Mergers in Non-Profit Organizations in Israel between the years 2010-2019: Stages, Factors of Success and Failure, and Success Measures

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June 2021

Purpose and contribution of the study

The law defines mergers as “the transfer of all assets and liabilities, including contingent, future, known and unknown liabilities, of a target corporation to an input corporation, when as a result the target corporation is liquidated.” Mergers of non-profit organizations is a phenomenon which has been studied in various parts of the world, but this study is the first of its kind to examine the phenomenon over several years in Israel. The goals of the study are to reveal the scope of the phenomenon in Israel, raise awareness of the non-profit merger strategy implementation, assist process leaders in achieving their goal through understanding its stages, identify the success/failure factors of the merger, and apply success metrics.

The research method

The study includes two samples:

- A sample of 23 mergers, according to the definition of the law, made in Israel in the years 2010-2019, titled “de jure mergers.”
- A sample is of 15 “pseudo-mergers," called the “de facto mergers.”

Merger areas of activity in the samples include sports, education, and religion.

The study is based on the case studies method and presents 38 such mergers and pseudo-mergers. Three main sources were used to collect data for documenting the cases: (1) The organizations files, obtained from Israel’s Registrar of Associations and Companies, which include all the organizations’ reporting documents, including the financial reports; (2) 41 semi-structured in-depth interviews with senior employees leading the merger process in the organizations; (3) Articles and other documents about the merger processes from various publication sites.

Main findings and their significance

The first and most fascinating finding is the discovery of the limited scale of the phenomenon of non-profit mergers in Israel. Between 2010-2019, there was an average of 2.6 mergers per year (23 mergers in the entire period). In comparison, there were 166 merger transactions in Israel's business sector in 2019 alone.

This low rate may be associated with one or more of these factors:

- A lengthy bureaucratic process vis-à-vis the Registrar (the average duration of de jure merger procedures was found to be 14.47 months).
- The dearth of knowledge about the option of merger and/or about the process.
- The high costs incurred in the process (due to lawyers', accountant's, and tax consultants' fees), alongside a lack of funding sources (private foundations, such as Yad Hanadiv, and in the instance of college mergers – the Council for Higher Education and the Ministry of Education, found only in de facto mergers)
- Alternative strategies, such as consolidation of activity or transfer of activity without liquidation.
- Founders' unwillingness to part with the organization.
- A lack of incentives for a merger. This factor is specific to the non-profit world, in which the market forces dictating the connection between supply and demand are not necessarily applied.

Another pivotal point is that in the non-profit world, the term "merger" is widely used to transfer activities between associations in various ways that do not conform to the definition of the law, such as transferring activities from one organization to another, while each continues to exist as a separate entity; transferring the activity of one organization to another and dissolving the first; and establishing a third entity, to which the merged activity of the other two is transferred. Such "pseudo-mergers" are not documented in the database and therefore, there is no information on their scope in Israel.

The study identified three stages in the merger process:

1. The pre-merger phase, which includes all the processes up to the receipt of the merger certificate, which are: I) Strategic planning that includes determining the motivation for the merger; II) The search for suitable candidates; III) Due diligence;

VI) Negotiations and the signing of an agreement; V) Procedure for obtaining the merger certificate – approval of the merger by the board of directors, audit committee, general meeting, approval of the registrar, court approval.

2. Post-merger phase, which includes the implementation of the merger, the integration.

3. Execution evaluation phase.

The stages of the process are explained in terms from the business world, but their content is different. For example, in the de-jure sample, a majority of the mergers were identified as ones in which step sequence completion was irrelevant, as the mergers were forced upon them (by the Registrar, the Ministry of Education, the Ministry of Defense, or a municipality.) Others were technical mergers, thus the process did not involve strategic planning. Moreover, 73% of the mergers were found to be related, with a liaison leading to the merger; these typically do not involve a search for candidates procedure. And the main motivation behind de facto mergers was found to be a difficulty in raising donations, which put the organization at risk. Our recommendation for the sequence of merger steps is based on the assumption that the merger is driven by the organizations' choice and as a strategy for improvement and expansion.

The success factors recommended by the interviewees were classified into stages, in accordance to past studies: Pre-merger factors and post-merger factors, as well as process factors. An additional classification was applied in terms of the characteristics of the parties involved. In addition, we identified factors that might delay, or even prevent the merger process, such as regulation, bureaucracy, and costs. We similarly identified mitigating factors, such as organizations' shared vision, uniformity in content, physical proximity, and good relations between the parties. In addition to factors known from existing literature on the process, our study also identified factors related to the procedure vis-à-vis the Registrar, including the importance of performing all of the required steps, in order, and with no pressure; generating cooperation; scheduling tasks. The literature mentions the employment of external factors, but no mention was found of importance of using a tax advisor and performing pre-ruling when the issue is relevant.

The most significant factors for success arising in the interviews for this study were cultural differences and organizational identity, resonating previous research findings. The interviewees noted that organizational identity is created in the presence of mutual trust and shared interest of each of the parties involved, financial resources, and when the process leaders are uncompromisingly committed to the merger.

Another factor noted by the interviewees was organizational structure. In this context, the departure of the CEO destabilizes the employees, a topic that is supported by existing literature.

Regarding the post-merger, or the integration phase, we found previously undocumented factors, including the importance of marketing the continued activity of the target organization after the merger in order to retain donors and continue receiving donations from past donors. Regarding the factors involved in the process, the quality of the board of directors, the leading figures, and collaborations were noted – factors known from past instances and collated under the term ‘leadership.’

Failure factors were found to be insincerity, a lack of concessions, problems of ego, difficulty in parting with the past, distrust, a lack of cooperation, compromises required (such as giving up a name), cultural incompatibility, a lack of financial resources, and non-fulfillment of an agreement. Thus most variables are attributed to people – human capital is known as a significant component in its impact on the process.

Success measures, a topic that has been little researched in the past, are classified by areas:

- **Strategic measures** include the realization of the vision, the fulfillment of goals, strengthening the capabilities of the input association (improvement and addition), expanding programs, integrating the activities of the associations, maintaining an identity, partnership in work (joint strategic vision of the consolidated organizations), the continued existence of the activity / organization.

- **Financial measures**: Increase in the volume of activity (income), efficiency, decrease in expenses (procurement), decrease in administrative and general expenses, increase in project expenses (increasing plans), financial stability (avoidance of deficits) / surplus, retention of assets transferred in the procedure, increase in capital raised (Donations), receipt of the effective association mark, failure to pay tax for the transfer of activity.

- **Marketing measures**: Raising awareness of the organization’s existence and the needs it responds to, increasing the target population.

- **Human resources measures**: Employee and board of directors satisfaction, a good relationship among the merged organizations, minimal negative impact on employees (dismissals/terms of employment).

- **Social measures**: (contribution to the public beneficiaries): Addressing the need effectively, beneficiaries' satisfaction, inclusion of members of the target association to the input association.

We examined these success measures in the case studies, investigating fulfillment of associations' goals, change in donations (increase in fundraising), changes in revenues, general and administrative expenses (decrease) and surplus (profit), and respondents' opinion (subjective index). This examination showed that the success measures indeed indicate the success of the mergers in the research sample in Israel, both de jure and de facto.

For example, in terms of changes in organizational goal fulfillment, in de jure mergers, we found that across the mergers, the main goals of the input organization were retained, and in 72% of the mergers, all the goals were retained. The goals of the target association were merged with the goals of the input association, in some cases, there was a similarity of goals, and in others, goals were added. In some cases, there was a connection between the organizations (financial support or joint work) which was perceived as a goal erased following the merger. In 40% of the mergers, there was no change in the rate of achievement of the goals after the merger, in 36% of the mergers there was an improvement in the fulfillment of the goals, and in 9%, there was a negative effect.

Our recommendations:

1. An increase in the number of mergers will help non-profit organizations to survive; their failure or cessation of activities may be disastrous for the beneficiaries, who usually have no other source of support they need. Thus, we recommend working to increase the number of mergers through several directions of action, including cutting down on bureaucratic difficulties (for example, by reducing the number of steps required by the Registrar of Associations to submit the application and receiving support from the Registrar) and increasing exposure (through public relations) of the merger strategy. In this context, the use of the strategy should be encouraged not only in times of economic difficulties, but also for the purpose of growth and expansion of the field of activity. To address the high costs incurred in mergers, we recommend encouraging external entities, such as foundations, to finance the merger process or even working with the Registrar to reduce costs.

2. Examining the issue of liquidations. This study revealed the phenomenon of de facto mergers, in which there is no actual transfer of assets and liabilities – only a transfer of activity. Most organizations that took this approach over merger point to the fact that it is easier to implement. As a result, it may be an alternative solution for

mergers, and one which should be considered and offered as an option. In most cases, the organizations indicated their intent to transfer the activity and then disband, but in practice, this did not happen, or took place only after a number of years.

3. Basing the activity of non-profit organizations on additional sources of funding. Since many non-profits seem to have difficulty surviving, especially in times of crisis, it is advisable to avoid exclusive dependence on donors and government budgets, and to work to increase income from current activities. In addition, we recommend managing the distribution of budgets from government ministries using the Pay-for-Success method, i.e., payment according to results and not activity, which will facilitate better management of the organizations and prevent their collapse.