GROUP MERGER MODELS

Group merger models offer opportunities for consolidation

Group merger models are those where, post-merger, more than one organisation exists, and the identity and brand of the merged organisations are retained. There are different types of group merger models:

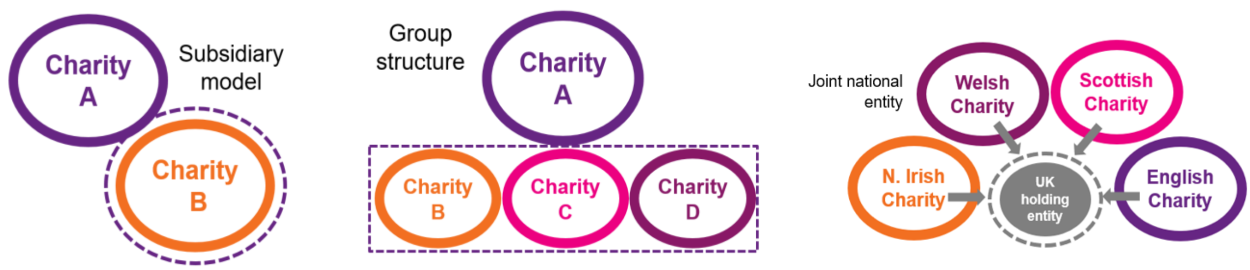
- **Subsidiary models** where a smaller organisation becomes a wholly owned subsidiary of a larger organisation, and the larger organisation retains varying degrees of operational control;
- **Group structure models** where two or more organisations transfer activities and assets to become part of a group and operate as one of several wholly-owned subsidiaries;
- **Joint national entity** where two or more organisations representing different nations in the UK come together to work on common causes.

This case study will focus on **subsidiary** and **group structure** models.

Both models undeniably represent a coming together of unequals—a large and financially robust organisation integrating a smaller and potentially more precarious organisation or organisations into its structure. Like many charity mergers, financial drivers are a major factor in group model mergers, however that is not the only reason why charities on both sides should seriously consider it as an option. This form of merger allows smaller charities to retain something of their identity and/or leadership structure, as well as accessing the benefits and security of being part of a larger group.

It therefore merits closer consideration for charities that are thinking about merger options, but who find a unified merger (such as takeover) or transfer of business unpalatable. To explore this model in more detail, this case study draws on the experience of Catch 22, Only Connect and Community Links, and the Coram Group, which has integrated four charities over the last 8 years.

Figure 1: Different group merger models



Group merger models combine stability with retention of identity, local connections and flexibility

A group merger model can be beneficial for all organisations involved. For smaller charities, it can provide an opportunity to come together and collaborate with a larger, successful, complementary charity. The smaller charity may access better financial security and realise new back office efficiencies through shared resourcing and expertise, whilst reducing levels of duplication and competition for funding. They may benefit from the bigger voice and leverage of the larger group when speaking out about issues critical to its mission. Smaller charities have the benefit of retaining their identity and boards and, depending on the group governance structures, they may also develop a voice across the wider group.

Conversely, the larger organisation could benefit from what smaller charities might bring. This could include:

- Diversification/extension of service provision
- Diversity of reach, users, staff, stakeholders
- Local perspectives into a national charity
- Wider geographic presence
- Flexibility, agility, ability to innovate/incubate
- Expertise

Comparing group merger models mergers with unified merger models

Form	Board implications	Identity implications	Ultimate controlling entity	Is this approach common?
Subsidiary models Smaller Organisation B transfers its assets to larger Organisation A. Organisation B becomes a wholly owned subsidiary of Organisation A.	Boards in both charities retained.	Both identities retained.	Organisation A	7% of charity mergers in 2016/17.
Group structure models Two or more organisations transfer activities and assets to become part of a group and operate as a number of wholly owned subsidiaries.	All boards retained. There is a group CEO and Chair but different models can be explored.	All identities retained. Subsidiary charities' identity references parent organisation.	The new parent organisation.	1% of charity mergers in 2016/17.
Takeover Smaller Organisation B transfers its assets to larger Organisation A. Organisation A operationally takes over Organisation B.	Organisation A retains board. Organisation B's board is disbanded.	Organisation A retains identity. Organisation B identity and brand is lost or taken over.	Organisation A	61% of charity mergers in 2016/17.

Form	Board implications	Identity implications	Ultimate controlling entity	Is this approach common?
New charity merger All assets, activities and responsibilities of Organisation A and Organisation B are transferred to newly created Organisation C. Organisations A and B are then dissolved.	Organisation C has representatives from both entities.	Organisation C identity and brand recognises both A and B, or a new identity and brand is established.	Organisation C	29% of charity mergers in 2016/17.

Achieving a successful outcome depends on alignment, momentum and planning ahead

Strategic and cultural alignment

Like other models, for group merger models to be successful it is essential that both sides have strategic alignment and shared values, and that the merger represents the fulfilment of strategic goals for both parties. In the 2015 merger between Catch22 and Only Connect, key leaders had cultivated long-term, respectful relationships and shared a vision for securing the future activities, culture and ethos of both charities. There was a mutual respect for the work completed by both charities, and there was complementary of services. Only Connect’s activities were good a fit with the work of Catch22’s justice division, and the two organisations were therefore able to identify a clear and natural home for Only Connect’s work. Community Links stressed the importance of cultural fit in achieving success, and how this can take time to work through. Staff changes may arise from a merger, which could allow for cultural adaptations.

In the case of Coram, there was in each case a synergy of values and ambition with organisations with complementary skills serving children nationally. The Voice of the Child in Care (which became Coram Voice in 2013) specialised in advocacy whilst Children’s Legal Centre (which became Coram Children’s Legal Centre in 2011) specialised in legal policy and representation. The British Association of Adoption and Fostering (now CoramBAAF) was a recognised membership organisation for fostering and adoption agencies, and Life Education Centres (which became Coram Life Education in 2009) operated a far-reaching curriculum franchise to 42 local operating trusts.

Institutional momentum

The merger between Catch22 and Only Connect and between Coram and four subsidiaries highlights the importance of mutual respect and agreement between senior leadership throughout the process, as well as the need for institutional momentum. Motivated, congenial and transparent dialogue between both sides was a vital ingredient for establishing the partnership within a reasonable timeframe and arriving at new structures and process that were mutually acceptable. Conversely, institutional inertia could—and does—act as a significant barrier, especially where resistance to change is found at trustee, CEO or CFO level.

Organisational complementarity

Complementarity of services and operational approach is important. Organisations need to be closely enough related that their services and teams can fit comfortably within the charity group and benefit from the operational efficiencies mergers bring**.** However, where there are replications of activity, it is important for charities to address these directly**.** Some large charities may welcome replications as a mechanism for building capacity in existing services**.** Others may not wish to introduce duplications in services, expertise or human resource, and would be unlikely to retain them in the final structure. In the case of Coram, the co-location from its central London campus was also an important catalyst.

Coram Group

Coram was established in 1739 as The Foundling Hospital and occupies a dedicated 3.5 acre campus in central London. Coram is the parent charity of the Coram group which offers practical help and emotional support for vulnerable children, young people and families. Coram has undertaken a management merger every two years since 2009, and now operates as a 'family' group of charities.

It formed The Foundling Museum in 2004 as an independent charity to display its historic art collection and broaden public benefit and in 2008 it agreed a strategy for development of the campus as a national centre increasing impact, reach and influence by developing a charity group.

In 2009, Life Education Centres merged with Coram, the first of four charities to do so. Life Education Centres had operated a PSHE curriculum through 42 local operating trusts in the UK and beyond for 20 years but needed the security of infrastructure to ensure its resilience, finding it challenging to support the scale and pressures of changing schools market. Coram was admitted as majority member, agreed by all partners, and as a result was cited as an exemplar by the Charity Commission at the time.

Coram Children's Legal Centre was formed in 2011 by integration of the specialist legal charity which was similarly finding scale and complexity challenging as its international work had expanded. When it joined the group in 2011, it retained its charity number, board and specialist functions but integrated its brand and all central services. Each charity has a Managing Director reporting to the group CEO and there are two cross-serving trustees, including the Chair appointed by Coram from amongst its number and operating to common processes and policies. Since all entities are subsidiaries and controlled, the accounts are consolidated. The model was followed in 2013 with the arrival of Coram Voice, formed by the integration of The Voice of the Child in Care when it experienced cash pressures and in 2015 with the formation of CoramBAAF.

Allow time to consider options, especially if financial resilience is at risk

Although financial need may be a big motivator for smaller charities approaching a merger, charities are cautioned against leaving it too late. Trustees and senior leadership should always be awake to the question of mergers, and should not focus solely on survival—particularly when times become hard. Charities with a reasonable level of financial security are in a much stronger position to enter formal merger discussions, and charities who focus on survival over collaboration for too long may ultimately become unattractive partners.

'Look at all the options. Sharing models are attractive for local organisations of similar size, say between £1-10m. You could share a really top FD, HR support, Communications and Marketing between several charities'.

Arvinda Gohil, CEO Community Links

Catch 22: taking on charities to expand community remit

In 2015, Catch22 merged with Only Connect. Negotiations with Community Links began in November 2016 and the merger was announced in February 2017. This case study looks at the merger between Catch22 and Community Links, which brought Community Links into the Catch22 group of charities.

Catch22 was itself established as a result of a new entity merger between Rainer and Crime Concern in 2008. Catch22 offers services in areas such as children's social care, alternative education, apprenticeships and employability programmes, and social justice and rehabilitation in both prisons and communities.

Community Links is an East London-based organisation that provides advice on debt, housing, legal issues and welfare. It also provides services around youth employment and health, BAME women, early action and cancer detection.

Before the merger, Community Links experienced some financial difficulties. Income in 2015/16 had dropped by 32% from the previous year, reserves were depleted, and the charity was making efforts to reduce financial risks, diversify their income and reduce their exposure to payment by results contracts. On the other side, Catch22's strategic goals included exploration of place-based approaches, and a merger with Community Links represented an opportunity to develop expertise on this within the group.

Under the terms of the merger, Community Links retained its own identity, premises, charity number and board of trustees albeit these are now appointed by Catch22. Catch22 became responsible for creating the consolidated accounts of Community Links alongside its other group charities. The Chief Executive of Catch22 joined the board of Community Links.

The merger delivered benefits for both parties. For Community Links, coming together with a larger, financially more robust organisation offered an opportunity for more financial stability, better back office resources and peer support, as well as better breadth and reach in terms of its services. It is a strategic opportunity for increased reach and policy influence, although this is work in progress. The merger helped focus on delivery over survival. For Catch22, the merger enabled the group to realise a strategic goal by making a step change in its knowledge and experience around place-based approaches, and by drawing in an organisation that was deeply rooted in communities.

Benefits of funder support

Funders can provide valuable assistance. Funder support throughout the merger process is critical, especially where one partner enters negotiations from a position of relative financial weakness. In these cases, the presence of committed and helpful funders can help to tip the scale in the smaller charity's favour, reducing the financial risk for the larger charity and providing endorsement and practical help. Funders may also help to fund the costs of the process itself, lessening the financial burden on both charities and providing additional incentives.

In the case of the merger between Catch22 and Community Links, the support of funders was a critical enabler. Community Links had cultivated strong relationships with funders, and their high level of funder commitment was transformative. Community Links' funder loyalty delivered a sense of financial security, and importantly, it also provided incentive and confidence for Catch22 as the potential partner.

Coram also notes continued support of funders for key activities is essential if a merger is to be possible.

Waiting too long increases risk of merger failure, and an unequal partnership

Whilst financial need might prompt charities to pursue merger talks as a mechanism for survival, deep financial stress can act as a barrier. Organisations with a weak balance sheet or limited funder support often do not make attractive or viable partners—the Coram Group, for example, has undertaken four mergers, only one of which was undertaken through an administration process. It is therefore important that charities considering mergers do so from a stable position, so they come to the table from a place of relative strength and also so that they are in the best position to ensure a future continuation for their purpose.

Trustees and senior leaders are advised not wait too long to consider merger opportunities.

‘Charity trustees and leaders should look in the mirror NOW to assess the next three years and get a real sense of their organisation’s resilience. Honesty must trump wishful thinking as must the need to continue with the valuable support and services if charites were to close. Allow plenty of time to find and negotiate the dream partnership. Remember your first option may not work out.’

Arvinda Gohil, CEO Community Links

Early consideration of mergers will allow trustees to look at options, undertake due diligence, and negotiate terms. The first option may not work out, leaving less time to pursue other option. Having to find and court a partner in a rush weakens the negotiating position.

‘A shotgun wedding rushed through in six months is likely to be less effective than a partnership developed with more time for due diligence and negotiations. Charities driven by desperation will find it hard to negotiate a partnership of equals’.

Arvinda Gohil, CEO Community Links

Decision makers in struggling charities should think twice before they opt to strip their organisation of assets in a quest to survive—this may prevent them from engaging in merger negotiations and may ultimately result in closure. Instead, leaders should balance the value of their autonomy against the potential benefits of a merger and reflect on some of the more identity-friendly merger models that could allow them to retain a degree of independence.

Once a decision to merge is made, it is best to ‘get on with it’.

‘Speed is important, and charities should bite the bullet when it comes to mergers of necessity.’

Chris Wright, CEO, Catch22

Risks and concerns

It is essential that both sides clearly identify and accept the changes that a merger will undoubtedly bring. Smaller charities will have to surrender a degree of autonomy in return for security, even though they may retain their brand and identity. They are likely to need to conform with many of the larger charity’s financial structures, process, systems and governance. For example, Coram has cross-representation between the group board and each of the subsidiaries with a single integrated set of standing committees improving overall effectiveness and synergy. Community Links observed that charities should not underestimate the impact on staff, and the time it takes to ‘right size’ a charity post-merger.

For the larger charity, the impact of bringing the smaller charity into their organisation or organisational family should not be underestimated—especially where the merger process itself is tricky, unpopular or fraught. Cultural assimilation takes time, and the larger charity will need to accept and plan for the potential disruption that may be caused by bringing in a new entity and team of employees—some of whom may be made redundant as part of the process. Cultural leadership is as important as management effectiveness and shared systems.

Efficiencies and impact

Group merger models can deliver many efficiencies, particularly for the smaller charities. By joining a larger group of charities, smaller organisations can gain access to a new suite of resources. For Only Connect, the merger with Catch22 enabled it to innovate around people-based approaches in the criminal justice system, and the higher levels of financial security allowed it to redirect energy from chasing revenue to focusing on their beneficiary services, innovation and policy engagement. In the case of Coram, smaller charities brought into the charity group have gained a physical home, new peers, access to a robust impact and evaluation function, and processes and functions which they may not have been previously able to resource themselves. Coram has gained greater reach and diversification of specialisms to achieve its vision for multi-professional work for children.

Larger charities can also benefit. Like Coram, they may have strategic ambitions for growth and diversification, and mergers may be identified as a mechanism for achieving these goals. Catch22 had identified that it was interested in developing place-based approaches, and they wanted to work with an organisation that was deeply rooted in communities. Community Links brought experience and knowledge in both these areas, and the merger with Catch22 introduced new strengths to the group, allowing Catch22 to avoid a long-term investment in organically developing new contacts, skills and expertise.

Looking forward

There is certainly a place for group merger models, and they represent an interesting proposition for trustees (and particularly founders) of small charities who are reluctant to relinquish their identity and services. Although the model has occasionally come under criticism for being a fudge, it has an important place in the charity sector, and should be recognised as a viable choice.

Although trustees and leaders of smaller charities would need to accept reduced autonomy and control, the opportunity to retain their charitable status, brand and services may help to make the transition from focusing on financial survival to achieving greater impact for their beneficiaries. In the case of Coram, pursuing this model has enabled the organisation to build a stronger policy voice and to extend its reach to children as part of a vision of a national centre. In the case of Catch22 and Community Links, both organisations share a goal of building resilience in the communities they work with. Together, they hope to elevate the experience and position of Community Links through the network and platform of Catch22, and work to generate alternative and imaginative models for public service reform. Both organisations remain committed to their thousands of service users, and the consolidation of areas such as fundraising will enable them to continue focusing on the people they exist to serve.

It takes real courage and commitment to achieve it. But is it worth it? Absolutely.

Carol Homden, Coram

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.