Less Dangerous Liaisons

Early Considerations for Making Mergers Work
The Audit Commission

...promotes proper stewardship of public finances and helps those responsible for public services to achieve economy, efficiency and effectiveness.
Summary

The next few years will see a large number of mergers between local public sector organisations. The Audit Commission has written this paper to help those leading such mergers to ensure that strategic objectives are achieved and continuity of service provision maintained. This paper will be of interest to members and top managers of local authorities and to health board members. It may also help those leading major organisational changes other than mergers.

*Less Dangerous Liaisons* focuses on broad principles and on early considerations in the run up to mergers, drawn from experience in both the private and public sectors. It does not aim to provide an exhaustive list of answers, nor tackle all the detail. Rather, it seeks to provoke thought by describing common problems and suggesting some possible approaches, often accompanied by case studies. The key messages are:

- There are some common managerial themes that emerge from the experience of those who have successfully led mergers in the private and public sectors. However, in terms of achieving the predicted financial and other benefits, most private sector mergers have turned out to be disappointing.

- The early appointment of a chief executive will be necessary to organise action following concerns triggered by a merger announcement. Where this is not possible, an alternative source of executive leadership will need to be established in the interim.

- The scale of the management task of transition is often underestimated. Top management will have to decide where to focus its effort, taking care to ensure services continue to be delivered while the future is planned for. Management must also assemble a transition team to help with detailed planning and implementation.

- The strategic aims and the values of the new organisation will need to be developed. This must be led by local authority members and local NHS boards, even if they have had reservations about the benefits of the merger. But staff and other key stakeholders should also be involved. The benefits of the merger should then be widely communicated.

- Early decisions will need to be taken on staff changes consequent on the merger and to reassure staff who will stay. The principles here are: act quickly to clear uncertainty and act fairly.

- Systems critical to the continuous delivery of services immediately after a merger, and ones which will need to be integrated over time, have to be identified. A task group should be established for this work to 'dummy run' the critical systems.

- A plan should be developed for effecting cultural change. This will involve taking stock of the culture of the parent organisations, before deciding on how best to move towards developing a new one.

- Managing organisational mergers is very difficult. With hindsight, the overall experience of previous mergers is not encouraging. Most of those leading mergers in local government and the NHS will have no choice about whether to merge. Those for whom there is a choice should consider whether there are alternative ways of achieving the same strategic aims.

In this paper we identify 26 areas where early consideration is needed in preparation for a merger. We have drawn these together as a checklist for action in a pull-out centre section.
Introduction

Why the Audit Commission has written this paper

1. Over the coming months and years there will be intense and complex restructuring in local government and the National Health Service (NHS). Scores of new organisations will be formed. The Local Government Review will lead to the creation of new unitary authorities and, even where two tiers remain, there will often be mergers through the redistribution of responsibilities. Meanwhile in the NHS, district health authorities (DHAs) and family health services authorities (FHSAs) are set to merge in 1996 and before then many DHAs will be working through mergers with one another. In addition to this, there will be mergers between NHS providers, although the total number likely to be involved is hard to predict (Exhibit 1).

2. A great deal has been written about what contributes to success or failure in pulling organisations together in private sector mergers. The main message is that in terms of the financial and other benefits predicted from the mergers, most turn out to be disappointing. However, little appears to have been written about public sector mergers. The Audit Commission has produced this management paper with the aim of distilling relevant lessons from the private sector and pooling experience of merging in the public sector.

3. The focus of the paper is on broad principles and on early considerations in the run-up to merger. It does not aim to tackle all the detail. Rather it seeks to provoke thought by describing common problems and suggesting some possible approaches. By selecting those areas most likely to make or break the merger, it aims also to provide structure to the morass of issues that will need tackling. Such general preparation is appropriate since a strong message from the research is that there is no blueprint for success – organisations must develop their own formulae. A list of useful publications containing more specific advice on mergers is included in Appendix 1.

Exhibit 1
Latest estimate of change in the local public sector in England and Wales
Over the coming months and years local authorities and health bodies will be going through a period of intensive and complex restructuring.

Note: Estimate based on latest available information on 1 May 1995.
4. This paper seeks to capture and interpret generic experience from organisations which have merged successfully. While it has sought to take account of the special features of local authorities and of NHS purchasers and providers which will affect how they apply these lessons, it does not deal with other features which are exclusive to the public sector. For example, members in local authorities rightly see their role, in part, as representative of specific geographical areas and their populations. Following merger there will need to be a great deal of brokerage to enable the new local authority to feel that an appropriate balance of those local interests is reflected in its policies. This may have some resonance also in the new boards of some merged NHS bodies.

Whom this paper is intended for

5. The Commission intends the primary audience for this paper to be those who will be leading mergers – members of local authorities, chairs and chief executives of health boards, and the top managers in both sectors. Local government readers should consider this paper in the context of the Commission’s wider programme of work in support of local authorities through reorganisation, such as its recent report to new authorities – ‘Seize the Day – Guidance for Incoming Unitary Councils’.

6. Some of the new organisations emerging from the structural changes in train will not be the product of a merger. Some county councils, for instance, will see some of their functions disaggregated as they are handed over to other authorities. Joint health commissioning agencies will be formed from a closer working arrangement between separate bodies taken as a first step towards eventual merger. Many of the messages in this paper, concerned as they are with organisational change, will be of interest to those leading change through the whole range of restructuring – mergers, disaggregations, alliances, alike.

The structure of this paper

7. The paper’s structure is based on common themes that have emerged from an examination of the management of mergers. In the next chapter – ‘Getting started’ – we look at the initial preparations needed: providing executive leadership and the management capability both to ensure that essential service delivery is maintained and to oversee the transition process as a whole. We then address the four key areas which need to be tackled within the context of an over-arching strategy in the chapters entitled:

- The benefits of the new organisation – how are they to be defined and communicated?
- How will staff changes be handled?
- Which are the critical systems?
- What sort of culture will be most appropriate?

In the final chapter we make five observations which we wish particularly to leave in the minds of the reader.

The research on which this paper is based

8. The paper is based on a literature review; interviews with acknowledged experts; and interviews with senior executives of organisations which have experienced merger, including five private sector companies, one trade union and twenty public sector bodies.
Getting started

9. A clear message from both private and public sector mergers is the need for immediate leadership from the top to provide consistency of purpose and direction. This will be particularly difficult for hung councils, which will nevertheless need to find ways – formally through coalition or informally through tacit agreement between the leaders of different party groups – to achieve this. Case Study 1 describes how one hung council established effective political leadership. In the NHS too chairs and non-executive directors will have an important role to play (see the Audit Commission’s forthcoming management paper ‘Taken on Board: Corporate Governance in the NHS – Developing the Role of Non-Executive Directors’) and when the merger is between very different kinds of organisation – as with DHAs and FHSAs – it may be difficult to develop quickly the necessary cooperation between board members. Clearly, the earlier that chairs and non-executive directors are appointed, the sooner clarity can be restored and difficulties resolved.

Executive leadership

10. Executive, as well as political, leadership will be needed from the start. In the first instance, there will be a requirement to organise swift and systematic action to deal with the early concerns triggered by a merger announcement and this cannot be met without strong managerial leadership in place. Beyond that the transition period leading up to and following structural change needs to be managed effectively. Therefore a critical early decision must be the appointment of a chief executive for the new organisation, where one is not already in place. If a delay in making this appointment is unavoidable, then an alternative interim source of executive leadership, such as the short-term appointment of a retiring chief executive from one of the partners to the merger, needs to be put in place immediately.
Case Study 1

Members and officers need to work together to provide effective political leadership in 'hung' councils

A county council became 'hung' after a long period of overall political control by one party group; all three major national political parties had substantial groups with no formal coalitions. Despite this, effective political direction was given to the organisation. Key spending priorities and other strategic objectives were set for the council as a whole and within individual service areas including a quite radical reform of the council's direction. Factors which helped this to work were:

♦ clear working conventions for members agreed very early on (e.g. the adoption of 'technical chairs' for committees, who restricted their roles to the despatch of business and the handling of press releases and media enquiries, leaving the political arguments to the three 'party representatives' on each committee);

♦ time set aside by leading members to develop a shared understanding of the opportunities and problems facing the council, which helped to identify common goals;

♦ focusing discussion on issues, such as Compulsory Competitive Tendering (CCT), at a pragmatic level, where agreement was possible, rather than a level of fundamental politics;

♦ a tradition of respecting the views and ideas of opposition members and of mutual regard between the leaders of all party groups brought over from before the 'hung' period.

The chief executive and other chief officers were able to help this process by providing opportunities for members to come together to develop a shared understanding of the issues and by facilitating their discussions. On occasions the chief executive has acted as a 'lightning conductor', drawing off political frustration and rancour which would otherwise have disrupted the effective working together of the three party groups.

11. And the task of executive leadership will be demanding. Maintaining a balance between competing claims on top management time is a problem well-known to all managers. Mergers, however, exert extraordinary pressures, and a key lesson from previous mergers is that the operational performance of most organisations suffers both during the merger process and immediately post-merger. This is because top management is wrapped up with merger issues and because staff are uncertain about their futures. However crucial the management of change, the 'shop' must remain open and staff must be motivated to continue to deliver essential services to the public. Thus top management must strike a balance between managing the old – ensuring continuity and quality of services, and the new – extracting the benefits from the merger, as well as managing the transition process, in order successfully to build the new organisation. Choosing where the balance should lie needs to reflect specific local circumstances, with the most experienced management needing to focus on the most difficult tasks (see Case Study 2, overleaf).
Case Study 2

Focusing top management attention

In 1990 the Inner London Education Authority (ILEA) was dissolved, and its functions were divided between the inner London boroughs. The experience of two London boroughs with radically different political agendas led their respective top management to focus their efforts differently.

Hammersmith and Fulham Council was supportive of ILEA's education policies at the time of its break-up. It also judged that ILEA's culture was similar to that of the borough. Taking on their new educational responsibilities was therefore believed to be fairly straightforward strategically. The main tasks were:
- to learn the new business;
- to reassure service users and professional staff; and
- to avoid any disruption to service delivery.

Top management focused most attention on preparing for the substantial expansion of activities, in particular those related to staffing and systems, and on ensuring continuity of delivery of services – not in defining a new strategy for the organisation. This was accompanied by a re-articulation of the ILEA education philosophy at a local level.

By contrast, Wandsworth Council intended to adopt new and radical education policies, very different from those of ILEA. While the council had criticisms of ILEA’s policies and broad ideas about what it wanted to achieve, it did not know in detail how it would meet those objectives. This was reflected in the focus of top management. The council saw the chief education officer’s role as focusing on drawing up and implementing a new strategy to fill the policy vacuum thus created.

The transition team

12. The chief executive alone will not be able to deal with the range of important questions that the merger will pose – from the strategic level, right down to the nitty gritty of operations. Neither will he or she be able to undertake all the detailed preparatory work needed in laying the foundations of the new organisation.

13. So most chief executives approaching mergers establish transition teams whose job it is to provide the detailed plans and the management capability to implement the change. The members of these teams are usually drawn from the ranks of the most competent managers from all the parent organisations, and should be those who are likely to be enthusiastic about the merger. They are usually either committed full-time to the task of the transition team or spend a major proportion of their time on this work. The transition team must be given clear authority to have full access to the necessary information and to expect the cooperation of staff from all the parent organisations. One of their tasks is to get a full picture of the assets and liabilities of each of the parent organisations, analogous to the ‘due diligence’ review carried out in private sector mergers.

14. Problems sometimes arise through transition teams being under-resourced. Another problem can be lack of executive oversight. Work should be delegated to the transition teams by the chief executive, but he or she must continue to oversee it to ensure that it happens. The progress of the work of transition teams and the achievement of the strategic aims of the merger need to be closely monitored, with clear milestones being set.
Early considerations

1. For **local authorities**, how can effective political leadership be established quickly, particularly in the case of 'hung' councils? For **health boards**, how soon can the chair and non-executive directors be appointed?

2. When will a chief executive be in post? Is it possible to make this appointment before the merger? If an early appointment is impossible, what alternative source of executive leadership will be put in place?

3. Where should the balance of top management's time lie between strategic and operational issues to ensure continuity of service delivery as well as successful transition?

4. Who will be on the dedicated transition team? What will the team’s precise brief be? What resources will the team need to function effectively? What powers will it need? How will its work be monitored?
The benefits of the new organisation
How are they to be defined and communicated?

15. Perhaps the most certain result of merger is uncertainty. This can lead to demoralisation, with staff asking – 'is this just change for change’s sake?’ Staff and other stakeholders need to be convinced that benefits will result from the merger if the uncertainty is to be dispelled.

Defining the benefits of the merger

16. Defining the benefits of the merger and how the future will be both different from and better than the past is important. A clear and compelling picture of what the organisation is here to achieve can help build up morale and commitment to the new organisation. Sometimes vision statements, encapsulating the new organisation’s strategic aims and values, can be helpful. Although many vision statements are weary clichés, the best are short and simple and successfully appeal to both hearts and minds. But it is important that both the strategic aims – in particular the financial and service benefits anticipated – and the values, are defined and effectively communicated to staff and other stakeholders. And their achievement over time needs to be carefully monitored by top management.

17. Much of what is in these strategic aims and values should be drawn from what has come before in the parent organisations. Each of these will have achievements of which they are proud, and which should be retained. Each will also have unfulfilled aspirations that need re-examining – ‘what went wrong?’ ‘can these be accomplished now?’

18. A second source will lie behind the decision to merge. Public sector bodies merge for a variety of reasons:

♦ Costs can be reduced by relocating to fewer sites, using proportionately less management and administration, and increasing market power in purchasing services or supplies.

♦ In the longer term, bringing together and rationalising related functions, such as trading standards and environmental health, or hospital and community health services, can multiply the number of options for further savings and quality improvements. Duplicated services can be eliminated, overlaps reduced for better coordination and new opportunities seized for redesigning processes and roles, or securing a concentration of professional excellence.

♦ Relationships can be improved with both the public and service users. The creation of single foci for local government (through unitary authorities) and local health services (through merging DHAs and FHSAs) has the potential of strengthening public accountability.

♦ In the case of NHS trusts, merging with a neighbouring trust can lead to better planned reductions in service provision, following changes in purchasing patterns.

'We have got to be clear about what will constitute success after reorganisation. Realising improvements in efficiency, productivity and performance will be a much more uplifting goal than simply surviving'
Roles and responsibilities

19. As important as the definitions of the strategic aims and values is how they are developed and who is involved. Approaches will vary from one type of organisation to another. Thus local authority members will necessarily have to take a leading role in defining the strategic aims and values of their organisations. This will be easier where a clear majority is established for a political group which has already set out its vision in an election manifesto. By contrast, the time between shadow elections and vesting day is likely to seem impossibly short for those new authorities where no overall control is established, especially in those where councillors have little experience of working in a 'hung' authority. If they are to be able to give sufficient lead in developing the new organisation's strategic aims and values, the members of such authorities will have to set aside a considerable amount of well-planned time to develop the working relationships and agreements necessary, including opportunities for newcomers to make a real contribution.

20. Beyond the members and chief executives of local authorities and the boards of NHS bodies, the more involvement that staff, trade unions, staff associations, professional bodies and other stakeholders are given in developing the strategic aims and values, the more they are likely to feel commitment to the new organisation and the quicker the transition will take place. Those who provide and receive services have more day-to-day operational knowledge and experience than top management. Their involvement will help the process of change and allegiance to the new organisation, as well as sharpening the end result (see Case Study 3, overleaf). Time taken to work in focus groups of staff and other stakeholders is time well spent. And yet there is a real risk that this activity will get squeezed out by the pressure of the other, apparently more urgent or important, activity post-merger. Chief executives will need to guard against this happening.

'We went through what seemed an endless round of consultation meetings - with parents, teachers, governors, heads, special groups, unions - to reassure them that no major changes were on the agenda, and that any changes made in the long-term would be to their benefit. And we learnt a lot about them in the process'
Case Study 3

It is important to involve staff and other stakeholders in developing the strategic aims and values

In mid 1991 the district health authority and family health services authority in Doncaster merged. In developing a new health strategy, based on joint commissioning, the new chief executive employed a number of tactics to build commitment to the future direction of service development and to develop allegiance to the new health authority. Both the boards of the existing DHA and FHSA were involved, and the whole senior management took time out to agree the key strategic aims and values. There then followed a consultation process with key stakeholders:

♦ the chief executive and authority chair visited most GP practices to elicit views and test ideas;
♦ the local medical committee were involved;
♦ a GP forum was established to set priorities for the new joint strategy and to monitor progress; and
♦ staff conferences were arranged to disseminate views and to receive feedback, and a team briefing process was used to keep staff informed.

The outcome of the consultation and involvement process was a strategy based on the health needs of the area rather than particular sectors. In particular, care was taken to avoid bias towards the secondary/acute sector. The strategy also recognised the increasing need to formulate health policy in conjunction with the local government and voluntary sectors.

21. The experience of mergers in the NHS is that there are many, different stakeholders (e.g. national and local politicians, community health councils, local press and other opinion formers, consumer and patient interest groups) and that they often have very local, even parochial, interests (e.g. concerned solely about the independence of a single hospital). The internal agenda following merger has been so demanding that often the effort to bring external stakeholders on board through involvement in developing strategic aims has been inadequate. With hindsight, many managers wish they had spent more time involving and communicating with users and others outside the organisation who have legitimate interests in how services develop.
Communicating the benefits

22. Once agreed, the benefits must be communicated to staff and key stakeholders. This will create a tremendous demand on the time of top management which cannot be avoided.

23. The following features of successful communication programmes should be taken into account:

♦ It is not possible to communicate too much.

♦ The more important the message, the more essential it is to communicate face-to-face.

♦ Messages communicated in a climate of suspicion are not believed, so an atmosphere of trust must be established. This can be done by being honest about the difficulties, by providing opportunities to hear concerns, answer questions and learn from what is said, and by supporting words with deeds.

♦ The credibility of the message will be enhanced or reduced by the person chosen to deliver it. A familiar and respected face won-over to the new order, who understands both the concerns of those who will have to adapt and the best ways to communicate with them, is likely to win more converts than an outsider.

♦ Finally, there is a danger during a period of uncertainty of making commitments which cannot be kept. As one chief executive put it – 'under-promise, then over-deliver'.

'We saw that executives leaving were treated well. We saw that our superior IT system was adopted, not theirs. So when they said they would respect our strengths, we believed them'.

The first chief executive made some assurances up-front to staff which, as the years have gone by, have proved impracticable. Getting the unions to accept this has been a major headache. I wish he had said a bit less.'
Early considerations

1. How will you define the strategic aims and values of the new organisation to 'pull' people along with you?

2. How will you enable elected members/boards to lead in this definition?

3. How will you involve staff?

4. Who are your key external stakeholders? How will you involve them in defining the strategic aims of the new organisation?

5. Is there a communications plan in place which covers the needs of all your stakeholders?
How will staff changes be handled?

24. Research has shown that staff going through a merger spend on average two hours a day talking about it. Such behaviour is understandable. A merger may have an immeasurable impact on their lives. Will they have a job? What will it be? Who will be their line manager and who their colleagues? Consequently, the quality of decisions about such issues, and the way they are made, will be scrutinised by all. The task for top management may be a demanding one: to reduce the number of staff; change people's jobs; promote only some; yet to do all this without alienating the workforce.

Deciding who stays and who goes

25. Virtually all mergers involve staff changes, although often these will be confined to the top of the organisation. Choosing the new organisation's top management will be an early decision after the merger. How that is done and what the team's final composition is will weigh heavily among staff as early evidence of how the new organisation is to be run.

26. A healthy message to deliver is – 'we shall learn from each other how to form the new organisation'. But that message will carry little credibility if the new top team is dominated by managers from only one of the parent organisations. The essential criteria for selecting managers must be individual merit. However, which parent organisation the managers have come from will be seen as symbolic and, if candidates of equal merit are available, then selecting a balanced team from all parent organisations may help the merger process. To complicate matters still further, those taking these choices will frequently find themselves assessing and passing judgement on colleagues and friends. Chief executives often report this as the most difficult task to be faced in a merger.

27. This task can be made less daunting in the following ways:

♦ Take a positive attitude – creating an entirely new top team from scratch is a rare opportunity to rejuvenate an organisation.

♦ Ability is unlikely only to be found in one of the merging organisations. Make sure that the selection process allows ample opportunity for the strengths and abilities of all applicants to become apparent.

♦ Be clear beforehand about the experience, knowledge and skills required for each post, taking into account the future needs of the new organisation (rather than what was needed before) and express them in a published job specification.

♦ Consider taking independent advice on the selection, a common practice for senior appointments. This could be particularly useful if the applicants include your previous colleagues.

♦ As soon as the appointments have been confirmed, communicate the decisions to all staff, stating as clearly as possible the characteristics which were sought, and how those that have been appointed illustrate them.

♦ Make sure that the new team members, once appointed, waste no time in building support for themselves. A full induction programme should be organised so that they can meet and listen to as many staff, service users and other stakeholders as possible in the first few weeks.

'We appointed both the executive and non-executive directors with a view to getting a blend of people respected by consultants from both sides. Of course, they are all good people. But the need to signal a genuine merger, not a take-over, was important'
28. In many mergers, there will be other staff changes – often involving redundancies. There is a clear consensus that such decisions should be made as quickly as possible. Some organisations have delayed taking these decisions. Often this is not due to genuine uncertainty. Rather, decisions are delayed in the hope that staff affected will interpret this as a measured approach, as humane, rather than ruthless, management. However, those who have tried such a 'softly, softly' approach tend, with the benefit of hindsight, to conclude that it was a mistake. It is not only inefficient – ‘wasting energy on internal politicking’ – but also damaging to morale – ‘prolonging the agony’ (see Case Study 4).

Helping people leave with dignity

30. Not only will the new leadership be scrutinised in whom it selects for jobs, and how, but also in how it treats those who were not chosen, or who have lost their jobs. Nobody will be pleased to see redundancies. But the evidence is that they will be accepted by staff if judged as both necessary and as decently handled. By contrast, poorly handled lay-offs will create a poor climate for staff-management relations for years to come, jeopardising staff commitment to the new organisation precisely when it is most needed.

31. Room for manoeuvre in giving support financially to staff who lose their jobs is limited in the public sector. In the case of local government reorganisation, for example, even who stays and who goes will often be dictated by law. Employers must fully understand the constraints within which they operate, and create as much freedom within these as possible. At the very least they should aim to:

♦ let those who failed to be selected for posts know why, what the job required and where they fell short;
♦ provide help through career counselling, skills assessments, arranging training or secondments or finding alternative employment; and
♦ adhere to, or, where feasible, improve upon, agreed redundancy procedures.

32. In sum, many believe that it is essential to make director appointments on 'day one', and other staffing decisions very soon thereafter (see Case Studies 4 and 5). Whilst action in this area will be constrained in public sector mergers by both the law and local and national agreements with trade unions and others, the same principles apply: act quickly to clear uncertainty, and act fairly.

Case Study 4

Minimise uncertainty by announcing staff changes as early and as fully as possible

After the acquisition of a UK company, 176 redundancies (from a total of 550 staff) were announced within a month. The announcement was made on the Wednesday. They had all left by the Friday. The chief executive felt ‘...this was a hard decision, but it created more certainty quickly for those who remained, who were then able to focus on getting on with the work. The worst thing that can happen is to drip-feed redundancies over a long period because it creates uncertainty, reduces morale and hence affects performance’. Even during the relatively short period of uncertainty, the company experienced a noticeable drop in performance and lost key staff to competitors.
Checklist for Action
Questions for board members

Please pull out and copy

In its management paper Less Dangerous Liaisons, the Audit Commission identified 26 areas where early consideration is needed in the run-up to a merger between local public sector organisations. Set out as a series of questions, these are intended to provide an initial agenda for those leading mergers.
**Checklist for Action**

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<td>3. Which systems are critical to service delivery? Which of those will need ‘dummy runs’?</td>
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<td>4. How can you use membership of the transition team and task groups to help cultural development?</td>
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<td>6. How will you ensure that top management models and reinforces the new culture in the way it behaves?</td>
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Case Study 5
A successful private sector merger

A major acquisition of a UK company which took place at the end of the 1980s has been regarded by most commentators as a success. The following three points were important to that success;

♦ Staff changes were managed quickly. ‘At the top the task was carried out quickly. It soon became apparent that the acquired company’s board and support team, about 150 people, would have to leave their posts within the next few months or so, but on good terms, with some retired and others offered alternative jobs. Only the Chairman and a small number of key individuals were retained. Their first job was to help manage the transition.’ Changes lower down the organisation progressed more slowly and gently. ‘With hindsight I feel we were too sensitive and took too long. People expected change and accepted the need for it. By trying to be kind we only prolonged the uncertainty.’

♦ Appointments were based on merit. Care was taken to recruit the best people from both companies. As a result it was two-way traffic, with staff moving from each organisation to the posts in what was previously the other. ‘When you acquire a company you acquire a lot of people and talent. You would be foolish then to lose some of that talent.’

♦ Each company learnt from the other. Perhaps one of the best measures of success, however, is that the acquisition changed the acquiring company itself. In particular, it learnt from the other company’s more sophisticated systems. Staff are now not sure who took over whom, because both have benefited. Over time, a one company culture has developed and this does not just happen ‘unless you really do mix people up’.
Early considerations

1. How will you assess the competencies, skills, knowledge and experience required by top management (individually and collectively) prior to selection?

2. Do you have a timetable for top management selection?

3. How will you reassure key players personally about their future as far as is possible and involve them in the transition process?

4. Have you a plan for staff cuts following the merger? How will these be achieved – early retirement, natural wastage, compulsory redundancies?

5. Are existing procedures for redundancies appropriate or should they be modified?

6. Does the plan satisfy the principles of speed, fairness and avoiding uncertainty?

7. Will those who remain recognise the inevitability and fairness of your actions?
Which are the 'critical' systems?

33. Underpinning every organisation are a multiplicity of systems. In the case of local government the Audit Commission has identified, in its work on reorganisation, systems which are likely to be affected (Box A). The majority of these systems will need to be integrated within the first year or two of the new organisation's life. For some, such as those which are specific to the activities of only one of the parent organisations, such integration should cause little difficulty. At the other extreme are those that will need major capital investment in new computer equipment, for example, in achieving compatibility between management accounting systems, or which will involve the resolution of different, but long-held, working practices, such as agreeing clinical protocols.

34. However, integration is about tomorrow. The first objective must be to maintain 100 per cent coverage at every stage of the merger: before, during and after 'day-one'. The very nature of public services, often essential, and often provided to especially vulnerable groups, makes failure all the more traumatic. It is salutary to reflect on the experience of the private sector, where mergers are abandoned more often when the extent of incompatibility of systems is uncovered than for any other reason. But an analogous problem is unlikely to stop a public sector merger. This suggests that the chances of a systems failure after a merger are higher in the public than in the private sector.

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<th>Corporate</th>
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<td>Social services</td>
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<td>Payroll and personnel</td>
<td>Local management of schools</td>
<td>Council tax and national non-domestic rate</td>
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<td>Creditors</td>
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<td>Cash receipting</td>
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<td>Council minutes</td>
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<td>Office automation</td>
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35. To make matters worse, the press is likely to make the most of any such problems. Few in Lewisham will forget the media coverage given to the breakdown in the payroll system following the transfer of services from the Inner London Education Authority in 1990, which meant that emergency cash payments had to be made to several hundred staff who would otherwise not have been paid at all.
36. Once the new organisation is up and running, after the merger, the work of maintaining and integrating systems can be divided up between the relevant departments. But the initial task is to identify those systems which are critical for either or both of the following reasons: first, because a single system needs to be ready on ‘day one’; second, because its failure would be especially damaging. An obvious example of a system, the failure of which would be especially damaging, would be a communications system for an emergency service. But failures in systems that are not in the frontline can be equally damaging (see Case Study 6).

**Case Study 6**

**Plans should allow time to test the most critical systems**

A merger of DHAs failed to set up a unified system on ‘day one’ for dealing with extra contractual referrals from providers. Bills accumulated, trusts went unpaid and the expenditure of the new authority’s funds was unknown for some time. When the true extent became apparent, the original budget estimate of £4.8 million had been exceeded by a third, leading to a sudden and traumatic reduction in the healthcare it could then purchase for the rest of the year. Local trusts were forced into unnecessary job losses and ward closures and patients experienced delayed treatment and reduced care.

37. Work should start immediately a merger becomes known. Plans for critical systems should allow time for dummy runs of the new systems. Where possible, the old systems should be maintained for a period, as back-up should anything go wrong.

*We started doing dummy runs four months before vesting day - but there were still problems when it came to it.*

*In the end, it did work; we made it work. If a teacher needed to be paid immediately, we found the cash. You have got to be flexible to tackle the crises as and when they occur; and the resources must be there to enable you to respond in an emergency*'

38. Those leading public sector mergers may have advantages here over their private sector counterparts, where pre-merger discussions often have to take place in secret until the deal is struck. In the public sector, merging organisations often have a history of collaborative work to build upon, providing opportunities for gaining useful information, familiarity and a
## Box B

### Systems checklist

**Information gathering**
- what systems are in place in the respective organisations?

**Analysis**
- which need to be integrated?
- which can be maintained in parallel in the short term?
- which are the most critical?
- which will present the most difficulty after merger?
- do they have sufficient capacity?
- what will the knock-on effects of any change be for the rest of the organisation?
- what must be in place by 'day one', and what can wait?

**Costing**
- what costs will be incurred?
- what savings will be possible?

**Delegation**
- who will carry out which tasks?

**Timing**
- by when will each task be completed?

...and be thorough

40. A taskforce should be appointed by the transition team to oversee the integration of systems. Its initial tasks are to discover the scope of what needs to be done, and to pick out which systems should be prioritised (Box B). Further task groups will then need to concentrate on the detailed arrangements for integrating those systems identified for priority consideration.

41. The taskforce should not only provide oversight of the work at hand, but also take a strategic view of the organisation’s future needs. Systems proposed by the taskforces must strike a balance between cost and capability to adapt to increased or altered demands.

network of contacts. Site visits will enable managers to see what systems are in place, and more generally how departments operate. Participation in joint events, training, local networks and so on give staff an opportunity to get used to each other’s ways of working. This can give a head-start in building working relationships with future colleagues – particularly useful for bringing together the systems that must be ready at the outset. However, in many cases, relationships which may have been good may take a turn for the worse when the merger is announced.

39. Where the merger does not allow much time for pre-planning, extra resources should be deployed to accelerate work on the systems where early integration is important.
Early considerations

1. Can you start an analysis of systems compatibility before the merger takes place?

2. Who will be on the taskforce? Will it need to bring in outside resources? Which top manager will oversee its work?

3. Which systems are critical to service delivery? Which of those will need ‘dummy runs’?

4. How will you ensure that decisions on modifying systems will meet future needs?
42. Organisational culture is a nebulous concept – hard to define, hard to shape. Many managers and commentators are sceptical about whether it is possible to do anything about the culture of an organisation except over very many years, or perhaps not even then. Yet cultural incompatibility is the most often cited reason for the failure of mergers in the private sector. One definition, among many, of organisational culture is shown in Box C.

43. One need only consider the implications of merging an 'enabling' council and a 'providing' council: a community, primary, preventive healthcare trust with a hospital, secondary, treatment-based trust; an education department encouraging schools to 'opt out' and be selective, with another council committed to in-house neighbourhood comprehensives. Such differences will not resolve themselves spontaneously. Unless top management takes steps to understand the characteristics of the cultures of the merging organisations and then goes on to develop a culture for its new organisation, then it is unlikely to achieve the strategic aims of the merger.

**Defining the existing cultures**

44. The starting point is to take stock of the separate cultures of the parent organisations. Information can be collected through staff surveys and interviews with groups and individuals. Some organisations use a third party to conduct a cultural audit. Not only should the strengths and weaknesses of each culture be identified, but also the points where culture conflict is likely. Disagreements tend to centre more on the means rather than the ends. Securing confidence that ends are indeed shared, as they are likely to be, will be an important early milestone on the road to cultural integration.

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**Box C**

**A possible definition of organisational culture**

Culture is the set of shared values, ideas and assumptions which guides the way in which people think and behave in an organisation. The ideas and values are presented to newcomers as 'the way we do things around here' and are usually not questioned within organisations. Culture is a product of history and personalities and reflects what worked in the past. There are tangible aspects to culture, for example, in the types of organisational styles – bureaucratic and 'committee-driven' to informal 'corridor' decision making – or in preferences for talking as opposed to action; and in behaviours – such as dress codes.

45. Just as importantly, areas of agreement need to be identified. Concentrating on the most contentious points will only exaggerate the distance between the two parties, whereas putting them into the context of many areas of agreement will reduce that distance, and provide encouragement.
Developing a new culture

46. In the private sector a straight takeover, rather than a merger of equals, is most often the case. The acquired company is often forced to adapt to the ways of the ‘winner’. This is not necessarily a bad thing. They could, after all, be winning ways. But not all acquisitions in the private sector run like that. Sometimes the cultural strengths of both sides of the merger are drawn on to build a new and better organisation than those it replaces. The latter approach will usually be more appropriate in public sector mergers.

47. It is difficult to draw up a specific list of ‘dos and don’ts’ on how to develop a culture for the new organisation. An early decision to be taken is about whether to evolve this from the parent organisations or to take active steps to destabilise the existing cultures. The correct decision will be contingent upon the nature of the organisations (see Case Study 7).

Case Study 7
The approach to developing a new culture is contingent on local circumstances

The chief executive of the Royal Hull Hospitals NHS Trust, who has managed a number of mergers, described how he had approached differently the task of developing a new culture in the merger of different kinds of health bodies.

In the case of the merger of two community units, he judged that the most important influences on staff values and behaviour within each of the parent organisations lay in teams of staff whose members often worked in different locations. Consequently, he spent a good deal of time working with those teams to gain an understanding of their respective cultures. He brought in facilitators to help team members to set out both the positive and negative features of the parent organisations and to bring to the surface their concerns about what the future held for them in the new unit.

Only then did he move towards trying to develop, with groups of staff drawn from across the teams, a desirable culture for the new organisation, building on the positives and addressing the negatives of the past. Equally, he was careful to appoint managers from a mixture of backgrounds, drawn from both parent organisations, whose skills were complementary.

In the case of the merger of a number of hospitals units, he judged that the most important cultural influences lay within teams whose members were in the main located together. In his view, the boundaries between these teams were sufficiently strong to prevent staff from looking beyond them. So he sought to destabilise the existing cultures immediately after the merger by appointing managers with responsibilities that cut across old structures.

An important symbolic move in this merger was bringing together all medical wards on to a single site, which medical staff widely believed was desirable. This was seen by them as an early, tangible benefit from the merger.

Also important was the effort the chief executive took to discover the concerns of nurses, as well as medics, about the new organisation, identifying what organisational and professional goals would attract the nursing energies to work for the new organisation.

With hindsight, he wishes that he had spent more time identifying local authorities’ interests in the first of these mergers and more time working with paramedical and support staff in the second.
There must be a clear strategy for developing a new culture

After the acquisition of Zanussi by Electrolux, it became clear that the cultures of the two organisations could not be more different. '...During [Zanussi’s] troubled years, conflicts had become a way of life...Information flow had been constrained because it was considered a major source of power. Most issues were passed up to the top, and operating managers felt bypassed by bosses...The acquisition had, in addition, created a strong barrier of defensiveness in employees...'

Electrolux adopted a three-point strategy to overcome the barriers:

♦ The entire management group took part in team-building sessions facilitated by an external consultant. These resulted in a statement of purpose, values and guiding principles for handling the change.

♦ A set of management development workshops was organised, first for the top managers and then for the next tier of middle managers. The aim was to develop communication with the senior management group and to co-opt everyone into the new management approach.

♦ Taskforces involving managers from both companies worked to find specific opportunities for integrating the activities of the two organisations. Their proposals represented more than an integration plan for Zanussi. At the level of individuals, these meetings also built bridges between the top management teams of the respective companies.

Having built bridges at the top of the organisations, the next phase of integration was seen as developing bridges at the middle management level where integration was still weak.


Working together

48. One clear advantage of structural change is the opportunity to bring staff from the merging organisations together to plan and implement the changes. Careful engineering of the transition teams and task groups can forge relationships between dissenting groups and factions, thus helping to break down barriers and tackling the problem of mutual avoidance, where whole staff groups and departments go out of their way to ensure their paths never cross. In addition a variety of team-building and other cross-working techniques can be used (see Case Study 8). More progress is made by working across traditional boundaries on real work issues than on abstract discussion of culture in isolation – sometimes referred to as 'navel gazing'. Those leading mergers need to develop a strategy for developing a new culture, while recognising that this takes years, not months, to achieve.
49. A final point here is that top management must itself both model and reinforce the new culture as it develops. If the new culture involves 'delegation to front-line service managers', people will look to the finance director to act consistently and to hand over some of the purse strings to service managers. If it involves 'innovation and taking more risks', people will look at whether managers are rewarded for so behaving. Organisations need to 'walk the talk'.

When we moved into the same building, I found the door between our departments padlocked. At meetings they would stick together at one end of the table. I had to resort to a seating plan.
Early considerations

1. How will you take stock of the separate cultures of the parent organisations?

2. What will you do to identify areas of common ground, as well as areas of possible conflict?

3. How strong are the existing barriers to working across them post-merger? Do you need to take immediate steps to destabilise them? Or can you hope to evolve a new culture?

4. How can you use membership of the transition team and task groups to help cultural development?

5. What team-building techniques will you use?

6. How will you ensure that top management models and reinforces the new culture in the way it behaves?
Final observations

50. Finally, we would like to leave those approaching a merger with five observations.

'I underestimated the personal toll on me. If I did this again, I would invest in personal counselling to help me through. Also the organisation's emotions have been up and down. Last year I really did not feel we were going to make it through. Now I see that we will, that the 'downtime' was just a natural stage that we had to go through.'

51. First, it is important not to underestimate the emotional toll on those who are leading a major process of change and their organisations. During the period after a merger there will be natural – and indeed unavoidable – fluctuations in emotions within organisations, as individual staff learn to adapt to their changed circumstances. These need to be anticipated, accepted and managed, not seen as signs of failure. Some researchers have observed a distinct pattern in these emotional fluctuations (see Exhibit 2).

52. Second, although some prioritisation will be necessary to see the organisation through the early days of the merger, focusing on one area should not be at the expense of others. Failures are frequently attributed to problems in a single area, such as culture conflict or incompatibility of systems. One weak pillar may be sufficient to topple the building. Top management should therefore sustain a multi-dimensional approach, by taking continuous stock of each of the four areas dealt with in this paper which are critical in successfully managing mergers – vision, staff, systems and culture.

53. Third, working on many fronts poses a threat to consistency in approach and message. So, in addition to balance, chief executives must also ensure coherence. The different management tasks must be carried out in ways which support each other. You cannot persuade staff and stakeholders that the purpose of a merger is service improvement, if they see a deterioration ‘Since I became chief executive, I have been telling staff that they were our most important and valued asset, and that I wanted to build-up our services and compete. Since our merger was announced, I have had a steady stream of staff coming into my office to be made redundant. Others have come in search of reassurance, which I have been unable to give. And I have shut down some important departments. Now nobody believes a word I say. I have lost influence with my staff’.

Exhibit 2
The Transition Curve
Researchers have observed a distinct pattern of fluctuation in the emotions of individuals adapting to changed circumstances.
in services. You cannot communicate a message that staff will be treated fairly, if they see some heroes of the past being ruthlessly discarded.

_The merger only happened six years ago. So it is a bit too early to judge whether or not it is a success_

44. Fourth, the programme of work will need a realistic timescale. Those who have been through mergers often say that they underestimated how long it would take to achieve benefits. Failure to manage the expectations of members, boards, staff and other key stakeholders will lead to disappointment and growing discontentment, which will further jeopardise the chances of achieving the benefits.

_We have been through two mergers in the last three years and were recently approached to consider a third. In our view, that merger was not in the best interests of patients, so we decided not to go ahead. Since then we have discussed whether we want to pursue mergers in the future. We are pleased and proud of the services we deliver, and would like to bring those benefits to more patients. But our approach to expansion in future will be to win contracts for services, not to seek out potential mergers._

_The are two main reasons for this. First, provider units often become merger targets through poor management, and we do not want to take on poor managers. Second, I have an excellent top management team that I value. I do not want to expose them to any more uncertainty about their jobs which will be the case if we merge with another_

55. Finally, a summary of the messages in this paper could be that managing organisational mergers is very difficult. Research in the private sector consistently demonstrates a low success rate in realising merger strategic aims. Whether measured in terms of productivity, profitability, returns to shareholders, efficiency gains or growth – strikingly, the message is that the majority of mergers fail. The main reason for this is that the scale of change required during most mergers is considerable – and is usually far in excess of that experienced in organisations under other circumstances. Mergers disrupt established patterns of work through changing operational practice, the composition of teams, premises and lines of accountability; departments may be combined; entirely new services taken on; staff may be moved into new jobs; or made redundant.

56. Some of those we have spoken to have told us that, if they had to choose again, they would look harder at alternative ways of achieving the same strategic aims. Most of those leading mergers in local government and the NHS will have no choice about whether to merge. Those for whom there is a choice should consider whether there are alternative ways of achieving the same strategic aims (see Appendix 2).
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Appendix 2: Is merging the best solution?

This paper seeks to capture the experience of those who have been through mergers. It has referred to the potential benefits of merging. There are many suggestions which can help organisations to succeed in this venture. But this should not belittle the problems. For most local public sector mergers decisions have already been taken. For those policy makers for whom whether or not to merge is a choice, this appendix summarises issues which should be considered before making that decision.

A glittering future?

♦ A convincing case for merger is easily made, especially where cost savings are involved – a bright new future against a failed past.

♦ For a variety of reasons failure in public sector mergers is hard to find. But there is little evidence of after-the-event evaluation. The private sector experience of predominant failure should therefore be taken seriously.

The right way forward?

♦ Are existing problems really structural and therefore soluble through restructuring? Or are they really due to managerial failings? The mergers most likely to fail are those between weak companies – ‘two turkeys don’t make an eagle’.

♦ Are there alternatives? Efficiency improvements, for example, may be achievable in other ways. And disjointed and duplicated services may be resolved through reconfigurations or strategic alliances.

♦ Are differences, such as in organisational culture, too great to overcome?

High risk and high cost

♦ There is no single blueprint for the successful merger of organisations. In the absence of a defined process, success may turn on inspired leadership. Is it available?

♦ What could managers achieve if they were not restructuring? The opportunity cost on management time is enormous.