerships between organisations, it could be argued that this would be even more of an issue where two organisations intend to form a new entity with reduced autonomy<sup>6</sup>.

The **first issue to be considered** by the research will be the role of rural community identity and its impact on organisational mergers across communities.

### Local Ownership and Mergers

Once again there were very few reports on the issue of local ownership and it’s impact on organisations considering merging.

Arsenault does refer to the issue of organisational identification and autonomy as issues requiring the consideration of Boards of Management when reviewing possibilities of strategic alliances. The more an organisation wishes to retain its organisational identity and autonomy, the looser the alliance that will be considered.<sup>7</sup>

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<sup>5</sup> Snavely K, & Tracey M. 2000 “Collaboration among rural nonprofit organizations” *Nonprofit Management and Leadership*, vol 11, no. 2 pp. 145-165

<sup>6</sup> Arsenault p. 34 lists four options for Strategic Alliances, noting that mergers result in the greatest reduction in autonomy of existing organisations. See Arsenault, J., 1998 *Forging NonProfit Alliances*, Jossey Bass, San Francisco

<sup>7</sup> Arsenault, 1998

In another report on strategic alliances between non-profit organisations the authors reported that research had shown that the loss of organisational identity was a significant problem in 40% of non-profit mergers.<sup>8</sup>

Given that mergers of organisations across rural communities will by their nature result in a loss of local identity and autonomy, it could be expected that this would be a significant issue for many organisations considering some type of strategic alliance.

A **second issue** that will be considered by the research will be the importance of organisational identity in a merger and how this can be managed.

### **Culture in Relation to Mergers**

Unlike the first two issues there is a significant amount of research into the impact of organisational culture on mergers. Arsenault reports that “there is ample evidence that a significant reason mergers fail, is the inability of the two organisations to integrate at a cultural level”<sup>9</sup>. Light and Yankey also suggest that incompatibility of organisational culture creates one of the greatest difficulties in making a merger work.<sup>10</sup> Schein argues, “a cultural mismatch in an acquisition or merger is as great a risk as a financial, product, or market mismatch”.<sup>11</sup>

It would appear then, that many of the concerns that rural organisations have about culture differences are well founded, and good reason not to explore a merger. However the literature suggests that although difficult, cultural differences can be managed to ensure mergers are successful.

For example, Teasdale reports on the use of a bicultural audit tool.<sup>12</sup> The audit explores the compatibility of organisational vision, values, structure, management practices and information flows between organisations and identifies commonalities and gaps between the cultures.

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<sup>8</sup> Light, M & Yankey, J (1998) “Editorial Commentary & Response” *Nonprofit Management and Leadership*, San Francisco vol. 9 no. 1 pp. 111-115

<sup>9</sup> Arsenault, 1998, p. 88.

<sup>10</sup> Light et.al. 1998

<sup>11</sup> Schein, E. 1992 *Organizational Culture and Leadership*, Jossey-Bass, San Francisco

Representatives of both organisations then negotiate ways of bridging the gaps, including the definition of new organisational structures, the identification of new management styles and the strengthening of internal communication. Whilst this process may be useful, Schein cautions that in some cases the players in the two organisations are unable to discuss the differences in organisational culture.<sup>13</sup>

Schein also argues that the role of leaders is critical in resolving cultural differences between organisations.<sup>14</sup> Leaders must be able to understand their own culture, to discern potential incompatibilities with culture of another organisation. Secondly the leader must be able to engage in activities that can decipher the culture of another organisation. Finally the leader must be able to communicate the similarities and differences between the two cultures in a way that others involved in decision making about a merger can understand and take action to resolve.

A number of authors report on the importance of three factors to a successful merger. These are to stay focussed on the organisation's mission, communication with all stakeholders and the identification and management of traditions. These three issues are all related to the organisational culture.<sup>15</sup>

In a report on the successful merger of two non-profit organisations the authors found that one of the most important factors to its success was a focus on the mission and vision of the organisations and the merger.<sup>16</sup> The focus on mission assisted the two organisations in determining their fit, an important consideration in the early stages of choosing a partner to merge with.<sup>17</sup> The focus on vision "created a positive image of what was possible and freed people to consider possibilities rather than fears".<sup>18</sup>

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<sup>12</sup> Teasdale, M. (1992) "Confusions and Acquisitions: Post merger culture shock and some remedies" *Communication World*, San Francisco vol. 9 no. 6 p. 44

<sup>13</sup> Schein, (1992), p. 271

<sup>14</sup> *ibid*, p. 384

<sup>15</sup> Arsenault, p. 88

<sup>16</sup> Non-profit World (1992) "Keys to a successful non-profit merger" *Non-profit World*, Madison vol. 10 no.3 p. 14

<sup>17</sup> Arsenault, p. 88

<sup>18</sup> Non-Profit World (1992)

Almost all studies on organisational mergers report on the importance of communication to stakeholders during a merger. Communication can create an aura of trust and can make a merger seem less threatening.<sup>19</sup> Taylor and Austin reported on the high levels of stress associated with mergers, most of which arose from conflict between organisational cultures. They also reported that the most helpful techniques in managing this stress related to employee involvement and communication during the merger process.<sup>20</sup>

Tradition is an important aspect of organisational culture.<sup>21</sup> It appears that successful mergers take traditions seriously, and manage differences in tradition between organisations, mainly through the development of replacement structures and roles.<sup>22</sup> Payne argues that the most effective method of changing organisational culture is to change controlling processes – structures and systems – which set the norms for behaviour, values and beliefs in the new organisation.<sup>23</sup>

A final area to be explored relates to the personal impact of a merger on staff, as it has been argued that mergers are intrinsically stressful due to the potential for significant change and loss.<sup>24</sup> This stress “ultimately affects perceptions and judgements, interpersonal relationships and the dynamics of the business combination itself”.<sup>25</sup>

The **third issue** to be considered by the research is how the factors surrounding cultural issues impact an organisation and how these were managed.

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<sup>19</sup> *ibid.*

<sup>20</sup> Taylor, J & Austin, M. (1992) Managing mergers of human service agencies: People, programs and procedures” *Child Welfare* vol. 71 no. 1 pp. 37-53

<sup>21</sup> Schein, p. 8

<sup>22</sup> Kenworthy, A. (1999) “Mapping mergers” *Association Management* September 1999 pp. 26-33

<sup>23</sup> Payne, R. (1991) “Taking stock of corporate culture” *Personnel Management*, London vol. 23 no. 7 p. 26

<sup>24</sup> Appebaum S., Gandell J., Shapiro B., Belisle P. and Hoeven E., (2000) “Anatomy of a merger: behaviour of organisational factors and processes through-out the pre- during- post- stages (part 2) *Management Decision Journal*, vol. 38, no. 10, pg. 674

<sup>25</sup> *ibid*, pg. 674

The factors to be explored relate to:

1. How seriously were cross-cultural issues taken into consideration prior and during the merger process?
2. What was the role of leaders in the management of cross-cultural issues?
3. How important were mission and vision in the merging process?
4. How important was communication, and how was this managed?
5. How were traditions identified and how were they managed in the merger process?
6. How participants in a merger have reacted to the process and the impact of this on their perception of the merger.

## The Research Aim

Given the above context and issues arising from the literature review the aim of the research will be:

To review the mergers of a number of rural and regional community aged care providers, with specific reference to the issues of organisational culture and local ownership.

This aim is based on an assumption that the issues of culture and local ownership are important considerations in any proposal to merge two rural organisations.

## Methodology

The methodology used to undertake this research was a series of interviews using case studies of mergers of a number of rural aged care organisations. I believe the use of a case study is justified as it is a study of a single social phenomenon, but viewed as an instance of a broader phenomenon, "as part of a larger set of parallel instances".<sup>26</sup> In this case I am assuming that what can be learned from the mergers of some specific rural organisations can be translated to general principles that are applicable to mergers of other rural organisations.

A number of interviews were conducted with key stakeholders who have been involved in a merger processes. These included:

1. Two representatives of aged care peak bodies to review to what extent community identity is a factor when rural organisations consider mergers or alliances.
2. The senior management of the merged organisations to explore:
  - a) To what extent local community identity and ownership were considered when a merger was first proposed,
  - b) How issues of local community ownership were managed.
  - c) The results of the merger on local community identity and ownership of the service.
3. A short survey of senior managers in a merged organisation, to explore to what extent and how successfully cross-cultural issues were managed during the merger process. Whilst Schein would argue that interviews and small groups would do more justice to exploring cross-cultural issues<sup>27</sup>, a survey has been used due to time constraints and to encourage a reasonable response rate from participants.

## Research Results

### Community Identity and its Impact on Mergers/Alliances

From interviews of representatives from two state aged care peak organisations<sup>28</sup> it became obvious that local community identity and ownership are significant issues for aged care organisations considering mergers or alliances.

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<sup>26</sup> Feagin, J., Orum, A. & Sjoberg G. (1991) *A Case for the Case Study*, The University of North Carolina Press, Chapel Hill. p. 2

<sup>27</sup> Schein, 1992

<sup>28</sup> The two peaks were Aged Care Queensland and Aged & Community Services Association of NSW and ACT

One state peak association reported that they had attempted to encourage their members in rural areas to consider alliances, however the consistent response was that “our local community would never agree to it”.

The other state association reported that although the issue of mergers and alliances had been promoted as one way of dealing with on-going viability issues in rural areas, that mergers and alliances continued to be a marginal issue and was not affecting the majority of members, with some members actively resisting any such move even though their future is under threat.

As an interesting note it was reported that most instances of collaborative arrangements in rural areas are acquisitions of small rural organisations by a much larger organisation, rather than an alliance between two or more smaller organisations.

## Managing Community Ownership in a Merger/Alliance

### Identification of Local Community Ownership

In all cases those interviewed considered local community identity and ownership as significant issues during the merger process. All reported on the community’s investment in time and money into many small rural aged care facilities through fundraising and volunteering. This results in an “equity link” between the community and rural facilities that in a sense of the facility *belonging* to the community. Mergers and alliances are then seen as an external party *taking over* the facility and the community *losing* it. The tremendous sense of community ownership and identity with the bricks and mortar of a facility is an issue that was not taken lightly by any organisation involved in mergers or alliances.

As well as the equity link noted above a second issue reported by one respondent was the distrust, fear and lack of confidence felt by rural communities as a response to the lost (primarily government) services. It was observed that there was a sense that “nothing is sacred” and a merger or alliance might lead to the facility being closed and services withdrawn in the future.

Another issue that was raised was that of local communities losing access to the aged care facility, with a belief that the new organisation acquiring the facility would give priority to its own clients rather than those from the local community.

## **Management of Local Community Ownership Issues**

Organisations involved in mergers or alliances reported on a variety of methods to manage the issue of local community ownership and identity.

The primary way in which this was done was in promoting the merger or alliance as securing the future of aged services for the local community. In most cases the rural organisation was either struggling financially or the Board of Management lacked the expertise to meet government standards and regulations. For these rural organisations a merger or alliance was seen as the only way of keeping aged care services in the local community.

A second means was the time taken by both organisations in moving through the merger/alliance process. In some instances this merger timeframe was more than three years, with the lead organisation providing management advice and support, allowing a relationship of trust to develop.

Another aspect related to how the lead organisation initially approached the merger or alliance. In some cases the rural organisation was encouraged to explore other options (eg where similar churches provided aged care in the region etc). The lead organisations interviewed were at pains to state that they did not approach smaller rural organisations as takeover targets.

Another means of managing the issue was that of having the Board of Management of the small organisation remain as a sub-committee or local advisory committee reporting to the larger organisation.

The authority and power of these sub-committees varied across communities and lead organisations. Some were able to appoint staff (except for senior managers); in other cases the lead organisation recruited staff but in conjunction with the sub-committee.

Some committees were involved in setting and monitoring budgets at a local level; others monitored quality issues. Whatever the role, the local Board and its continuity pre- and post-merger was seen as an essential aspect of maintaining local identity and ownership.

Leasing arrangements rather than a straight transfer of assets was another way in which local communities were able maintain local ownership of the aged care facility.

A further means of managing community ownership related to the way in which change was introduced. Some lead organisations quarantined the smaller organisation from any changes to policies and processes for the first three months following the merger. When policies and procedures were reviewed the criteria was that of effectiveness and efficiency rather than wholesale introduction of the lead agency's management systems.

The CEO of a small rural organisation noted that he had confidence in the lead organisation to make the merger work because their reputation was at stake. Therefore the lead organisation needed to make it work, as a disaster would reflect poorly on their management ability, and possibly also attract government sanctions.

## **Results of the merger process**

The CEO's of two lead organisations who had undertaken a number of collaborative projects with rural organisations reported that most had been successful, and that the local communities were positive about the results. However the only indicator that this was the case related to the on-going operation of the local Board/advisory/sub-committee structure. One lead organisation believed this was sufficient, as board/sub-committee members in rural communities were usually involved in a number of other groups and so were in a position to become aware of any negative sentiment against the merger and be in a position to respond to this quickly.

Representatives from the smaller organisations also reported that they believed the merger process had been successful, not only in terms of maintaining the service in the community but also is gaining and maintaining community support for the service.

## Cross - Cultural Issues

Unfortunately the response rate for the survey was such that no results can be drawn. However as other research has shown this issue to have an impact on collaborative arrangements, further research should be undertaken in this area. I have included the survey form as an attachment.

## Review of Research Results

The research undertaken for this paper indicates that local community identity and ownership of aged care services are a significant issue in rural communities when considering some type of collaborative arrangement. This corresponds with the small body of literature on merging of non-profit organisations in rural communities cited earlier. The strong sense of ownership would appear to be a result of the significant amount of resources the community provides in establishing these services. In some cases communities have purchased shares in co-operatives established to provide health and aged care services. A second reason may be that many Boards's of rural organisations have long-standing members who helped establish the service. In some cases an individual Board member's persona is tied to the organisation; in other words the local community identify the service with an individual and vice versa.

However the interviews seem to suggest that the issue of local community ownership can be managed successfully and result in a positive outcome. All the cases explored in this research involved small rural organisations that were struggling and required external help to survive. The collaborative arrangements that have been put in place have allowed the service to remain in the local community, with an opportunity for continued local input.

One issue noted during the research is that most rural organisations do not appear to seriously consider collaborative arrangements until they are under threat, either financially or struggling in meeting government standards. This may result in limiting the options for collaborative models, as a solution is required urgently.

Another important consideration is the lead agency merger model versus regional alliances. Whilst one would expect regional alliances to be more acceptable to local communities than perceived take-overs from large metropolitan organisations, in most instances local boards appear to have approached the larger organisations for support rather than explore alliances with other smaller organisations.

The reasons for this could be;

1. The larger organisation is seen to already have the expertise in effectively managing aged care services; therefore solutions to urgent problems experienced by the rural organisation can be quickly accessed. In contrast, an alliance may not produce the necessary skills or expertise quickly enough to relieve the pressure on the alliance members.
2. Large organisations have the structures and staff in place to produce the required outcomes sought by rural organisations. The local organisation does not have to expend significant amounts of its time, energy and money in establishing effective systems and recruiting skilled staff as would be the case in forming an alliance or partnership.
3. There is a motivation for larger organisations to get the merger or collaborative arrangement "right". As was noted in one interview, the reputation of the large organisation is at stake, and a failure could be a disaster for them.

In most cases I would suggest these are significant considerations for rural organisations as there often has been considerable personal pressure on Board members as they have dealt with funding deficiencies and meeting government standards and regulations.

## Recommendations

As a result of this project I believe that further research should be undertaken into a broader range of collaborative models with a view to exploring how these models have managed and resolved the issues of community identity, local ownership and organisational culture in rural communities.

From further research those models that have successfully resolved the above issues, should be actively promoted by industry peaks to their members as one means of improving a rural organisation's viability and long term sustainability.

A further recommendation relates to key indicators that could be used as evidence of the local community's on-going support and ownership for the merged or allied rural organisation. Whilst the maintenance of a local sub-committee is one way of demonstrating community support I would suggest that there may be more objective indicators including the following;

1. Number of vacancies on the local committee and time taken to fill these positions.
2. Number of meetings per year attended by local committee members.
3. Amount of donations and in-kind support donated by the local community.
4. Amount of hours volunteered by individuals and groups from the local community.

Objective data such as this can be trended to observe if community support is maintained over a period of time. It can also be used as evidence for other communities considering some type of collaborative arrangement to compare with their own existing community's support.

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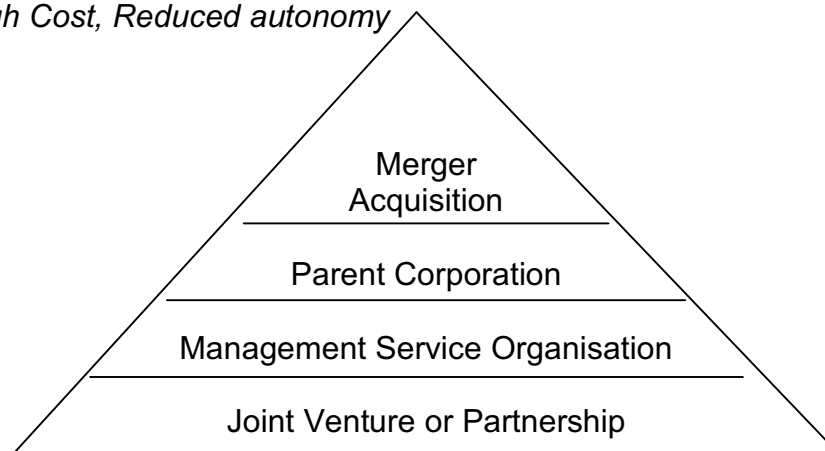
## BACKGROUND ON MODELS & PROCESSES

There are a number of basic issues involving mergers and alliances that are taken for granted in the research paper - so the following provides some additional background about models and processes. It really is a summary of two books on merges and alliances. Anyone who is interested in some sort of collaborative approach should get them, however they are both from the US and so need to be checked against our own taxation and corporation laws.

### Merger Models

The research paper dealt only with mergers and these were all acquisitions of smaller providers by larger groups. On a continuum of merger/alliance models, mergers are at the high end of a continuum of risk, cost and loss of control.

*High Risk, High Cost, Reduced autonomy*



*Low Risk, Low Cost, Autonomy maintained*

**Joint Ventures** are usually a partnership arrangement for the accomplishment of a specific objective that is time-limited and narrowly defined.

**Partnerships** are similar to joint ventures but are of a long-term nature.

**Management Service Organisations** are entities created by one or more existing organisations to provide management and administrative services to other organisations.

**Parent Corporations** is an umbrella organisation under which separate organisations can be grouped. The parent body has more or less authority over the existing organisations depending on the level of autonomy to be maintained. This model can be very flexible, with members deciding on what areas of governance and management, and to what degree, the Parent Corporation will be responsible for.

**Mergers** are the establishment of a new organisation from two or more existing organisations, where the existing entities legally cease.

**Acquisitions/Consolidations** are where organisations merge but one is absorbed into the other (the lead agency).

There are examples of all the above in aged care, although predominantly we are seeing acquisitions (the lead agencies would prefer to call them consolidation!) and management service organisations. There are few examples of mergers (although OneCare in Tasmania, and South Gippsland Health in Victoria are two that I am aware of).

Parent Corporations should be an attractive option for rural providers because of the flexibility with that model, but most reports indicate issues of community identity and ownership seem to inhibit their establishment.

Whilst in general mergers/acquisitions are supposedly the highest cost/risk models, what my research indicates is that acquisitions by a lead agency *appears to **struggling*** rural providers to be less costly and riskier than what would be required to explore and establish a Parent Corporation. Note the emphasis on struggling, that word came up a lot as I talked to operators during my interviews. As I noted in my assignment, there is a sense of weariness amongst the board members of rural providers as they attempt to manage (unsuccessfully in many cases) the complexities of staffing, RCS's, accreditation, certification etc with the weight of community expectations on their shoulders.

## **Merger Processes**

Drawn from *The New Strategic Planning Book* by Thomas A. McLaughlin (1998: John Wiley & Sons, New York). Also see *Forging Non-profit Alliances* by Jane Arsenault (1998: Jossey Bass Publishers, San Francisco)

### **Seven Steps to a Successful Nonprofit Merger**

*Learn About Each Other*  
*Form Planning Structure*  
*Finalise Leadership*  
*Structure the New Entity*  
*Communicate*  
*Formalise Agreement*  
*Implement and Evaluate*

## **Seven Steps to a Successful Nonprofit Alliance**

*Learn About Each Other*  
*Synthesize and Plan*  
*Develop Working Committees*  
*Achieve Quick Victories*  
*Seek Institutional Buy-in*  
*Develop a workplan by C.O.R.E. areas*  
*Formalise an Operational Structure*

## **Key Aspects of Alliance Development**

*No single entity*  
*Must look for leaders not bosses*  
*High degree of ambiguity*  
*Trust on all sides is the key*  
*Momentum is critical*  
*No guarantees - a new model*

## **Major Differences Between Mergers and Alliances**

### Merger

Corporate Change  
Focus on strategy  
Usually horizontal  
6-9 months  
One board of directors  
Act as one  
Market sees one

### Alliance

No Corporate Change  
Focus on operations  
Horizontal or vertical  
Open-ended time frame  
Multiple boards of directors  
Multiple corporate interests  
Market sees many acting as one