

Making Public Sector Mergers Work: Lessons Learned



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IBM Center for
**The Business
of Government**

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F O R E W O R D

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On behalf of the IBM Center for The Business of Government, we are pleased to present this report, “Making Public Sector Mergers Work: Lessons Learned,” by Peter Frumkin.

The last several years have seen a revival of interest in government reorganization. New organizations have been created by legislative action. In 1999, the National Nuclear Safety Administration was created and began operations in the Department of Energy in 2000. In 2001, the Transportation Safety Administration was created in the aftermath of September 11. Last year, the Department of Homeland Security was created. Other agencies, such as the Bureau of Alcohol, Tobacco, Firearms, and Explosives, have moved from one department to another. Legislation has been introduced in Congress to reassess the organization of the entire government. One can speculate that the coming years will see additional reorganizations.

While there is an established literature on private sector mergers and acquisitions, the literature on public sector mergers is much more limited. In an attempt to begin to create a knowledge base about public sector mergers, Professor Frumkin analyzed six case studies—four at the state level, one at the local level, and one at the federal level. From these six studies, Professor Frumkin developed a checklist for merger managers to use in both making the decision to merge and then implementing the merger. He writes that as “... public sector agencies seek to make mergers work, they do not have to start from scratch. Even though the literature on government consolidation is thin, there is a fairly broad base of experience to draw upon, particularly at the state and local levels.”

The report by Professor Frumkin describes many of the challenges now facing the Department of Homeland Security. While the decision to merge related organizations has already been made, there are still many merger challenges facing the new department. Specifically, the department now faces the challenge of creating a new culture and making critical adjustments over time. Based on the experiences of other mergers, Professor Frumkin argues that the Department of Homeland Security can clearly learn from them.

We trust that this report will be both helpful and useful to government executives as they either contemplate future mergers or are charged with implementing such mergers. There is clearly previous experience from which government executives can learn.

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EXECUTIVE SUMMARY

With increasing demands for accountability and performance in government, agencies are continually on the lookout for ways to improve the quality of their management and services. Today, mergers and consolidations in the public sector are sometimes used for strategic restructuring. Although public sector mergers are less well understood than private sector mergers, there is a natural attraction to the idea of combining services and resources, particularly during times of fiscal constraints or following operational crises.

To improve the likelihood of success in carrying out the merger of government agencies, managers should focus on five critical areas:

- **Choosing targets wisely.** Not all public agencies with overlapping responsibilities are ripe for merger or consolidation. In selecting agencies for a merger, managers (or in many cases, legislative bodies) need to consider not just the possible short-term cost savings but also the “fit” of the agencies in terms of culture and competencies. Choosing the right agencies requires careful research and strategic analysis. Public sector agencies provide services and in doing so develop stakeholder groups that demand performance and accountability. Unlike mergers in the private sector, the decision to merge cannot be made by shareholders based on calculations of cost savings or economies of scale. An agency or department cannot simply be scrapped because it is underperforming, especially when a vocal constituency depends on that agency’s services. Public sector mergers are only successful if
- they satisfy or exceed expectations of the constituents that are served by the agencies under consideration. Before making the decision to merge, key stakeholders must be consulted. The new agency’s mission must be shaped to meet the demands of constituents.
- **Communicating effectively.** Mergers can create anxiety and fear within the agencies that are being consolidated. It is critical for leaders to communicate early and openly with all affected parties, to answer questions and concerns, and to find a way to counter the defensiveness and resistance that can sometimes accompany an attempt to create change. Managers should focus on explaining new processes and structures to employees through multiple forms of internal marketing. Communicating the new mission to employees is extremely important for operational purposes. Public agencies must also implement a plan to explain the purpose of the merger and its virtues to key stakeholders and clients of the new agency. As the cases that follow show, implementing an aggressive and adaptable communications strategy is critical to the success of public sector managers. Investing up front in a communications strategy to target affected employees and key stakeholders smoothes the transition and makes it easier to manage challenges to implementation.
- **Implementing quickly.** While it is tempting to assume that “going slow” eases the stress that mergers impose on stakeholders, in reality moving quickly to make important operational changes is critical to building momentum and moving toward normalization. After communi-

cating the changes that are coming, managers should lead decisively when implementing those changes and forging a new agency. Structural changes such as combining payrolls, integrating computer systems, and consolidating office space are important to implement quickly to increase acceptance of the newly created entity. Delaying the implementation of structural and symbolic measures may leave the merger vulnerable to criticism and political opposition. Mergers of public sector agencies are particularly subject to approval and oversight by legislative and regulatory bodies. One of the lessons learned from the cases is that aggressively managing the involvement of legislative bodies or interest groups can increase the merger's chance of success. Public sector mergers will always be subject to political contingencies. Implementing the plan quickly, however, reduces the merger's vulnerability to potential shifts in political reality.

- **Creating a new culture.** Mergers do not involve simple addition or deletion of agency features. They demand the creation of something new. A critical element in institutionalizing change is thus the construction of a new organizational culture, one that is different from those existing in any of the merged agencies. Breaking free from existing routines, traditions, and customs does not mean obliterating everything and starting anew. Instead, it requires the selective adoption of those cultural artifacts that are positive and the elimination of those that are counterproductive. What emerges is a new organizational culture that is fresh and welcoming to all.
- **Adjusting over time.** Although the implementation phase of the merger should move quickly, the entire merger process requires considerable oversight over a long period of time. Adjustments and adaptations are almost always needed once the first wave of change has settled and it is possible to see the new organization clearly. Whether the merger has been implemented before or after its political legitimization, public sector merger managers must be attuned to shifts in political reality and concerns or praise from key agency stakeholders. The initial merger schema may have to be altered or rewritten altogether after assessing the new

agency's performance. Managers interviewed in this study recommended using 100-day wins after the initial implementation as a way of both fueling the engine of organizational change and learning from the unforeseen down the road. Because the public will only gradually accept the legitimacy of the new organization, 100-day wins are also an excellent way of continuing to sell the merger to the public.

Making public sector mergers work requires strong leadership and good execution throughout the process of creating a new organization. When successful, public managers may be able to use mergers as a tool for achieving not just increased cost efficiency but also greater levels of program effectiveness. This study looks at recent mergers of public sector agencies and draws out some lessons for managers on making public sector mergers work.

Background

Public Sector

Over the past century, government at the federal, state, and local levels has frequently sought to reform its organizational structures and find more efficient and effective systems for carrying out public functions. In pursuit of these objectives, a frequent impulse has been to merge or consolidate government agencies, departments, and offices. By bringing together multiple government functions into a single, unified organizational form, policy makers have long believed that greater levels of coordination and cost savings were achievable.

One of the largest and most significant public sector mergers occurred after World War II. Before 1945, America's armed forces operated with separate War and Navy Departments, with uncoordinated intelligence units. Cooperation was rendered difficult because there were few channels for communication, even though coordination was critically important. After World War II, however, it was clear that change was needed if the country was to avert another Pearl Harbor and be prepared to counter new threats. Soon after America's victory in the war, President Harry Truman made a powerful argument for combining the War and Navy Departments into a single Department of Defense.

With the passage of the National Security Act of 1947, followed by over a decade of amendments and adjustments, a major reordering of the defense establishment was eventually achieved. Out of the patchwork quilt, a unified system emerged that included a consolidated Department of Defense

headed by a civilian secretary, the creation of the Central Intelligence Agency (CIA) to coordinate all foreign intelligence collection and analysis, and the establishment of the National Security Council in the White House, which would take on responsibility for coordinating all foreign and defense policy efforts. Although it took years to fully complete and perfect, this early reorganization of the country's entire national security establishment is now viewed as a major and indispensable breakthrough.

This early, massive effort at consolidation stood until recently as an isolated example of complex federal reorganization. Following the attacks of September 11th, the surprise of which equaled that of Pearl Harbor, government again turned inward and began to examine the structure of its homeland security system, which involves border control, immigration screening, airport security, and a host of other functions. President George W. Bush proposed and Congress passed a complex plan to create a new Department of Homeland Security, the most important transformation of the U.S. government since the creation of the Department of Defense. The plan led to the merger of 22 different agencies into a single cabinet-level department.

As the new department goes about its work of managing this complex task, and as other government agencies at the state and local levels attempt similar, albeit far smaller scale, mergers, it would be helpful if there were a body of knowledge in the area of public sector mergers that managers could draw upon. Unfortunately, this literature is scattered and fragmented. Although many government

bodies have gone through reorganization in the form of consolidation or merger, there has yet to be much systematic thinking about what makes public sector mergers work and how best to carry them out. Beyond the assumption—which remains largely unproven—that government mergers produce greater levels of coordination and lead to cost savings through the reduction of roles and redundancies, the field is still in its infancy.

Private Sector

In the corporate sector, mergers are a well-established management tool with a long history that has been examined by researchers extensively. In the nonprofit sector, agency mergers are becoming more and more common, and the field's understanding of the best ways to approach consolidation is improving as new handbooks on managing collaboration, partnerships, and mergers have appeared. In the public sector, the topic of mergers is more elusive, one that has been addressed tangentially in the context of theory and practice of the new public management but one that lacks much grounding in real case studies.

Over time, the idea of mergers has waxed and waned in the business world. There have been three major waves of mergers and acquisitions (M&A) activity since the 1960s (Andrade and Stafford, 1999). While there are many possible explanations for the rise of mergers, the most common one is that mergers are a potent response to a failure of the internal governance mechanisms of corporations (Jensen, 1986). The idea of using mergers as a tool for re-dressing management failure has been challenged over time by other rationales. Mergers have been understood as the product of the search for greater levels of shareholder value (Holmstrom and Kaplan, 2001). Still others interpret increasing merger activity as the byproduct of waves and fads that periodically permeate the corporate world (Gorton, Kahl, and Rosen, 2000). If these rationales were not enough, the rise of merger activities in the private sector has also been attributed to increased competition, the search for economies of scale, the influence of social networks and personal relationships, attempts to gain market power, the quest for financial and operational synergies, empire building by corporate leaders, responses to economic disturbances, and shifts in the enforcement of antitrust

laws (Komoto, 1999; Vos and Kelleher, 2001; Haunschild, 1994). All these hypotheses and theories of the drivers of corporate mergers are plausible. None is definitive.

When one moves from theory to practice, the picture hardly becomes clearer. The most striking feature of the evidence about the effectiveness of mergers is the great discrepancy regarding the success rate that researchers have attributed to corporate consolidations. Although most mergers are intended to be profitable for businesses, research suggests that mergers may *not* have a positive effect on business. One recent study concluded that most mergers produce no significant effect on business performance. Porter (1987) found that less than half of the purchases benefit shareholders and the acquiring company in the long run. A 1999 global research report offered the lowest success rate, with only 17 percent of mergers found to have produced any benefit in the form of increased shareholder value (KPMG, 1999).

On the surface, these figures might argue against the usefulness of mergers. However, there are inherent measurement problems associated with judging the success or failure of a merger. For many in business, success is best measured as increasing shareholder value or shareholder value added (SVA), defined here as “the expected net gain to the acquirer from an acquisition” (Harvard Business Review, 2001). There are many other possible measures of business performance ranging from profitability, market share, and return on investment. Not only are there questions about what measures should be used to track business performance, there is also the issue of the appropriate time frame for reaching a conclusion about the effectiveness of a merger. One of the problems with using SVA to assess a merger is that it is often calculated in the short run. In some cases, the effects and ultimate result of a merger may be evident quickly, while in other instances the real effects of a merger may take years to become clear. For this reason, many chief executive officers argue that it is important to take a longer and more multidimensional approach to the issue of assessing mergers.

While theories of mergers and measures of merger outcomes remain contested, this has not inhibited management researchers from offering advice on how to carry out a corporate merger. Summing

up this literature, the editors of *Harvard Business Review* point to three core recommendations:

- **Have a long-term focus on integration.** “Acquisition integration is not a discrete phase of a deal and does not begin when the deal is signed. Rather, it is a process that begins with due diligence and continues through the ongoing management of the new enterprise. Integration management is a full-time job and needs to be recognized as a distinct business function, just like operations, marketing, or finance” (*Harvard Business Review*, 2001).
- **Act decisively.** “Decisions about management structure, key roles, reporting relationships, layoffs, restructuring, and other career affecting aspects of integration should be made, announced, and implemented as soon as possible after the deal is signed. Creeping changes, uncertainty, and anxiety that lasts for months are debilitating and immediately start to drain value from an acquisition” (*Harvard Business Review*, 2001).
- **Pay attention to cultural issues.** “A successful integration melds not only the various technical aspects of the businesses but also the different cultures. The best way to do so is to get people working together quickly to solve business problems and accomplish results that could not have been achieved before” (*Harvard Business Review*, 2001).

While it might be tempting to pursue a simple transfer of some of the lessons learned from business mergers to the public sector, fundamental differences between public and private sectors make this difficult. In many ways, the issues raised by government mergers more closely approximate those found in the nonprofit sector, where mission fulfillment and prohibition on profiteering more closely match the operational principles of the public sector.

Nonprofit Sector

The nonprofit sector has also been affected in recent years by the impulse to merge and consolidate operations. With the doubling of the number of nonprofits in less than 20 years, and the failure

of funding to keep pace, nonprofit leaders have been forced to look for ways to respond to challenges that their organizations face. Increasing competition, the flattening of charitable contributions in many fields, and complex community pressures have forced nonprofits to confront the issues of strategic restructuring (La Piana, 1998). Recent survey results suggest that increasing competition has emerged as the key factor in nonprofit strategic restructuring (Kohm, 2002).

There are many ways in which nonprofits can restructure. One form of action is the creation of an alliance—a commitment to share or transfer decision-making power including administrative cost sharing and the operation of joint programs. Such arrangements may result in new ways of delivering services. A second form is the actual integration of programs—a change of control or structure including the creation or dissolution of an organization (Kohm, 2002). The difference between alliances and integrations comes down to the depth and thoroughness of the consolidation. Nonprofits can work together while preserving organizational boundaries, or they can erase these boundaries and seek out more comprehensive change. Of course, there are ways in which nonprofits work together that fall somewhere between a loose alliance and complete integration. Management contracts, selective asset acquisitions, and independently organized joint ventures fall somewhere in the middle of the continuum.

Nonprofits often have a natural inclination to resist any form of joint action. Many nonprofit organizations are grounded in the commitments and values of their founders, and the organizations often become an extension of the founder and senior staff, who have deep personal connections to the organization. Mergers are difficult because they require flexibility and change, which are often hard to reconcile with the desire for autonomy that permeates many nonprofits. Highly motivated and committed individuals who have a strong interest in a particular social mission have a hard time “letting go” of their organization and watching it change. Many problems with strategic restructuring are caused by emotions in top leadership, including fear of giving up control.

Although some nonprofits are afraid of the consequences of strategic restructuring, there have been many successes in practice. Among the factors contributing to success are compatibility of missions of the two organizations; flexibility in changing procedures and programmatic assumptions; the presence of strong leadership across the two organizations that are able to work together; and a willingness to share and learn up and down the organizations.

Understanding Public Sector Mergers

Many of the mission-related issues that confront nonprofits have close analogies in the public sector. Government agencies often display some of the same levels of commitment to cause that are present in nonprofits. Although a number of mergers in the public sector have occurred over the last 10 years, few, if any, have been carefully documented.

Analysis of public sector mergers does not appear prominently in public management literature or research. However, a connection can be made to discussions of accountability and increased efficiency through downsizing and reorganization. The movement toward reinventing government places great emphasis on eliminating duplication and downsizing. Mergers for public agencies, therefore, can be seen as connecting to the idea of finding new ways to do government work.

Government agencies do not have access to the measures of performance that drive decision making in the business sector. The public sector does not have SVA measures as in the private sector, but consolidations can add value in other forms. Instead of SVA, mergers and consolidations in the public sector can be seen as successful if they increase value to the clients and citizens that the agencies serve. Increasing value can take the form of improved services through coordination, increased efficiency, lower costs to the taxpayer, and increased accountability to the public. Consolidation of various agencies can be beneficial to citizens as an increased focus on *mission* may lead toward an *improvement in services* provided. In this sense, public sector strategic alliances are not acquisitions but collaborations of missions. These reorganizations are most often conducted in a cooperative manner, not in an aggressive or hostile manner.

Currently, there is a diffusion of responsibility, with many public agencies performing overlapping functions and providing similar services. Mergers may combine certain departments, thereby increasing the efficiency of the agency as a whole. As an element of increasing efficiency, consolidations can assist in information sharing, reduce redundancy, and lead to greater accountability.

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Cases of Public Sector Mergers

While there are some insights that emerge from the literature produced to date on mergers across all three societal sectors, public managers are only beginning to define the field of government mergers and build a body of knowledge grounded in practical experience.

To further the growth of this nascent field, this report looks at six recent mergers in the public sector. One case, the New York City Department of Health and Mental Hygiene, is drawn from the experience of municipal government. Four cases come from state government: Missouri Department of Health and Senior Services; Michigan Department of Community Health; Minnesota Department of Commerce; and MassDevelopment. One case is taken from the federal government's experience with consolidation: the folding of the United States Information Agency into the Department of State.

The cases vary widely in terms of the underlying types of service being delivered, but the context of each case is remarkably similar: Public managers seeking a way to improve performance and control costs turned to agency mergers as a tool for restructuring. Table 1 provides an overview of the six case studies and major characteristics of each.

New York City Department of Health and Mental Hygiene

The Department of Health and the Department of Mental Health, Mental Retardation and Alcoholism Services merged into the New York City Department of Health and Mental Hygiene (DHMH) on July 1, 2002, after approval by city residents in a charter-

revision vote. The City Council then approved the name change from the Department of Public Health to the Department of Health and Mental Hygiene. The new agency's mission is "to protect and promote the health and mental hygiene of all New Yorkers, to promote the recovery of those with mental illness and chemical dependencies, and [to promote] the realization of full potential of those with mental retardation and developmental disabilities." The agency strives to accomplish its mission by developing and coordinating community health and mental health services through contracts and service providers.

The new agency has a budget of \$1.3 billion and a staff of more than 6,000 employees, and is made up of six divisions: mental hygiene, disease control, environmental health, epidemiology, health-care access and improvement, and health promotion and disease prevention. The Department of Health and Mental Hygiene has assumed the responsibilities of the two former agencies. In a press release dated July 7, 2002, the newly merged agency announced that it will "maintain all responsibilities of the two former agencies, which range from monitoring health and mental health status to issuing birth and death certificates, inspecting restaurants, addressing tuberculosis, AIDS/HIV, and other diseases, to funding and overseeing programs that treat people with mental illness and/or chemical dependency and serve people with mental retardation" (NYC-DHMH, 2002).

The newly merged agency is headed by a commissioner and a new executive deputy commissioner of mental hygiene. Deputy commissioners head

Table 1: Case Studies—Summary

Original Agencies	Merged Agency	Rationale/ Process	Main Proponent	Main Opponent	Transition Leader/ Team	Consequences
New York City Department of Health Department of Mental Health, Mental Retardation and Alcoholism Services	Department of Health and Mental Hygiene	Charter revision vote (presented three times) Idea discussed for years	Mayor (Giuliani) Commissioner of health	Department of Mental Health provider organizations City Council (initially)	Commissioner of health	100-day wins Gathered support of external constituents
Missouri Department of Health Missouri Division of Aging	Missouri Department of Health and Senior Services	Executive order Governor wanted to elevate senior issues and improve services Great deal of communication with staff	Governor's office	Some staff (quickly came on board)	Outside consultant Interim director	Challenges: late payroll, geographic spread, technological differences, establishing common culture
Michigan Department of Public Health Department of Mental Health Medical Services Administration	Michigan Department of Community Health	Executive order Pushed by governor and director of community health Goal of more user-friendly, accessible services Quick process	Governor (Engler)	Due to top-down approach, no dissent voiced	Director with small team and clear vision	Duplication and waste eliminated Increase in efficiency
Minnesota Department of Public Service Department of Commerce	Minnesota Department of Commerce	Reorganization plan drafted by commissioner, followed by executive order	Chief of staff and deputy commissioner	Several legislators	Small executive team	Greater efficiency Cost cutting
Massachusetts Government Land Bank Massachusetts Industrial Finance Agency	Mass-Development	Economic development was fragmented and inefficient Informal merger followed by legislation	Board and staff of two agencies	Other economic development agencies	Executive director and two boards Senior management team	Development of one cohesive culture Increase in efficiency
United States Information Agency Arms Control and Disarmament Agency	Department of State	Bringing public diplomacy to core of foreign policy Bureaucratic shift Act announced by President (Clinton)	Senator (Helms) Heads of agencies	Staff in the agencies	Undersecretary for arms control	Increase in bureaucracy Weakened morale

the areas of mental health, early intervention and developmental disabilities services, chemical dependency and health promotion, and administration. These new leaders will direct initiatives that include plans to “strengthen systems that monitor each community’s health status to help identify community needs; decrease tobacco use, an epidemic that currently causes more than 12,000 deaths each year in New York City; work with communities to improve HIV prevention strategies; ensure that high-quality, adequate services exist to serve persons with mental illness and developmental disabilities and to free individuals from dependence on alcohol or other drugs; promote the health of children through stronger partnerships with schools, especially in the areas of tobacco use, HIV/AIDS and other sexually transmitted diseases, mental health, alcoholism and other drug use, asthma, violence, and obesity; and ensure that New York City remains prepared to confront new and emerging disease threats, including those posed by biological terrorism” (NYC-DHMH, 2002). Another major initiative is the establishment of a new division of epidemiology. This division focuses on collecting and assessing information on the recipients of these services, the types of diseases that are being treated and the services provided, as well as the outcomes of these services.

Rationale/Decision-Making Process

The merger of the two departments had been discussed for several years, as many constituents believed it was a natural fit to integrate health and mental health. The proposal to merge was not made precipitously. It was presented three times—once to the City Council and twice to the voters in the process of a New York City charter revision—and was eventually driven by legislative orders. (Charter revisions can take place in New York City either by the City Council, which is the legislative body, or by the voters in a charter revision.)

Stakeholders

Provider organizations were the main stakeholders from the Department of Mental Health, Mental Retardation and Alcoholism Services, which was a contract agency rather than a direct service agency. These providers covered four areas: mental health agencies, mental retardation agencies, chemical dependency agencies, and an early intervention

program. Many of these organizations were concerned that the small “mom and pop” operation of the Department of Mental Health would be subsumed under the new, larger department. These concerns were exacerbated by the disparity in the size of the departments—the Department of Mental Health had approximately 300 employees whereas the Department of Health had approximately 3,000. In particular, the parents of the MRDD (mentally retarded and developmentally disabled) constituted a group of key stakeholders and had a great deal of anxiety about the merger. Although MRDD parents expressed their anxiety about the merger, MRDD providers and associations did not come out against it, nor did the chemical dependency providers. Fortunately, the Department of Mental Health had an existing forum to solicit input from parents and providers on planning services that allowed these groups to voice their concerns about the proposed merger.

The stakeholders from the Department of Health were historically less organized and not as vocal for a variety of reasons. The Department of Health did not have as many mobilized and organized provider groups relating to it, and issues such as restaurant inspections and mosquito control did not have powerful constituencies in the same way as did the Department of Mental Health, Mental Retardation and Alcoholism Services. Overall, there was less anxiety from the constituents of the Department of Health. The vast majority of stakeholders debating the merits of the merger were from the Department of Mental Health, Mental Retardation and Alcoholism Services.

The actual proposal for the merger came from Mayor Giuliani and his administration. The Department of Health and the Department of Mental Health had a common commissioner in the Giuliani administration, Neil Cohen, who saw the benefits of the new merger and pushed for it. Other groups supported the merger, including some hospital associations and medical schools that saw it as an opportunity to integrate services. Despite this support, City Council members were skeptical, and they did not enact the proposed merger developed by Mayor Giuliani’s administration and the bill simply died the first time around. In the end, the proposal resurfaced and the voters approved the proposal on November 6, 2001.

Process/Mechanics

Although the change was approved in November 2001, the date for the formal merger was flexible. The city eventually decided on July 1, 2002, which coincided with the beginning of the city's fiscal year. By that time, the city had a new mayor (Bloomberg), and the new commissioner, Tom Frieden, was appointed the commissioner of both departments pending the merger, after which he would become the commissioner of the new Department of Health and Mental Hygiene.

The majority of the decisions on how the merger would proceed and be conceptualized were left to the Department of Health. However, several external departments were implicated by the merger and needed to be consulted. Labor issues were involved due to the transfer of civil employees, while the city's budget and personnel offices were involved in the development of new budget and payroll codes to ensure employees were paid on time. Coinciding with the merger, Commissioner Frieden was reorganizing the Department of Health and brought in a consultant to help with that process. Some of this restructuring work would carry over to the new work of merging agencies.

The process of the actual merger was not a confrontational one and began in January 2002, after Mayor Bloomberg and Commissioner Frieden came into office. There had been some preliminary planning due to the prior attempts at passing the bill that made the process easier. Frieden moved quickly to engage a new consultant and conducted research on mergers, primarily in the business world. Because the commissioner had worked in the Department of Health, he was far more familiar with its issues than he was with Department of Mental Health issues. He worked quickly to learn about operations of the less familiar department and believed firmly that each department had real strengths that could enrich the other. The Department of Mental Health had a very efficient contracting system and well-organized external constituents and stakeholders. The Department of Health was strong in research, epidemiology, disease control, and prevention.

Consequences

The charter is quite specific in some of its provisions. It requires a separate Division of Mental

Hygiene headed by a charter-mandated position. It requires that the commissioner and the executive deputy commissioner hold an M.D. It stipulates that the Early Intervention Program has to be in the Division of Mental Hygiene. As Frieden was reorganizing the Department of Health, some of the new divisions were created, such as epidemiology, policy, finance, and planning communications. There were debates about whether policy and planning should be carried out for the entire department or whether more specialized work catering to the two main concerns of the new department should proceed independently under one roof.

These key decisions were ultimately made. As a result of his research into mergers, Frieden set out a series of "100-day wins" that would highlight early successes of the merger. It was made clear throughout the process that this was a merger and not an acquisition. A special effort was made to gather support of the external constituency (e.g., parents and providers) from the Department of Mental Health, which proved useful both politically and for the merger.

It is too early to determine whether the merger has been a success. It is not yet clear whether a cultural shift has taken place within the newly merged staff that will overcome differences. However, there have been clear indications that the two departments have benefited from the merger:

- The Department of Mental Health previously ran the Early Intervention Program while the Department of Health administered vital records including birth certificates recording birth weights. Due to the merger, the Early Intervention Program now uses information from the Department of Health to contact parents of every low birth-weight child, an idea that had never previously been considered.
- Sexually transmitted disease (STD) clinics in the former Department of Health began working to refer people to mental health providers.
- Combined computer resources were an example of a 100-day win. In June 2002 the merged departments completed a city-wide survey of 10,000 households on various health indicators with random digit dialing. This generated data on a ZIP code level, which had not been possi-

ble before the merger. Survey questions covered both health and mental hygiene issues so that better data could be gathered on both issues.

Lessons Learned

- **Emphasize the importance of open communication.** In this case the most dynamically organized constituents were the clients of the Department of Mental Health, Mental Retardation and Alcoholism Services. The merger planners quickly moved to allay their fears that the huge Department of Health would simply swallow up and make less relevant the mission of the department these constituents depended on for services. From the start, the communications strategy was based on a core message that the reorganization was a merger and not an acquisition. Positioning the reorganization helped in managing both constituents and employees of the newly formed department.
- **Learn lessons from previous mergers in different sectors.** Commissioner Frieden was able to effectively borrow merger strategies learned from the private sector as he planned for the new Department of Health and Mental Hygiene. Frieden used private sector strategies, like creating 100-day win benchmarks to highlight the accomplishments of the merger and gain support from stakeholders.
- **Make sure that whoever is making executive decisions with regard to the merger understands the culture on both sides.** Although Frieden came from the Department of Health's ranks, he made an effort to learn about the operations of the Department of Mental Health, with which he was less familiar. Frieden discovered that the Mental Health Department had key strengths such as an efficient contracting system and well-organized external constituents. His research into the operations of the Mental Health Department also demonstrated to its employees that he was interested in building on their skills and strengths. Because his plans were based on a familiarity with both organizations, Frieden was able to build a stronger organization than existed before.

Missouri Department of Health and Senior Services

The Missouri Department of Health and the Missouri Division of Aging merged into the Department of Health and Senior Services on August 28, 2001.

The merger was the result of an executive order signed by Governor Roger Wilson on January 5, 2001. The agencies already shared a common mission of "promoting and protecting the health and quality of life for Missourians." The merger would potentially allow both agencies to better integrate their services and technology as well as create new opportunities "for focusing on quality and enhancing performance" (MDHSS, 2001). In addition, the merger was intended to elevate senior issues in the state's priorities. In August 2001, 984,000 seniors ages 60 and above resided in Missouri. This population was expected to increase 65 percent over the next 25 years.

Rationale/Decision-Making Process

The Missouri governor's office initiated merging the Department of Health and the Division of Aging into the Department of Health and Senior Services. Serving as acting governor, Lieutenant Governor Roger Wilson was a strong advocate for senior services and felt these issues would be better served if they were merged into the Department of Health. Politically, there was a recognition that the aging population was growing in number and strength and that there was a need to invest more in senior services.

Prior to the merger of the two agencies, meetings were convened with senior officials, constituents, and advocacy groups. There was little if any research into past experiences of other state agency consolidations. However, Missouri state government had some prior experience with small transfers such as child care. The merger of the Department of Health and the Division of Aging was ultimately initiated to enhance both agencies and therefore improve the quality of services to the citizens of Missouri. According to Ron Cates, interim director of the Missouri Department of Health and Senior Services, combining health and senior services would create a stronger agency and result in benefits for residents: "Seniors would bring new vision and strength to the Public Health Department and vice versa."

Stakeholders

Many stakeholders were involved in the process of merging the Department of Health with the Division of Aging, including the frontline staff and administrations in the agencies. In addition, senior groups such as the American Association of Retired Persons (AARP) and the area agencies on aging were vocal throughout the transition process. However, several key players noted that the proposal was initiated from an executive order and thus the governor's office should be considered the main stakeholder. Moreover, the governor's office was the only constituent advocating for the merger initially. Once other departments became aware of the proposal, there was little opposition. Some employees did express concerns that they would "be lost" in the transition. When individuals were made aware of the benefits of combining the two departments, their fears were alleviated and the transition was able to move forward smoothly. Over time, the merger came to be perceived as a "win-win" situation. By keeping all parties well informed, more advocates emerged as the merger proceeded toward completion.

Process/Mechanics

After the executive order was issued, there was a series of administrative meetings in both departments. Staffers were identified to work on the transition team, and this group worked closely together over the next six months. The reorganization occurred in three phases: creating a reorganization plan, drafting legislative regulations complying with the writing of a memorandum of understanding, and revisiting budget allocations.

Early on, a consultant facilitated the transition process by assisting in developing the transition planning document, an 87-page detailed work plan. With a detailed analysis of the existing systems and current processes, gaps that needed to be filled, and action steps and time frames for these to be accomplished, the working plan was the road map for the reorganization process. The department directors managed the process to ensure strong leadership from the top. Yet, the process also seemed to be managed through constant communication, with numerous meetings of staff on both sides. Interim Director Ron Cates sat down with the team and went "line by line, item by item, staff position

by staff position" to review the reorganization. Cates personally managed the transition with the support from other department directors (see Appendix).

Most individuals noted that the process moved at a quick pace. Those in the personnel department felt that more time would have been helpful in the transition. However, the two personnel directors did meet constantly and worked together to provide a transitional plan of action for the employees. All legislation for the merger was completed in the first year. Bills were passed, and all statutory responsibilities were transferred. The legislative transition occurred quickly because it was important that the department was seen as a legitimate agency right away. Logistically, the responsibilities of the Division of Aging were split into two broad missions: regulation of long-term care and direct services to the elderly. Based on services and missions, the split into two departments seemed reasonable. All regulatory issues would be handled by a Health Standards and Licensure Department. Throughout this transitional process, communication was a key factor. After the merger, the web page was changed immediately and an item added for citizens to ask questions about the reorganization. In addition, a special website was created for all employees to ask the director questions during the reorganization process.

The transitional process created a few complications around personnel issues. After the merger of the two agencies, the new department was very large, which affected personnel policies designed with fewer employees in mind. Additional complications emerged that required attention:

- The Division of Aging was technologically less advanced than other agencies, and not all employees had computers. In contrast, the Department of Health was technologically sophisticated and accustomed to online communication. Working across the technological divide proved to be an obstacle.
- Payroll change occurred late in the process. Since payroll for all state agencies was centralized in the Office of Administration, which had little experience transferring a large number of employees from one system to another, the

switch took longer than desired. Although the merger was effective August 28, 2001, everyone was not on the same payroll until the following July.

- Geographic location was a challenge. Department of Health employees worked in district offices while the majority of Division of Aging employees were in the field covering a large variety of locations. Coordinating both sets of employees proved logistically difficult.
- Establishing a common culture was slow to happen. The new agency needed a consistent set of policies and values, but achieving them took work and patience.

Consequences

Joining the two different agencies eliminated parallel financial and human resources departments, thereby creating a more efficient and streamlined agency. While those interviewed thought the merger was a success, many commented that it was too soon to determine the magnitude of that success. According to Ron Cates, “it will take three or four years before the jury is in” on the Department of Health and Senior Services. However, the merger did elevate senior services programs in state government and raised the visibility of aging programs. Because this was an important reason for the merger, the new agency seemed to be fulfilling its mission, even as logistical issues were still being resolved.

Lessons Learned

- **Identify benefits of the merger beyond cost savings.** The decision makers in Missouri believed that combining the two departments would bring greater focus to the mission of both agencies. The merger plan included some cost-saving measures such as the combination of personnel services, but the plan was ultimately devised to improve overall performance. The former Missouri Division of Aging brought with it a powerful political constituency that could advocate for better funding and better services. The former Missouri Department of Health had more operational sophistication and a body of knowledge that could be harnessed through information sharing. Merging these two agencies created a real synergy, connecting the operational sophistication and political savvy of its two parts.
- **Get top management to support and understand the merger from the start.** Directors and senior managers must be 100 percent behind the effort. From the start, the merger had the governor’s support and strong political leadership behind it. Just as important, Ron Cates was able to sell the merger plan to his top managers, who became advocates within the organization and continued to sell the plan so that the employees eventually supported it wholly.
- **Communicate openly with constituency groups and other public sector agencies.** Managers identified key stakeholders and solicited their feedback on the proposed merger. Senior advocacy groups like AARP were brought into the deliberations and given a part in the decision making. The managers also reached out to local agencies throughout the state whose support was required for a smooth transition.
- **Minimize the impact of change on employees.** In this case, the managers were challenged to combine two different organizational structures without overly disrupting the employees’ work environments. The managers worked hard to convince the employees of the benefits the reorganization would bring. But the two personnel managers felt they did not have enough time to manage the transition. As a result, personnel were not moved to the same payroll until nearly a year after the merger, and there were lingering problems in establishing a common culture. These problems highlight the importance of investing early in a detailed plan to manage the impact of change on employees.

Michigan Department of Community Health

Created with an executive order issued by former Governor John Engler on April 1, 1996, the Michigan Department of Community Health combined the former Department of Public Health (DPH), the Department of Mental Health (DMH), and the Medical Services Administration (MSA) into one agency. The consolidation was intended to integrate “the management of Michigan’s physical and behavioral health-care services, enabling cohesive planning and unified policy direction.”

In addition to transferring the responsibility of the Medicaid program to the new agency, the new restructuring moved some responsibilities out of the health departments to other agencies (the Department of Commerce would be responsible for health-care regulation; food service and processing regulations would be integrated into the Department of Agriculture). A key goal of the consolidation was to build service delivery systems that were more user-friendly and less difficult to navigate. This restructuring of the health departments built on ongoing initiatives to reduce government size and make government more efficient while addressing long-standing problems in the health-care system. In addition, the new agency was intended to strengthen the focus of its mission on health promotion and disease prevention.

Rationale/Decision-Making Process

The consolidation of the various health departments in the state of Michigan was initiated by Governor Engler, with help from Director of Community Health James Haveman. In 1991, Governor Engler hired Haveman to head the Department of Mental Health. In 1995, Haveman was appointed as the acting director of the Department of Public Health. Governor Engler, seeking to reform the health-care system, asked Haveman to review the current structure and create a reorganization plan in 30 days. Haveman described his three main suggestions: “(1) Create a new health-care department with a community-based focus; (2) move the Medical Services Administration and Medicaid into this new department; and (3) bring in the Department of Public Health, Department of Mental Health, Office of Drug Control Policy, and

Office of Services to the Aging into one consolidated agency.”

No other state agency had combined its health-care departments, so Haveman could not rely on the experience of others. Instead, he consulted six experts in health care when devising his plan. He then drew a matrix of all the health-related departments and responsibilities to detect overlap and duplication. From this matrix, the new system of community health emerged. The goals of consolidation were “services that are easier to access and delivery systems that are more user-friendly, more understandable, and less difficult to navigate” (Ackley, 1996). Cost control was an additional motivation behind the reorganization. Yet, “the changes were also consistent with the political goals of smaller government and greater efficiency in government, as well as quality assurance and accountability, all of which had characterized the Engler administration since it took office in 1991” (Weissert and Goggin, 2002).

Health-care management before the consolidation was a very complex proposition. For example, group homes were licensed by the Department of Social Services, certified by the Department of Public Health, and inspected by the Department of Mental Health. With the consolidation of the health-care system in Michigan, fragmentation would be eliminated, and the regulatory process simplified.

Stakeholders

Governor Engler was the main proponent of the reorganization of the health system in Michigan and the main stakeholder in the process of reorganization. Known as “the change agent,” Governor Engler was a visible and active leader throughout state agencies, and he worked directly with the legislature. In addition to Governor Engler’s leadership, the consolidation was attractive to Michigan residents who would benefit from “one-stop shopping” and better service. In terms of opponents to the change, Haveman noted, “People could either fight the executive order or get on board,” and most people got on board. Due to the nature of state government and its tendency toward top-down policy implementation, staff did not have the opportunity to voice much opposition before the process began.

Process/Mechanics

Executive Order 1996-1, issued on January 31, 1996, consolidated the Department of Public Health, the Department of Mental Health, and the Medical Services Administration, the state's Medicaid agency. In addition, the Office of Drug Control Policy and the Office of Services to the Aging were consolidated into the new Department of Community Health in this executive order.

The reorganization occurred over five months. The agency would provide the following previously fragmented services:

- Medicaid health coverage for people with limited incomes
- Mental health services for people who have mental illness or a developmental disability, and services for people who need care for substance abuse
- Health needs assessment, health promotion, disease prevention, and accessibility to appropriate care for all citizens
- Drug enforcement, treatment, education, and prevention programs
- Promoting independence and enhancing the dignity of Michigan's older persons and their families
- Administering the crime victim's fund, investigating and processing crime victim compensation, and administering federal Victims Crime Act grants (Michigan Department of Community Health, 2002)

Under the new system, the 48 community mental health service programs (CMHSPs) would provide services to the departments of mental health services. This community-based approach is one of the major changes from the old system that the reform introduced.

Many attribute Michigan's successful consolidation and transition to its quick implementation. "The governor and the community health director were able to pull off the fast-track implementation thanks to three important conditions: (1) the support of state politicians and, at least initially, the health lobby, (2) organizational and personnel changes

within the implementing organization, and (3) a positive administrative and policy environment" (Michigan Department of Community Health, 2002).

As part of the organizational change process, Haveman gathered a team of skilled managers composed of "radical thinkers" who could work creatively. Another important organizational change was the offer of early retirement to state employees, which many of Medicaid's top and middle managers accepted. In the end, the process of change was neither confrontational nor cooperative. Haveman concluded that a small team of people was needed to lead the initiative and drive organizational change.

Consequences

Most observers perceive the restructuring as a great success. Considerable duplication and waste have been eliminated from the Michigan health system, and there has been an increase in efficiency on many levels. Achievements include:

- The reduction in the number of health department employees from 13,000 in 1991 to 5,500
- One budget and one set of regulations for all health departments
- Closing 15 state institutions and reorganizing services with a community-based approach

With the number of employees decreased and the budget increased substantially over time, the Department of Community Health is able to provide more services to Michigan residents.

Lessons Learned

- **Secure full support from key political leaders before implementing a merger.** The Michigan Department of Community Health became a reality only with the strong support of Governor Engler and the health-care lobby. The merger planners were able to fast-track the implementation because they were given the full support of all key political players. Furthermore, Governor Engler had the political capital necessary to sell this idea to the public because he had built a reputation for streamlining Michigan state government and improving services for citizens. Engler had also gained the

support of stakeholders in local government, who trusted his ability to create more efficient service delivery systems. In this case, Governor Engler set the merger in motion with an executive order soon after hearing Haveman's recommendations. The executive order bypassed a messy legislative process that could have gotten bogged down in committee hearings and regional politics.

- **Waste no time in the planning process.** Once the idea of this merger was hatched and Governor Engler put his support behind it, no time was wasted in the planning process. Haveman was given only 30 days to assess the current structures and create a reorganization plan. Haveman, entrusted with the planning process, limited his advisers to six key individuals in health care to maintain tight control of the planning process. Working under an extremely ambitious time frame, Haveman and Governor Engler were able to quickly define the merger's objectives and outline a plan for combining agencies.
- **Establish open lines of communication with the media.** Communications work was emphasized throughout the process of this merger. Because this merger was planned and implemented so quickly with executive backing, there was little time for vocal dissent to gain strength or momentum. However, the merger team built on these inherent advantages and kept a working relationship with the media, which was critical to selling this merger to the public.

Minnesota Department of Commerce

The Minnesota Department of Public Service merged into the Department of Commerce with the issuing of an executive order on August 1, 1999. The consolidation was intended to combine the two regulatory agencies into one department and, in the process, to increase efficiency and improve services to residents. In March 2001, the legislature officially approved the reorganization.

Rationale/Decision-Making Process

A convergence of events created the impetus for merging the Department of Commerce and the Department of Public Service. In June 1999, five months after being appointed, the commissioner of the Department of Commerce resigned. Seeking to fill this vacancy, the chief of staff for the governor and others met to discuss the rationale behind having two separate state regulatory agencies. As Governor Jesse Ventura came to office with a reform agenda, the consolidation of the two regulatory agencies fit squarely into plans for improving state government and cutting waste. A small team soon began to look at whether merging the two regulatory agencies would work.

Stakeholders

Stakeholders in the process included the Minnesota consumers, utility ratepayers, insurance companies, and banks. Chief of Staff Steven Bosacker and Deputy Commissioner Jim Bernstein were both advocates of the move. Most of the opposition came from a few legislators who felt they should have been informed earlier about the consolidation, been more involved in the process, and held hearings on the subject. In addition, some individuals in the insurance industry opposed the consolidation fearing a loss of power.

Process/Mechanics

Commissioner Bernstein drafted a reorganization plan in July 1999 and presented it to Governor Ventura. A team of individuals from both departments worked to spearhead the transition process, which unfolded quickly. The governor made his support for the consolidation known to the employees of both agencies, and the deputy commissioners for

the two agencies helped with the process, although they made it clear that the decision to merge was final. A very small executive team managed the process. The consolidation was well publicized with meetings and interagency briefings, and the media were kept informed with numerous press releases. Prior to the consolidation, the two agencies were situated across the street from one another, and the Department of Commerce was located in an old building with inadequate office space. After the merger, staffs were relocated to new, improved offices, which helped with employee buy-in. The employees from both departments were then integrated.

Consequences

Commissioner Bernstein, the key designer of the merger, has concluded that it was an “unqualified” success and that the agency became much more efficient. The agency reported significant financial savings. Smoother operations for both agencies, particularly in the area of human resources, were achieved. More opportunity for career growth was created inside the agency. The merger resulted in greater coordination with one computer system and one accounting system for all functions. Finally, improved access to services for clients was possible after the consolidation.

Lessons Learned

- **Implement quickly after making the decision to merge.** Once the governor’s chief of staff and the deputy commissioner made the decision to merge, they moved quickly to formulate the plan, garner support from the public, and then implement the plan. Quick implementation reduced the time for dissenting voices to organize and take hold. Once the merger was completed and its viability demonstrated, the threat of political derailment was effectively neutralized.
- **Find clear benefits for employees.** The merger necessarily faced resistance from employees, some of whom had been lifelong employees of the state. The planners put together a package of benefits to sell to unconvinced employees, including enhanced office facilities and more advancement opportunities.

- **Keep the legislature informed.** The architects of this merger worked around the legal problem of dissolving an agency created by the legislature by keeping one small part of it in place (the Department of Weights and Measures) and moving all other functions of the Department of Public Service into the Department of Commerce. Bypassing the legislature gave the managers more latitude to formulate and implement a fast-paced plan. This maneuver was successful, especially because of the executive office’s unreserved support.

MassDevelopment

With a mission “to help build the communities of the Commonwealth by stimulating economic development,” MassDevelopment serves as Massachusetts’ economic development authority, providing real estate and financial services to communities, businesses, and nonprofit institutions. The organization was the product of merging the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency (MIFA). This move was designed to help establish a more favorable climate for business growth and economic success. During fiscal year 2001, MassDevelopment financed and managed \$1.7 billion in projects that helped strengthen the Massachusetts economy.

Rationale/Decision-Making Process

Before MassDevelopment, there were two economic development agencies: MIFA and the Massachusetts Government Land Bank. Support for economic development in Massachusetts was fragmented and inefficient. For many years MIFA and the Massachusetts Government Land Bank did not work well together, and they even went so far as to refer bad deals to one another. In 1995, Michael Hogan was appointed to head the Massachusetts Government Land Bank. Previously a board member of MIFA, Hogan was aware of the intricacies of both organizations. Three months after Hogan’s appointment, the executive director of MIFA resigned. The head of the board at MIFA discussed the possibility of a merger with Hogan. In the fall of 1995, Hogan was appointed executive director of both agencies, and an informal merger formed. It was not until 1998 that the merger was made official with legislation. Prior to informally merging, the two agencies researched past examples and, although none of the examples were exactly similar to their situation, analyzed an earlier report about Massachusetts’ economic development authorities. In addition, the legal departments worked to ensure that the appropriate statutes and bylaws were amended.

Stakeholders

The boards and staff of the two agencies were the main stakeholders in the merger as they had an interest in making the state’s economic develop-

ment efforts more efficient. In addition, the two boards recognized the opportunity to better serve their customers. Hogan and the heads of the boards enlisted the support of the legislature and worked together to make the merger happen. With legislative encouragement, the agencies made an effort to educate their customers, who were also stakeholders in the process, though fairly diffuse. In terms of opposition, other economic development agencies were worried that MassDevelopment would gain too much power as a merged entity, and some staff were worried about change in general. Because this merger was initiated by and for the two agencies involved, the legislature could have stopped it. However, there was no real opposition to the plan.

Process/Mechanics

Hogan and the two board heads managed the process of change primarily by explaining and “selling” the benefits of the transition. A senior management team was assisted in the transition process and worked together on the challenging task of developing one cohesive culture from the disparate cultures in the two organizations. There were three distinct cultures that needed to be reconciled: (1) MIFA, similar to a private sector investment banking culture, (2) Massachusetts Government Land Bank, a public sector/nonprofit culture, (3) Devens project (a real estate development project that was part of the Bank that entailed running an entire town), a culture that had developed among those working on this project. Through a great deal of education and training of staff and an emphasis on the customers, the cultural issues were eventually resolved. There were difficulties merging the staff, however, and interstaff competition emerged around how best to provide quality service to customers. The leadership team used this competition as a strategy to drive innovation.

The merger happened in two phases. In 1995, MIFA and Massachusetts Government Land Bank merged informally but swiftly. About two months elapsed from the initial decision on October 1 until the move into one office in December. During those two months, a computer and communications system was installed, and coordination with the regional offices improved. According to Michael Hogan, MassDevelopment “rolled out new initiatives with customers” and provided “a lot of

internal marketing” to sell the organization to the staff and board. There were still two separate boards (although they held joint board meetings), and each organization continued to keep separate accounting records. Although the agency used one letterhead, legally it still consisted of two organizations.

In 1998, the senate president was frustrated with a “nonexistent” agency and pushed to formally merge the two organizations into one through legislation. In September 1998 the merger was official. The move from informal to formal consolidation involved many administrative changes—creation of one bank account, one payroll system, and one board—all of which were completed with relative ease.

The merger process for MassDevelopment was different from the experiences of other public sector mergers in at least one important way. This was first a merger in practice and only later a merger in legal terms. Once the informal merger was operating smoothly, the team was able to present the legislature with clear evidence that the merger deserved its support.

Consequences

As told by Hogan, the results of the merger were intended “to increase customers’ access to programs, and make it less complicated to get what they need.” Many now feel that MassDevelopment has accomplished these goals. After the merger, MassDevelopment increased its business from 76 transactions during 1996 to 500 in 2002. MassDevelopment financed \$1.7 billion in economic development efforts in 2001 and dealt with 14,000 customers. More than half its business has been with repeat customers. Key players concluded that by combining services, MassDevelopment is now a more efficient operation. There has been an increase in activity overall, an increase in the number of deals, and an increase in income, with unified economic development efforts replacing fragmentation.

Lessons Learned

- **Gain stakeholder buy-in from the beginning.** Because Hogan had worked with the staff and boards of each organization, he was able to bridge differences and sell the plan to both

organizations. Garnering support from the boards and senior staff allowed Hogan to lead a fast integration process. With or without a leader who bridges both organizations, stakeholders from both organizations must buy into the plan from the beginning.

- **Be clear about the mission and desired results.** This merger team started with a very clear rationale that drove its decision-making process from start to finish. MIFA and the Massachusetts Government Land Bank had overlapping customers and missions, but they were working against each other. The planners of this merger envisioned a combined organization that would better serve the financial and development needs of its customers. This mission was articulated from the start and drove the merger’s implementation.
- **Keep the focus on the customer.** The merger was a spectacular success if measured by customer demand. The new organization increased its customer base many times over from 1996 to 2002 and became much better at developing long-term relationships with its customers. From the start, MassDevelopment merger managers defined customer satisfaction as a primary measure of their success. When interstaff competition centered around which staff served customers better, the merger managers used this competition to drive innovation in the new organization. MassDevelopment shielded itself from political pressure at the beginning and instead focused on customers as a measure of success. The resulting organization had a growing customer list, and its demonstrated success allowed it to build political support.

Reorganization of the State Department

Although first proposed in 1997, consolidation of the United States Information Agency (USIA) into the State Department was finally enacted in October 1999. According to the U.S. Advisory Commission, the consolidation was intended to “develop more effective policies that are persuasive to foreign audiences.” The presidential directive for the reorganization was “to enhance the use of international public information as a key instrument for preventing and mitigating foreign crises and advancing U.S. interests around the world” (State Department, 1998). The two departments encountered the challenges of merging different cultures and missions. A one-year assessment of the consolidation reports that still more integration is needed (State Department, 2000).

Rationale/Decision-Making Process

Two years before the start of the merger of USIA and the Arms Control and Disarmament Agency (ACDA) into the State Department, the assistant secretary for public affairs approached Vice President Gore’s policy adviser to explore the idea of merging USIA, ACDA, and the United States Agency for International Development (USAID) into the State Department. A team was assembled to research the pros and cons of the merger. All parties were initially slow to act on the possible transition. It was not until Senator Jesse Helms made the consolidation his primary concern that the merger had the needed backing to move forward. During this time, President Clinton was trying to pass the chemical weapons ban treaty. Senator Helms agreed to support the treaty *only if* the executive branch followed through on the reorganization of the State Department. Although Senator Helms wanted all three departments to be transferred to the State Department, he settled for the merger of USIA and ACDA. USAID remained a separate agency, although its director now reports to the secretary of state instead of the president.

The consolidation of USIA coincided with a push to bring public diplomacy to the core of foreign policy (State Department, 1998). While the State Department’s primary responsibilities involved policy, USIA focused on programs. Combining these two functions proved to be a major challenge.

Stakeholders

The main stakeholders during the transition were the heads of the agencies to be merged (USIA, ACDA, and USAID). ACDA was the easiest to move into the State Department due to its small size. None of the three agencies had a domestic constituency, and the transition was intended to be primarily bureaucratic, so there was little concern among U.S. citizens about how they would be affected. The main opponents to the consolidation were the staff working in the agencies. As noted earlier, the director of USAID succeeded in stubbornly holding on to his agency and its unique responsibilities. In addition, the nongovernmental organizations (NGOs) were upset by the transition, as they feared losing funding and having to endure the bureaucracies of the State Department.

All in all, the merger was not performed with great enthusiasm. Although a melding of missions was briefly discussed, the main impetus for the consolidation was a bureaucratic shift. It was also intended to streamline administrative and management operations and lead to greater efficiency. As noted in *Reorganization Plan and Report* (State Department, 1998), the main purpose of the merger was not to cut costs or decrease the number of employees within the two agencies. The reorganization was intended “to reinforce the effectiveness of the State Department and our foreign affairs agencies, to streamline our organization, to do away with duplication.” Still, this message was difficult to convey to the many stakeholders involved in the merger.

Process/Mechanics

The Foreign Affairs Reform and Restructuring Act of 1998 announced by President Clinton on April 18, 1997, provided the authority to implement the reorganization and restructuring of the foreign affairs agencies. The integrated foreign policy missions of ACDA and the State Department’s Political-Military Bureau were placed under the policy oversight of the undersecretary for arms control and international security (State Department, 1998). The five divisions of ACDA were reduced to three bureaus: arms control, nonproliferation, and political-military affairs. Two new positions were created to continue public diplomacy efforts: Undersecretary for Public Diplomacy and Public Affairs with responsibility for the Bureau for Educational and Cultural Affairs (ECA) and the Bureau for Public Affairs (PA),

and Assistant Secretary for Information Programs and International Exchanges with responsibility for academic exchange programs, professional exchange programs, and international information programs. USIA's area offices joined the respective bureaus at the State Department, and the public diplomacy staff was added to the State Department's functional bureaus.

ACDA was abolished on April 1, 1999, and USIA was abolished on October 1 of that year, as the Department of State assumed responsibility for security and U.S. diplomacy activities. The reorganization of ACDA and USIA into the State Department included the following key developments:

- The Bureau of Public Affairs was expanded to include press relations offices for all foreign affairs agencies.
- ACDA's and USIA's legal staffs joined the State Department's Legal Advisory Office.
- Units of ACDA and USIA joined the State Department's Bureau of Legislative Affairs.
- ACDA's and USIA's central management functions were integrated into the State Department units (information resource management, overseas facilities and operations, domestic facilities, logistics, diplomatic security, financial management grants, human resources and training).
- The Broadcasting Board of Governors (BBG), previously a part of USIA, became an independent federal entity.

Consequences

In the end, the State Department turned out to be more bureaucratic than USIA, and the change resulted in increased procedural hurdles for former members of USIA. Although the merger was intended to remove duplication, increase efficiency of mission, and preserve and improve U.S. leadership, assessments of the transition concluded that the agency had a long way to go before completing a successful reorganization process (State Department, 2000). Former USIA employees have had a difficult time in the transition process. The 4,025 USIA employees (including 2,079 Foreign Service nationals) were transferred to the State Department and had to adjust to its more formal culture. At the end of the first year, low morale was found to be a

major problem for former USIA employees. In addition, the collaboration that USIA once had with other departments, such as the Defense Department, did not continue after the consolidation. Instead, there has been less communication between former USIA employees and other agencies, leading to a more fragmented information sharing system.

Lessons Learned

- **Prepare for potentially high transaction costs due to the merger.** Managers must be aware of controlling the transaction costs of undertaking consolidations and try not to impose undue burdens on staff.
- **Be sensitive to effects of physical and cultural consolidation.** Efforts aimed at the physical consolidation of employees may be necessary, though dislocation and resistance from staff may result. Managers need to be sensitive to the fact that solving problems of geography can and will have significant culture and morale effects.
- **Reform or standardize performance measurement methods if necessary.** As agencies or departments are joined together, differences in the way performance measurement is carried out—or not carried out—will become clear. Working to resolve these disparities is critical to getting all workers to buy into and accept the merger.

Conclusions

Public sector agencies lack the clear lines of ownership found in the private sector, and pure acquisitions in government are consequently neither possible nor desirable. Measuring the immediate and long-term success of public sector mergers resists some of the easy formulas that can be used to measure the profitability of private sector mergers. Private corporations may profit from taking over a smaller company, stripping it of its assets, and dumping its employees. In the public sector, this is hardly an option. However, there is a continuum that runs between mergers and acquisitions in both sectors. In the cases discussed, the position of the reorganization along this continuum turns out to be dependent on the relative scale of the agencies being joined.

In the case of MassDevelopment, two agencies competing for the same customers already had very similar missions and operated in a competitive environment that was unproductive. Because of the clear duplication effects, this case approached a pure merger. In the case of the New York City Department of Health and Mental Hygiene, one agency (the Department of Health) was nearly tenfold in scale, so the reorganization was far closer to an acquisition. But the reorganization did not jettison the mission and commitments of the former Department of Mental Health, Mental Retardation and Alcoholism Services. The stakeholders of this smaller agency were organized too powerfully for such a move. Instead, the merger plan used the strengths of the former Department of Mental Health, Mental Retardation and Alcoholism Services to sharpen the focus and mission of the new organization.

If one of the merged agencies is disproportionately smaller than the other, managers must be especially careful to avoid the appearance of an acquisition. Interviews with key players in the six mergers discussed here indicated that acquisitions are to be avoided and that even introducing the concept of an acquisition will make employees and stakeholders in the acquired agency skittish. To make public sector mergers work, managers must ask where along the continuum between pure merger and pure acquisition their reorganization falls. In no instance is the challenge of navigating these complex conceptual boundaries more challenging than in the ongoing effort at the federal level to provide homeland security.

Implications for the Department of Homeland Security

The biggest public sector merger in American history is now being undertaken at the new Department of Homeland Security. Because the department will straddle cultural divisions between military and civilian services and federal and local agencies, the task of creating a common department culture is particularly daunting. In making the case for sweeping reorganization, the White House argued that the new Department of Homeland Security will make Americans safer because the reorganization will create one department whose primary missions will be:

1. To protect the American homeland
2. To secure its borders, transportation sector, ports, and critical infrastructure

3. To synthesize and analyze homeland security intelligence from multiple sources
4. To coordinate communications with state and local governments, private industry, and the American people about threats and preparedness
5. To coordinate efforts to protect against bio-terrorism and other weapons of mass destruction
6. To help train and equip first responders
7. To manage federal emergency response activities
8. To reduce duplicative and redundant activities

The Department of Homeland Security has a simple organizational structure with four divisions: border and transportation security, emergency preparedness and response, science and technology, and information analysis and infrastructure protection. In seeking this merger and reorganization of existing agencies, the White House concluded that not only will greater coordination among the core functions of homeland security be possible, but also the merger could lead to improved performance within each of the four functions.

The number and complexity of the functions that were merged under the plan is enormous. The new department assumed responsibility for all aspects of border control, taking operational assets of the Coast Guard, the Customs Service, the Immigration and Naturalization Service and Border Patrol, the Animal and Plant Health Inspection Service of the Department of Agriculture, and the recently created Transportation Security Administration. The new department took over emergency preparedness programs previously operated by the Federal Emergency Management Agency (FEMA), the Department of Justice, and the Department of Health and Human Services, and integrated them into a single, comprehensive, government-wide plan. Additionally, the department is the lead agency preparing for and responding to chemical, biological, radiological, and nuclear terrorism, and it consolidated the disparate homeland-security-related research and development programs currently scattered throughout the executive branch. Finally, the department took on the task of analyzing and synthesizing intelligence and other information pertaining to threats to the homeland from multiple sources, which entailed working closely with the CIA, the Federal Bureau of Investigation

(FBI), the National Security Agency (NSA), and other intelligence agencies. In short, the reorganization requires a massive effort of consolidation and coordination across agencies of widely divergent sizes that have long operated independently.

According to President Bush in his address to the nation, "The reason to create this department is not to affect the size of government, but to increase its focus and effectiveness. The staff of this new department will be largely drawn from the agencies we are combining. By ending duplication and overlap, we will spend less on overhead, and more on protecting America. This reorganization will give the good people of our government their best opportunity to succeed by organizing our resources in a way that is thorough and unified."

Critics of the proposed Department of Homeland Security such as Senator Richard Shelby argued that it would not be able to prevent the intelligence lapses that occurred before September 11th. Senator Bob Graham claimed that the CIA and FBI do not communicate well under the current system and the new plan needed some changes to address this. There were also concerns about accountability with respect to checks on power for the new agency. Senator Joseph Lieberman pointed out that the new Department of Homeland Security "raises important civil liberties questions that speak to our core democratic values." Others probe corporate sector involvement. These criticisms underscored the tension between security, secrecy, accountability, and coordination.

After President Bush called for a Department of Homeland Security, the merger faced considerable challenges in keeping its employees and constituents satisfied. Legislation authorizing the new cabinet-level department was nearly derailed by a struggle between the administration, which wanted to reform civil service requirements, and federal employee unions, which considered this a major affront to their job security and benefits. Congressional leaders criticized the plan because it prevented the merged agencies from continuing to do their core functions well. As reported in the *Washington Post*, April 1, 2003, the Coast Guard complained that it has been given too many responsibilities without a commensurate increase in funding. Cities like New York and Los Angeles

complained that their allotment of federal homeland security dollars is not enough to pay for a fraction of their new security costs. As the homeland security plan is implemented, the concerns of these key stakeholders must be addressed.

To gain the support of American citizens, a communications strategy must be adopted that convinces people that they are safer from terrorist attacks because of the homeland security reorganization. To date, however, heightened terrorism alerts seem to be the only communications from the department that generate public attention. Newly merged agencies must quickly demonstrate that they perform services more efficiently and effectively than before the merger. Demonstrating this department's competence and viability is a great challenge because success must be defined negatively, as a lack of successful terrorist attacks. The military campaigns in Afghanistan and Iraq have showcased the military's ability to get tough on anti-American aggressors. Preventing further terrorist attacks on American soil will be an equally important accomplishment, but an absence of terrorism in the homeland will not create a rallying point to garner constituent support.

The Department of Homeland Security will be a rich subject for study of public sector mergers in years to come. Because so many agencies are being merged, the reorganization can be viewed as a series of mini-mergers, each with its own challenges. Still, the Department of Homeland Security must create an entirely new organizational culture with little precedent. The merged organization will perform a service that was ignored in the past but that has become a top national priority. Because of the pressing national need, the managers of this merger have the unique opportunity to simultaneously bring together 22 agencies and offer critical support to the fight against terrorism.

All public managers contemplating mergers need to look at four critical events in the merger process: deciding to merge, planning the merger, implementing the merger, and following up on the merger. At each stage of the process, there are opportunities to increase the likelihood of achieving a successful outcome.

Key Stages in Mergers

Deciding to Merge

The most basic stage of the merger process is making the decision to merge. Without a clear rationale that goes beyond cost savings, the merger will be doomed to failure. Once the merger's rationale is articulated, a mission statement can be formulated that will drive the future planning. Operational planning and selling the merger take place in later stages but the decision makers must ask whether the merger is sellable to the key stakeholders and whether it is operationally feasible before making the decision to merge.

It is absolutely essential that the missions of the two agencies be compatible. After reviewing the organizations themselves, the decision makers must evaluate potential political support or opposition to the plan. The cases examined in this study show that gaining support from the executive branch must be a primary concern. Legislatures can be brought along later in the process, though there is some risk in this fast-track approach. Because public sector agencies are politically legitimized by the voters they serve, merger planners must ask whether the merger will be supported by the public and the key constituent groups that are served by the agencies.

Those making the decision to merge should read literature from different sectors to learn more about the overall process. Close precedents that exist on the state or federal levels should be studied critically before the decision is made to merge. Research on private sector mergers may be only partially relevant to planning for public sector mergers, as the role of the public sector is to fulfill expectations of citizens, not shareholders or owners. Because there is no simple metric of merger success in the public sector, it is harder to determine the success rate of public sector mergers. When deciding to merge, decision makers should consider where on the continuum between merger and acquisition their proposed merger would fall. Because of the organization and culture of public sector agencies, pure acquisitions should be avoided in the public sector, and near acquisitions should be entered into with real caution.

Planning the Merger

Once the decision to merge has been made, the leadership must begin the planning process. Drawing on the initial research findings and senior management expertise, a detailed work/transition plan must be formulated. During this process, the planning group should involve constituency groups in the deliberations and maintain open communication with all stakeholders in the merger. The executive decisions about the plan should be left to a small group of people who understand the culture on both sides of the merger. The planning group should include people who can focus on each of the many aspects of the merger, such as personnel, legal, and programmatic issues. As difficult decisions are made during the planning process, all groups must be willing to negotiate. Merger planners face the challenge of forging a new organizational culture and gaining the support of skeptical employees. But the planners must also focus on customers. The merger's success will be determined by the quality of services the agency ultimately provides.

Implementing the Merger

After a small executive team has written the merger plan, a broader range of senior managers from every department affected have to be 100 percent behind the effort for there to be a smooth transition. The leadership of one or two visionaries and the support of an executive political cheerleader are important, but the architects of the merger cannot control every aspect of the transition. Senior managers from every area must take up the task of garnering employee support and enthusiasm.

Decisive management and swift implementation are key to constructing the new organization. Once the merger is set in motion, operational integration of payroll and computer systems, along with symbolic measures like renaming buildings, should occur soon so that the new organization is perceived as unified. An adaptable communications strategy to reach the media, staff, and other public sector agencies is essential to the implementation stage. Whenever challenges arise in the merger implementation, management must respond immediately and the communications team must work to quell criticisms.

Following Up on the Merger

During the follow-up period, management must continue to focus on making employees comfortable while continuing a communications strategy to demonstrate the virtues of the newly merged agency. In the case of the Department of Homeland Security, work will have to be done over a long period of time to finalize the transition of a workforce of nearly 200,000 federal employees into the new agency. Managers must be ready to make strategic adjustments. Because of changes in both the internal and external environments, few mergers are perfect from the start. However, follow-up and careful tracking of development after a merger is implemented are critical to long-term success.

Mergers are likely to be an increasingly important tool of government reorganization in the years ahead as the push for both greater efficiency and effectiveness continue to take root. Thinking strategically about the critical work that must be done at all four stages of the public merger process will become more and more part of the work of public managers at all levels of government.

Checklist for Merger Managers

As the Department of Homeland Security and other public sector agencies seek to make mergers work, they do not have to start from scratch. Even though the literature on government consolidation is thin, there is a fairly broad base of experience to draw upon, particularly at the state and local levels. The following short checklist can be used by managers as they navigate the multiple stages of a public sector merger.

Deciding to Merge

- Identify benefits of the merger beyond cost savings.
- Assess the strength of the opposition, if there is any, and develop a response.
- Secure full support from key political leaders and as many stakeholders as possible before beginning the merger.

Planning the Merger

- Waste no time in the planning process.
- Be clear about the mission and the desired results.
- Keep the legislature informed.
- Establish open lines of communication with the media.

Implementing the Merger

- Make sure that whoever is making executive decisions with regard to the merger understands all the cultural issues involved.
- Communicate openly with constituency groups and other public sector agencies.
- Find clear benefits for employees and publicize them.
- Build something new, rather than adding two systems together.

Following Up on the Merger

- Keep the focus on the customer.
- Prepare for potentially high transaction costs due to the merger.
- Be sensitive to lingering effects of physical and cultural consolidation.
- Reform or standardize performance measurement methods.
- Always be ready to adjust.

With these points in mind and with a strong commitment to seeing the process through to the end, government can make public sector mergers work for everyone.

Appendix:

A Conversation with Ron Cates

Interim Director, Missouri Department of Health and Senior Services

The following is an interview with Ron Cates about his role in organizing the merger of the Missouri Department of Health and Senior Services. He describes firsthand his dealings with key stakeholder groups in the process and the importance of selling the plan to top managers who took on much of the merger work themselves. Cates oversaw this merger from its very beginning and continued to manage and lead the merger through each of its developmental stages. His experience will serve as a guide to other managers of government reorganizations.

What was the political and managerial context for this decision?

The political emphasis came from Governor Roger Wilson. As an advocate for senior services, Governor Wilson felt that senior issues would be better served if they were addressed within the Department of Health, instead of the many large social services departments that existed at the time. The senior services wanted their own department. In fact, there was a vote in Missouri in which the people voted down the idea of creating a Department of Aging. Once we began talking, everybody began to see how this could be a win-win situation for both sides. We would not only bring all of the senior advocates and the strength of the senior community into public health, but we would also bring public health science into senior issues and life quality issues.

Who were the main stakeholders?

I think everybody. The public health side wanted to make sure their core concerns were not lost, as senior issues became a new focus of the depart-

ment. On the senior side, everyone from the Silver Haired Legislature (a state legislative advocacy group) to the AARP to the area agencies on aging were deeply concerned that public health should not be allowed to overshadow senior issues. We got all the key leaders of the various public health and senior groups to sit down and talk about these issues and think about how we would structure and organize the department.

We wanted from the outset to have only one department under one roof, not a department of senior services and a department of public health coexisting under one name. There had to be one department working together collaboratively around health and senior services issues. We made that clear to the advocates, and then we went from there to discussing how we could achieve that goal. The only thing that the advocates asked of me was that they wanted to make sure that someone at the top of the organization had my ear or the ear of the director, whomever the director turned out to be. We set up two senior deputy roles that report directly to me—one deputy in public health and another deputy in senior services.

Who were the main opponents?

People were concerned that they would be overshadowed or lost in the shuffle. Questions were asked about how we would make sure that senior issues would be balanced in a department that has traditionally had a public-health-only focus. People from the public health side asked how we were going to stand up as a department to the overwhelming political and economic power of the

seniors. Each side wanted their questions answered before they would decide whether or not they would support us.

How did you define the different roles in the process?

We already had regulatory functions like hospitals, ambulance service, and day care in the former Department of Health. The Division of Aging had regulatory functions like nursing, long-term care, as well as in-home [services]. We simply put all those together and formed a division of health standards and licensure. So, we had gains on training, professional recruitment, and other issues. Then we took all of the issues that we felt we could identify as being purely senior-focused (i.e., meals for the elderly, programs for the frail, in-home services, etc.) and put them in the division of senior services.

It was very important to me that all of the statutory and budget transfers would be done before the first year was complete and that we would be viewed as a truly legitimate reorganized department. One thing I wanted was all the legislation done in the first year. I did not want that pending because you then have an organization that's not all legally reorganized. In the very first year, we got the bills through the Missouri General Assembly, which Governor Wilson signed, to transfer all the statutory authority and legally realign the department in statute. We then made sure that we got the budget straightened out in the next year.

Was the process slow or quick-paced?

The process was incredibly quick-paced and very collaborative. Eight months passed from the time that the executive order was made to the time we completed everything. We set the ground rules on the first day, and then I brought a team together and told them that they were responsible to make this happen and that if there were any problems, I wanted to know immediately because we would then deal with it.

Would you say the director managed the process?

Yes, and I think that's why it worked, because if I had not said that we would make it work, then it could have taken a lot longer. I had good support

from other department directors who knew that we felt very strongly that the directors manage the process. Committees are good, task forces are wonderful, and blue ribbon panels are terrific, but only if they have a strong, strong leadership that is willing to make those final decisions and keep people moving forward.

Did you research or talk to any other agencies that have merged in the past?

We did not talk to other states or look at other organizational models. We worked together intensively, and the Department of Health worked with the Division of Aging literally on a daily basis. We knew about each other and what the issues were.

What actually happened after all the reorganization?

This happened in August of last year, so we're still in the process of reorganizing. I think we're running very smoothly. One thing that is really interesting is that Missouri is probably in the worst budget time that it has ever been.

But one thing that is really important, and that I think always gets missed, is that you have to be perceived as a new organization.... You have to train together. We have an Institute for Management Excellence that we do within the department for our managers, so we called all the managers in from both sides and began to talk as a team. We immediately changed the website, and we renamed all the buildings. You have to make absolutely sure that when people look at you, they see a new entity, not two old entities. The other thing we did was to review our policies and rewrite every single policy to make sure that they were consistent with the new department. We put a very rigid timeline on that, so everybody from personnel to administration to general services had to get everything rewritten and re-signed back out to the staff as the new Department of Health and Senior Services.

Did you have results in mind that you wanted to achieve through the reorganization? Were you looking to increase efficiency, decrease staff size?

We were already understaffed, and the former Division of Aging had a very difficult time carrying

out all their responsibilities and functions because they were also understaffed. But we thought we could help each other with cross training, which we investigated. We also felt that there were efficiencies to be gained by co-training and mingling administrative services in other areas, which would obviously be low-hanging fruit for common personnel. But more important, our goal was that seniors in the state of Missouri would bring a new vision and a new strength to public health, and public health would bring a new vision and new strength to them; our goal was really to bring the two together as a very powerful force to move forward with services and protection for citizens.

Would you view this as a success?

It's premature to say that, but I have been extraordinarily pleased with the way that it's gone and I think it's been a very good reorganization. Time will tell. I think people will judge us in three or four years as to whether or not we have really improved the situation for seniors and whether we have really improved public health in the state of Missouri.

Do you have an evaluation system in place?

Yes, it actually goes on literally every day. We also meet with all the senior managers in the department every Tuesday morning from 8:00 a.m. to 10:00 a.m. We look at all the issues and concerns and what we need to do. We have also asked outside entities to take a look at our processes, how we process contracts and other things, just to make sure that we're getting the most bang for our buck.

What lessons have you learned that you would offer to other agencies thinking about merging and/or consolidating?

That if you are the director and if senior managers are not 100 percent behind the merger, it will fail... Senior management must say that this is what we want to do, it is the right thing to do, and we are 100 percent behind it. Then they must push that message down the organization and make it real for other staff.

You need to go out and just talk to your constituency groups, let them know you and how to reach you by phone or e-mail. One of the things

we did right away was to put on our web page an item that flashed when you entered the web page and stated, "Ask us about the reorganization of the Department of Health and the former Division of Aging." If you clicked on that, there were commonly asked questions, but we also gave them a place to send us e-mail, which we were diligent in answering. We also established a toll-free number that people could call anytime, 24 hours a day, in case they didn't know how to e-mail. The other thing we did was set up a special e-mail site for all of our employees where they could ask the director anything they wanted about the reorganization and they would get an answer straight from my office. Also, I went with the two deputies to offices and visited the staff personally and met with them so that they would see me and see those two senior people and know we were together. The key is to manage, manage, manage. Stay on top of it.

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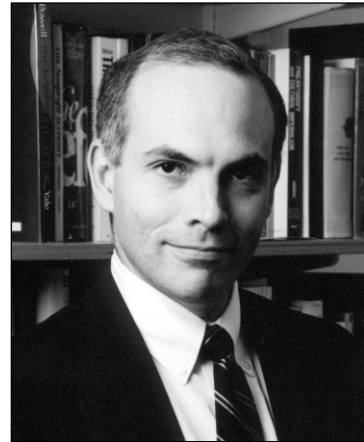
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Frumkin is the author of numerous articles on all aspects of philanthropy, including the formulation of grant-making strategy, the changing profile of major individual donors, theories of philanthropic leverage, the professionalization movement within foundations, and other topics. He has lectured on philanthropy at universities throughout the country and served as a consultant to foundations and individual donors on strategy and evaluation. Recently, he gave a series of lectures on philanthropy across Europe during trips sponsored by the United States Department of State. He is now completing a new book, *Strategic Giving*, to be published by the University of Chicago Press.

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