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Mergers in Civil Society Organizations in Israel

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Executive Summary

In 2009, an amendment to the Israeli Law of Associations was ratified (Amendment No. 12).[1] This amendment authorizes Israeli civil society organizations, for the first time, to legally merge their operations and become a single merged organization.[2] The amended Law states that a Recipient Association is absorbing into its operations all the assets and financial properties of an Absorbed Association. After the formal stage of a merger is complete, the Recipient Association continues its activities 'as usual' while the Absorbed Association is dissolved and deregistered by the Israeli Registrar of Associations.

In the past decade, a significant growth in the number of Civil Society Organizations (CSOs), and in the extent of their activities, was recorded in Israel (Almog-Bar & Greenspan, 2019). Every year, as many as 1650 new associations, on average were reregistered, many of them are small in size and operating with budgets lower than 500,000 NIS. Time and again, these nonprofit organizations find themselves coping with resource scarcity and fundraising dilemmas due to government budget cuts, and changes in the philanthropic world in Israel and beyond. In addition, in light of the organizational division and fragmentation among welfare service providers, these organizations compete over the same clients and target populations.

With the growth of activity of nonprofit organizations in Israel, the interest in nonprofit mergers has risen too. Indeed, over the past few years, several reports and public discussions have emerged related to mergers in the nonprofit sector. Yet these discussions lacked wide evidence-based knowledge given the limited research undertaken in Israel on this topic. Accordingly, this research aims to widen and deepen the knowledge on mergers of civil society organizations in Israel, by focusing on the mergers

1 Law of Associations (1980), Chapter 4, Sections 34e-34i

2 According to the Ministry of Justice, 26 mergers were officially approved between 2010-2019.

themselves and their results, as well as on the power relations between, and activities of, the various merger actors.

To examine this goal, 17 associations merging into 8 merged organizations have been studies. Each of these eight mergers is treated as a case study, where we examine the attitudes of senior management and leadership toward the merger, its challenges and achievements. Specifically, we ask about experiences and attitudes related to decision-making processes, conflict resolution mechanisms, human capital in the merged organization, organizational identity, cohesion and identification with the merging goals, internal and external struggles and conflicts, trust building between senior executives and more. The findings are divided between three stages of a merger: pre-merger, the merger phase, and post-merger.

- Findings reveal the complexity of the merging process and the significant challenges and opportunities with which the organizations were coping during the phases of the merger. Specifically, we found that **in the pre-merger phase**, the main motivations for mergers were financial and professional. Oftentimes, no clear action plans, or roadmaps for coping with challenges, were prepared prior to the merger itself. Neither measurable goals nor long-term vision for the merger were set.

- **In the merger phase**, the human capital – especially senior management and board members' commitment – were a key critical factor enabling the merger. The involvement, or pressure, of external actors – such as government or philanthropic foundations – were less influential in facilitating the mergers. An important and dominant role in the decision-making process is assigned to board members, and to an open and sincere discussion between the boards of the two merging organizations. The input of a legal advisor was also viewed critical in the merging process. Less agreed upon was the role of an external organizational consultant and the level of involvement of the employees.

Furthermore, shared meetings led by executives and board members of both organizations, and the active involvement of the executives, were the common reported techniques employed during conflicts and disputes. On the other hand, we found very few organizations using more participatory techniques, such as joint workshops and employee participation. Interestingly, respondents across the board rejected the idea of external involvement in the merger process as means of conflict resolution. In hindsight, participants did appreciate the development of shared respect and mutual trust among players, yet about a third of them still acknowledged the existence of power struggles and politics involved in the merger.

- **In the post-merger phase**, executives are busy setting outcomes and results of the merger. Overall, study participants expressed positive attitudes towards merger outcomes. They perceived it as an important step for realizing organizational vision and mission. The merger allowed an increase in organizational budget and in number of service recipients, as well as greater impact on decision-makers. Respondents also viewed positively the level of trust developed among members of the organization, and the new opportunities for securing an environment of innovation, stability and lower vulnerability.

- While over 50% of respondents reported no clear success criteria were set for the merger, still over 90% of participants believed that the merger goals were achieved, fully or partially. Organizations which set criteria for success, reported their outcomes were accomplished. For example, setting success criteria were positively and significantly associated with measures of organizational culture such as shared trust, and with measures of climate of innovation, stability, and security.

- Another central finding is the critical role the human factor has in facilitating or hindering mergers. A proper management of the relations with different stakeholders in the merging organizations is associated – positively or negatively – with the power balance between actors, the internal politics of the process, and the level of employee resistance to, or acceptance of the merger. The building of on-going exchange relations between management and boards are ways to avoid communication barriers.

Our findings reveal **two types of mergers**: (1) a **merger-by-necessity**, where at least one of the organizations, alas two, are facing a difficult survival dilemma of merge or cease to exit, and (2) a **merger-by-choice**, where both merging parties face no risk of organizational survival yet choose to merge. Each type of merger has different characteristics and implications for action.

For example, in mergers-by-necessity, the financial considerations are critical factors, and decisions are taken in light of internal and external constraints, and under conditions characterized by abruptness and short-term planning of merger goals and vision. In this type of merger, the politics and emotional factors, such as anger and distress, are more frequent among actors and are directly linked to a state-of-survival encompassing the decision-making process. In mergers-by-necessity, professional motivations for the merger are more difficult to identify given that the economic survival is a key consideration.

In contrast, mergers-by-choice are characterized by professional considerations, such as growth strategy, knowledge creation, or positioning the merged organization as a professional leader in a given field. Personal considerations are another characteristic found in some mergers-by-choice: merging decisions that stem from personal encounters between two organizational leaders, personal interests, or pressures from the same funders. In mergers-by-choice, the human capital dimensions do deal with during the merger range from internal power struggles to reaching consensus.

Another difference between the two types of mergers is the employees' response to the merger. In mergers-by-necessity, employee turnover is higher, and greater disagreements and emotional conflicts are expected over issues such as name, logo and appointed positions. In mergers-by-choice, on the other hand, name and logo were not even mentioned as diverging but rather congruent factors. We also did not encounter significant internal personal politics, nor did we find employee dissent. Mergers-by-choice provided opportunities for goodwill, trust-building and inclusivity for new players.

- In addition to personal and internal challenges found in our research, external factors were also noteworthy. Among them are challenges and pressures imposed by government agencies (e.g., renewing or transferring existing contracts, ignoring the merged organization, demanding particular appointments of key persons in the merged organization), public challenges to the reputation of the organization built over the years, and challenges imposed by donors or funders (e.g., expectation to be part of the negotiation process, conditioning financial support by keeping specific activities, threats to cease their support if the merger is implemented).

This report concludes with a list of recommendations for Israeli organizations considering a merger. The recommendations refer to organizational goals in mergers, the human factor, and implementation mechanisms in each of the merger phases. In addition, practical and legal recommendations are included.

The contribution of this research is in its pioneering empirical data collection on mergers in Israel, and its ability to offer both qualitative and quantitative outlooks on the phenomenon of nonprofit mergers in civil society organizations. We highlight motivations and barriers to nonprofit mergers, successful mechanisms for mergers that allow the creation of shared organizational culture in merging organizations, and politics and power relations that shape the merging process.

Research findings could assist managers and organizations considering mergers to rely on empirical findings, on the experiences of past mergers, and on evidence from the field to take into account the implications, barriers, challenges, and dilemmas facing organizations entering a merger process. Another contribution is value creation for Israeli Civil Society Organizations in general about merger as a new and innovative option in their toolkit of coping with challenges in an uncertain environment. **We hope this research will offer an evidence-based knowledge base for informed public discussion on nonprofit mergers in Israel, taking into account mergers as one response in a range of organizational responses to crises such as the COVID-19 pandemic.**