BACK-OFFICE MERGER MODELS: CONTACT/SENSE AND OTHER EXAMPLES

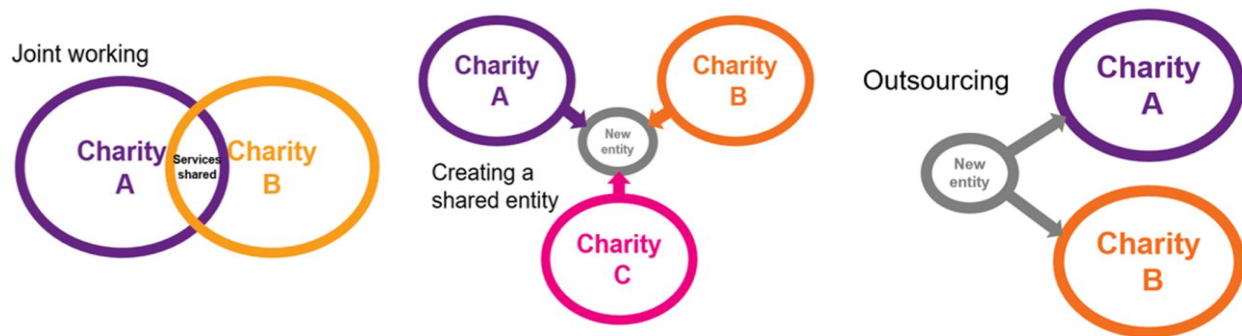## Sharing models create savings if full mergers aren't the answer

Sharing back-office services, the supporting functions which enable organisations to carry out their charitable activities, can be a valuable way to increase charity efficiency. Back-office services may include office space, HR, IT, finance or payroll services. It can also bring other collaboration benefits while stopping short of a full merger. Back-office mergers can occur in different ways[1]:

Back-office merger type	Description	Examples
Joint working	Two or more separate organisations together deliver back-office services. They may work together to deliver back-office services to all the partner organisations involved or one may provide services to others. Each organisation maintains its independence and its own identity.	• Sense shares its Finance, IT and Payroll services with the charity Contact. • Most of FareShare regional offices partner with a local organisation which provides back-office services; eg, FareShare North East and Changing Lives. • The Royal Society of Wildlife Trusts is an umbrella body for 47 individual wildlife trusts. Organisations within this body have collaborated on various projects including selecting and implementing CRM and finance systems.
Creating a shared organisation	Two or more organisations create a separate organisation to provide all the partners with services.	• South West Wildlife Fundraising Limited (SWWFL) is a not-for-profit set up initially by seven wildlife trusts to help them to secure regular financial support through memberships. • Charityshare Ltd is certified joint venture which provides core IT services to three UK charities, The Children's Society, Age UK and Alzheimer's Society.
Outsourcing	An organisation contracts out a specific service from an outside supplier.	• Charity Backroom is a social enterprise which provides a range of back-office support functions such as HR, Recruitment, Payroll and Insurance.

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[1] https://knowhownonprofit.org/organisation/collaboration/working-collaboratively/sharing-back-office-services-ncvo

Whilst outsourcing of specific services is common in the charity sector, there are limited examples of organisations collaborating to share back-office support services (eg, through joint working or creating a new organisation). Often charities do not have the time, resources or expertise to engage in larger partnerships. It is also a challenge to convince funders to provide capital to develop support services infrastructure. Drawing on the experience of disability charities Contact and Sense and others, this case study will explore the enablers and challenges concerning back-office mergers in the charity sector. A spectrum of merger options exists, as highlighted in our report, and other case studies explore various models in more detail.

Figure 1: Graphic illustration of different back-office sharing models

The rationale for partnership choices are about more than money—organisations must get on

Cost-savings often provide the impetus for discussions for back-office mergers to start. However, for the right partner to be identified, cost-savings are only one piece of the puzzle. Alignment in culture and values, and an understanding of the operations of a charity, were quoted as being equally important. For example, when Contact was short-listing various providers who provide back-office support, Sense was ultimately chosen as the preferred provider despite not being the cheapest option. This was because it was significantly more aware of the challenges facing Contact as a charity; had a better understanding of Contact's customer needs being a disability charity itself; and thus, had strong alignment in values and culture, on top of the fact it could provide much needed improvements to systems and reporting across functions.

'At Sense, we started to feel that we were too concentrated on our own activities which was limiting our reach. We started to discuss ways in which we can scale our impact and felt that we were in a good position to package our expertise to other organisations to create efficiencies in the sector.'

Kris Murali, Group Director, Finance & Resources, Sense

Similarly, when seven South West wildlife trusts explored opportunities to share back-office services, they realised that without the culture and values in each of the organisations aligning, it would be difficult to create a successful collaboration.

The strong existing relationship between Contact and Sense, where staff from both organisations are familiar with each other, also helped facilitate discussions to partner. Trust and clear communication played an important part, as both organisations felt reassured that any challenges could be discussed openly and honestly. This also gave trustees greater confidence to approve the partnership. Commonly in the sector, chief executives and trustees may appreciate the opportunities back-office mergers offer their organisation, however a sense of protectionism and unwillingness to share resources may prevent discussions going further. Openness to try something new, while simultaneously managing risk, is a pre-requisite in enabling conversations regarding back-office mergers to be successful.

Back-office sharing model: Sense and Contact

Contact and Sense are both disability charities, with different mission and aims:

Founded in the 1970s, Contact support families with disabled children across the UK in various ways. It provides guidance and information through its helpline, information sessions, parent advisors and website on all aspects of caring for a disabled child. It also runs programmes to bring families together to support each other and helps families campaign, volunteer and fundraise to improve their lives for themselves and others. Income in 2016/17 was £4.7m.

Sense is a national charity started in 1955 that supports people who are deafblind, have sensory impairments or complex needs, to enjoy more independent lives. It has several services including providing information and advice, housing support, skills centres, arts and sport activities and holiday retreats. Income in 2016/17 was £60.7m.

In mid-2017, the organisations entered into a partnership whereby Contact outsourced its finance, IT and payroll functions to Sense. The motivations to enter into the partnership differed for both organisations. For Contact, the decision to contract out some of its back-office functions was driven primarily by cost savings to enable the organisation to effectively cover its overhead costs. Additionally, inadequate finance and HR systems created a significant administrative burden for the teams. On the other hand, Sense wanted to use the opportunity to test whether their organisation was able to successfully provide back-office support to other charities. In the long term, Sense hopes to invest in systems and in-house expertise which will enable them to provide similar support to other charities, in the disability sector and in other sectors, and increase efficiency in resource utilization.

Efficiencies created by sharing models help charities achieve their goals

When thinking about the benefits to back-office mergers, it's natural to start with those that concern people (and culture), finance and operations. However, these partnerships also often enable organisations to better reach their strategic goals. For Contact, better systems enable the organisation to be more efficient which aligns with its fifth strategic aim to 'ensure it (people, policies, processes, systems and premises) support the efficient delivery of the charity's strategy'. The fact that Sense was able to provide support for multiple services, as opposed to one specific service, enabled better streamlining of support functions. For Sense, the partnership provides an opportunity to test a new way of working which may be incorporated more prominently in the future strategy.

A number of wildlife trusts (members of the Royal Society of Wildlife Trusts) formed a partnership to share the same CRM system. While part of the motivation for the partnerships was cost-savings through greater purchasing power, the decision was also driven by an eagerness to improve their services through better streamlining of data across organisations. It helped trusts to compare data and for the Royal Society of Wildlife Trusts aggregate data about the movement. Additionally, the set-up of the South West Wildlife Fundraising Limited (SWWFL) to help these wildlife trusts with membership recruitment has been integral in engaging members and has resulted in more coherence in terms of messaging and a reduced lapse rate of membership.

'What made the partnership to share membership services between seven South-West wildlife trusts work was the appetite from key staff in fundraising to take part, existing relationships between teams and a willingness to take risks and try out a new way of working.'

Simon Nash, CEO, Somerset Wildlife Trust

Inevitably, an outsourced service requires changes to the staff structure and roles internally. In the case of Contact, it reduced its operational (finance, HR and IT) team from 11 to 5 and a part-time Director and Head of Resources were appointed to oversee and manage the outsourcing partnership. While Sense did not experience any changes in staff numbers, current staff were up-skilled to manage the new work. Redundancy processes are difficult for staff. Involving them in the process and ear-marking a healthy amount of time for the transition was necessary to ensure the sensitivities of the transition was well managed. During the transition period, both Contact and Sense worked closely together, engaging both senior management and staff in the development of service level agreements to foster understanding and buy-in concerning the transition.

Cost-saving is the most obvious area of impact concerning back-office mergers. As the partnership between Contact and Sense is in its infancy, it is too early to see tangible results in terms of cost-savings and operational efficiencies for Contact. However, these are expected, and Contact predicts savings of £131,967 (27% of current costs of the resources department) on an annual basis form 2018.

Back-office mergers often give rise to greater operational efficiencies. An advantage of partnering with a larger organisation is that there is often potential for the smaller organisation to draw on more sophisticated operational systems and specialised operational teams. Similarly, FareShare North East benefits from the technical expertise provided by its larger back-office partner Changing Lives.

'Through partnering with Sense, we hope to improve our financial reporting so that we are better able to identify which funding streams are most profitable and adapt our fundraising strategy accordingly.'

Amanda Batten, CEO, Contact

The risks of back-office sharing

Despite the opportunities presented by back-office mergers, there are also risks. Often there is a disparity in size between two partners creating a risk that priority will be given to the larger partner, especially if the back-office services are provided by staff who are already working for a larger partner. Sometimes there is tension if one organisation is benefiting more from the partnership than another, especially when financial investment is required for the partnership. There also may be functions which are not fit for purpose for the partner organisation. For example, Changing Lives needs their volunteers to go through a more rigorous background check than FareShare North-East. Significant changes in organisations and their way of working also often coincide with turnover of staff which leads to a loss of historical knowledge within the organisation.

Looking forward

This innovative way of working will provide lessons to the sector and potentially encourage other organisations to explore collaboration with trusted partners. Donors are also encouraging charities to think about this more deeply, as they also face pressure to make the best use of their resources. Back-office mergers also act as a helpful stepping stone for organisations which are considering merging but would like to ease into the process.

Both Contact and Sense express confidence in the potential of the back-office merger to deliver. While Contact hopes for increased cost and functional efficiencies, Sense aspires to expand its back-office services to other charities. As the partnership develops, there may be other opportunities for Contact to outsource other functions, such as procurements, to Sense.

'I suspect that we will start to see more back-office partnerships. While organisations are engaging in lots of small collaboration with tangible benefits, there will be more momentum as these benefits become more visible.'

Jane Davis, Director of Finance & Resources, Avon Wildlife TrusT

NPC's 2018 research into mergers

Mergers as a means of stretching scarce charitable resources are an attractive prospect. Mergers offer strategic potential—reaching more beneficiaries; increasing the range of services offered to beneficiaries; greater heft in policy influencing and contract negotiations. Logic suggests cost savings would be achieved. Despite this, mergers are not as common as might be expected. So why are charities not liking them, or doing them? Much has been published on how to merge, ranging from the legal to the practical, and many sources list expected benefits of merger. However, there is a gap: objective analysis of the benefits and costs of mergers, and a balanced assessment of in which situations a merger (or similar) may be beneficial or otherwise.

To help fill this gap, NPC has been commissioned by a group of philanthropists to research and write an independent report on mergers and other efficiency savings. This builds upon NPC's well-read report on mergers in 2009.

NPC's research included a literature review, 30+ interviews with sector experts, charities and funders, sector analysis and five in-depth and themed case studies on mergers. NPC will publish a series of publications in various formats, including a report, webpages outlining case studies and blogs to share key findings from the research.

We hope to follow this research with further work to tackle the barriers to more mergers taking place.