Merging Interests

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FOREWORD

The Baring Foundation has commissioned this publication. The Foundation established a special fund for mergers and joint structures in 1996, since when it has awarded grants to over 88 voluntary organisations. Such grants are still given under its revised Strengthening the Voluntary Sector programme. It has taken a lead in providing resources to charities which are exploring the options for joint working and merger. By offering grants, the Foundation has been exposed to the ideas and activities of voluntary organisations across the country which are seeking strategic and operational alliances. It has found the whole field of mergers, new structures and joint organisational development to be very much in its early days.

The Baring Foundation has supported this report and guide as a contribution to the development of good practice in mergers and joint working. The author has benefited from the information and experience provided by the organisations that have received funds from the Baring Foundation and has undertaken a series of more detailed visits and investigations to provide insights into the critical factors and processes at play. The organisations, source materials and contributors are detailed at the end of this document, although where confidentiality has been requested, this has been respected.

The Foundation and the author would like to thank all those who have contributed their time and experiences, in particular the following for their valuable comments and assistance: Virginia Burton, Voluntary and Community Unit, Home Office; Julian Blake, Bates Wells & Braithwaite; David Carrington; Kathleen Duncan, Lloyds TSB Foundation; Nicola Bennett-Jones; Julia Unwin and Steve Wyler.

A special dedication is given to the memory of David Howie - for almost 20 years, from the time he was Director of the National Youth Bureau, he worked with the author on developing pioneering joint working projects.

INTRODUCTION

So - thinking about merging?

This book is for all practitioners in the charitable sector who are considering merging their organisation with another. It may be a first passing thought of a timely possibility; it could be a desired solution to increasingly desperate circumstances; or it could be an advanced plan of action for growth or rationalisation - but merger is on the agenda.

There is increasing talk about mergers amongst charities. Some of this reflects growing anxiety about the number of charitable organisations competing for finite and sometimes diminishing resources. The number of registered charities continues to rise and rise. There is a convincing logic that says mergers should be a normal feature of the sector to contribute towards improving efficiency and effectiveness in the use of charitable and public funds.

This argument is supported by what is seen to be happening in the private sector, where merger fever has been a dominant force since the mid-1980s. Voluntary organisations have become accustomed to the expectation that they should achieve ever-more business-like management and delivery. If it follows that this means adopting the patterns of the private sector, then mergers and rationalisation will be the major cultural change for charities in the UK in the new millennium

The consequences of merger are absolute - complete integration of governance, and often identity. It could be the best move ever, or an absolute disaster. Certainly the journey is likely to be a demanding adventure for both merging organisations, the staff and trustees, and not without its dangers.

For charities, mergers are far more often talked about and investigated than implemented. There have been surprisingly few successful mergers in recent times to turn to as helpful case histories. Many of the most frequently quoted examples are not models of the merging of equal organisations, but feature rescue missions and take-overs as voluntary organisations face the forces of competition and the ravages of social and economic change.

If mergers are, to date, more hype than reality, the opposite can be said of the developing range of partnership models. These have blossomed since the late 1980s, at an ever-accelerating pace. Partnership activity may be an end in itself, or the experience may pave the way for more fundamental strategic alliances and the merging of interests and organisations.

Or - is it joint working you need?

Diving into the deep end of a merger can be a desperate act in desperate times. If there has been no history of joint working, no "toe in the water" between the two organisations, however carefully and constructively considered consequences can be notoriously difficult to predict. This book seeks to provide insights and tools to enable risks to be recognised and managed. But the message throughout is that if there are not urgent and desperate pressures for immediate immersion into a merger, first test the potential through a programme of joint working arrangements. Discover all you can and rather than take a leap, make merger a process of integration through joint working which can be halted, quickened or reversed as the relationship unfolds.

Much of this book is therefore dedicated to joint working issues and choices. But the case goes further than the preference not to "marry in haste". Many of the motivations and influences that cause merger to be a considered option, may also be successfully addressed through imaginative and wholehearted approaches to joint working. This is not referring to the pale forms of so called partnerships and collaborations that do little more than disguise underlying competitive or protective styles so often evident in the sector.

In referring to joint working, we are addressing the need for strong, strategic, power-sharing between organisations to achieve better results for beneficiaries and greater security and efficiency of operations.

The potential and prospects of serious joint working arrangements deserve full consideration by trustees, management committees, and senior staff as a normal part of strategic management. This book helps define levels of engagement, explores partial merger options, and encourages a mind-set that looks for the best returns through merging interests with compatible organisations. Only sometimes will this lead to full organisational mergers - the ultimate decision that remains the most significant, controversial and profound step of all.

Thinking about merging? Or is it joint working you need? Critical decisions, major implications, complex implementation - no wonder the track record in the voluntary sector is more about soft-end alliances and interventions to take-over failing organisations than it is of the powerful combining of strengths. Looking at the way the private sector embraces joint business operations and mergers, it begs the question - is the voluntary sector avoiding important opportunities to build new forms of delivery and productivity to meet the challenges and needs of the new millennium?

About this publication

***Merging Interests* seeks to guide the decision-makers from the first moment of consideration of merger, through to full implementation. It offers advice to practitioners - trustees, directors and funders - on exploring the issues and pathways to achieve effective collaboration and join the forces of voluntary organisation with voluntary organisation. It outlines options and innovatory models of joint working as steps on the way to merger, or as alternative end results, providing insights and tools to help achieve best returns and avoid costly mistakes.**

In particular, we develop a number of assessment and analysis matrices specifically for charitable organisations considering merger options or intermediate joint working goals. These are:

Levels of Engagement

- **five levels for joint working between organisations as a prelude to full merger or as an alternative**

Organisational Planes

- **five fields of activity to be embraced by joint working and merger**

Shapes of Significance

- **six conceptual patterns representing the impact and significance of the joint working proposition for each participating organisation**

The Merger Palette

- **six colour codes to define the characteristics of voluntary organisation operations and provide insight into the result of mixing cultures in merged action.**

We have developed these matrices as thought-provoking ways to examine likely effects and repercussions of one organisation interfacing with another. The limits to such modelling are readily accepted. But values, cultures, traditions and motivations are at the very heart of the sector and have proved to be hard to measure or bring into the management equation when looking at risks and opportunities in collaboration and merger options. These tools complement other more traditional management processes. The goal is to challenge trustees and managers to consider the complex web of factors needing to be addressed to achieve successful mergers, productive joint working arrangements and a measure of effective rationalisation within the sector.

CHAPTER 1
TAKING MERGER SERIOUSLY

A TIME FOR CHANGE

The pace and scale of change at the time of the new millennium is affecting every aspect of life - working patterns, health technologies, communication infrastructures, cultural diversity, planetary consciousness, knowledge economies. Not a single charitable cause or organisation is unaffected. Many are experiencing unprecedented challenges - opportunities, demands, uncertainties, threats.

New ways of working and organising are emerging across all sectors. Emphasis is increasingly about learning networks, holistic interventions, empowerment and inclusion, innovation, and synergies. These all emphasise the importance of collaborative practices, new forms of partnership engagement and a willingness to let go of tradition and isolation and embrace organisational and cultural change.

Fundamental rethinking is required in many fields. The status quo has no automatic passage to the future. Where clear improvements should be attainable, where simplification can be achieved, where efficiencies and successes can become more sustainable, the old structures and processes need to be left to history.

Each charity needs to responsibly consider and act upon the best options for its beneficiaries in this new landscape. Part of that review and repositioning has to focus on relationships with other sector organisations, considering joint working practices and the possibilities of merger.

WHY HAS MERGER BECOME SUCH AN ISSUE?

There is a danger that the patience and support of funders and the general public is growing thinner as the number of charities and their calls for help escalate. Whereas market forces in the private sector can be seen to produce mergers as solutions to shrinking markets and demands for increased productivity and improved performance, the same cannot yet be said of the voluntary sector. Appendix A, on the AIDS-related charities and their response to change, gives further insight to weaknesses in the ability of the sector to handle legitimate growth and contraction.

Effective organisations are those that learn - what works, what strengths to build on, where the weaknesses are and how to deal with them. It is far harder to learn in one's solitary space than in networks of agencies and professionals sharing objectives, confronting similar issues and disseminating experience. Whilst the charitable sector can be quite good at active co-operation of this kind, it is often patchy and inconclusive. The speed of change makes it important that the sector operates for the benefit of all.

There is a real need to show that the sector is behaving responsibly for charitable causes and beneficiaries and not for the vested interests of paid and unpaid charity workers. If more charities are needed, the case for them has to be argued, communicated and widely supported. And however many charities there are, there must be evidence of the most efficient and effective professional working practices in what has become a £20 billion industry. Trustees need to consider sharing costs and expertise as a regular part of best practice.

Charities face complex commercial pressures that go far beyond the contract culture and service level agreements. Calls for fewer charities, less duplication, more professional expertise and less administrative waste all point to mergers and take-overs being considered within a rationalisation strategy to deal with the somewhat irrational current position and trends.

Reasons given by the private sector for business mergers - achieving best value for money, competitiveness in the market place and customer satisfaction - are of similar significance in the voluntary sector. The growing pressures on established charitable operations are often centred on resources, both financial and human. Competition for funds, the need for strong voluntary management committees, the imbalance between core resources and field operations - these are all common issues. These pressures are further exacerbated by charities themselves increasingly demanding that common challenges are approached with a joint resolve to find best solutions for the charities' beneficiaries through better ways of working.

The most common reasons charities look to merge are to:

- rationalise resources
- prevent duplication and overlap
- respond to financial pressures
- improve services

The drive for efficiency

Much of the focus on the benefits of merger is on reducing duplication, making savings and becoming more efficient. Different levels of joint working are also able to make contributions in this area. The potential for cost saving includes:

- operational rationalisation through joining forces - e.g. more efficient geographical coverage, better cost ratio between core administration and charitable activities, joint working to avoid overlaps and duplication in activities
- cutting the dead-wood - determining new ways forward on financially unviable programmes
- infrastructure - avoiding duplication in office equipment, meeting spaces, library resources, and so maximising use of available premises and facilities

But there are also choices about *increasing* expenditure with a view to:

- achieving benefits from an increase in scale or better resourced ways of working
- IT - efficiency and effectiveness improvements from new technologies
- purchasing power - making the most of joint enterprise

Longer-term cost advantages can be secured by driving down costs in a commercially driven environment:

- taking a commercial view - a new joint mind-set, long-term competitiveness, costing activities, maximising returns, creating business partnerships
- the opportunities for better results - a time to drop traditions

Meeting expectations

There are major demands and expectations placed on charities from a variety of stakeholders, each a force for change. The response from individual charities, however, can become defensive and divisive rather than constructive.

If a charitable organisation chooses not to embrace sensible collaboration and joint working in its daily work, it needs to justify its position. If it is not merging with another when there appears to be clear advantages to others in doing so, it must be obvious to supporters why, and if strategic and long-term developments are undertaken apart from all other charities, the trustees must show accountability for such an approach.

The issues of merger and joint working have moved from being interesting possibilities, to become necessary considerations for the sector, in order to achieve the best results for the beneficiaries.

The public

Public concern about the costs of the administration of charities, and the confusion that is felt over the roles and identities of so many established and emerging good causes seeking support, is well documented. All charities are faced with a rising demand for evidence of joint working for common good. Competition between charities is not favoured by the public.

Charities have frequently responded with hard-sell techniques, emphasising the unique and special importance of their own organisation, seeking to stand apart from the crowd and attract support and funds from others. Ironically, separate working can become the dominant marketing response to public concerns, when in fact the expectation is for less administration and more rationalisation. If there is not strong reasoning behind maintaining a separately governed charitable organisation, then merger must be on the agenda.

The public is not always well informed: “popular” causes and favourite charities may fail to adapt to changing needs. The public must be knowledgeable, properly consulted and satisfied with the answers it receives.

This is a responsibility the whole sector shares, for failure could result in a dissatisfied public and a funding backlash.

Beneficiaries

The case for mergers in the voluntary sector must examine consequences for beneficiaries. Beneficiaries can feel confused and let down by the way charities operate.

> *"My mother, living alone and a long distance from my home town, returned from a major hospital operation requiring a wheelchair, transport for shopping, counselling and advice about her cancer, assistance in claiming benefits, as well as help and nursing at home. Age Concern, the Red Cross, Macmillan Nurses, Community Transport and the Citizens Advice Bureau – five separate charities in all to make arrangements with, all operating to different schedules and with different charges. And that was on top of dealing with the hospital, the health centre, the pharmacy and social services."*

There has been a welcome, if slow, dawning in many quarters that the less holistic an intervention, the less lasting and comprehensive the impact. A homeless young person is part of the fabric of family, community, neighbourhood, affected by and affecting health and social cohesion at all levels. Care in the Community, Welfare to Work and Social Exclusion initiatives have all exploded the myths of easy solutions and have exposed inter-dependency. Effective charitable performance is being redefined, with a recognition of the need for flexible roles and missions to meet the changing issues and expectations. To achieve action that really transforms, charitable organisations need to place their individual contributions within holistic frameworks. So joint working practices are becoming a constant feature, encouraging consideration of merging operations and, sometimes, organisations.

Purchasers

Increasing competition between charities for public and private grants and contracts should positively encourage efficiencies through cost sharing and collaboration. Instead, all too often, purchasers apply private sector values, actively promoting secret competitive tendering, setting charity against charity in a battle for survival-of-the-fittest. This is a rough process, where contractors can cause "big-is-best take-overs" or can perpetuate the situation of struggling, under-resourced, charities working in isolation.

To be fair, national government tendering and contracting is making increasing efforts to encourage joined-up-working. But at the local level, and in social and health fields in particular, the approach of purchasers can be quite destructive.

The negative aspects of the contract culture can only be contained by voluntary organisations working collaboratively. Unless charities learn the art of consortiums and partnerships, and co-operate within these competitive environments, there is the danger of enforced mergers, which have a poor track record and can be to the detriment of beneficiaries and the values of the charitable sector.

Funders

Funders have certain common expectations, whoever they are. They want best value for money, they want their money to be making a real difference to the charitable cause and they want to see their funds responsibly and honestly accounted for. Many want to feel that their money acts as leverage to draw in other funds and support and that their backing helps send the right messages about the issues and needs.

Not surprisingly, therefore, many funders actively encourage collaboration and joint working and in some cases can enforce full-blown mergers. Sometimes it is a condition of grants programmes, as is increasingly evident from central government. Occasionally funders will say exactly what they expect in joint working arrangements, but more often they produce rather vague definitions of preferred approaches.

Yet the very nature of raising funds and applying for donations makes charities accentuate their differences and special features as they compete in the over-crowded market place - "Give us your money, we will make better use of it than others asking you for support." The hard sell has by its very nature to convince potential funders about the product and the organisation delivering the product, the need and the charitable priority. If the convincing left the particular organisation out of the formula, it would be the equivalent of increasing the sales of lager without identifying your own brand.

The dilemma is illustrated by a true tale of a community affairs manager of one of the country's largest companies in his response to the requests for donations received from breast cancer charities.

"I had two breast cancer charities writing to the company for support on the same day. I thought that this is an issue that the company's Charities Committee would like to consider and so I began to prepare a short report and summary about these two organisations. Before the report went to the committee a further five different breast cancer charities had sent in applications. It is ridiculous. We don't need all these organisations doing the same thing, each with their own management costs. How is a lay person able to determine who is more deserving than another? Well, I pulled the report, said no to them all and don't intend to get involved in this overcrowded area."

The differences between these charities were lost on the prospective funder, yet they may have been very necessary - research, prevention, treatment, education, different geographical areas - who knows? But there is an implied expectation that charities recognise others in their field and show how they fit in together. This expectation is shared by often far better informed trusts and foundations, which are every bit as critical about apparent duplication of costs and activities.

Whilst evidence of joint working and collaboration is welcomed by funders, charities regularly fear for their fundraising edge. This becomes most acute when looking at merger. Charities almost expect funders to cut grants at any opportunity, and the combining of two organisational structures under merger is as suitable an opportunity as they come!

Although grant cuts are normal experiences for the vast majority of charities, there is no sign of any particular relationship with mergers and joint working. In fact, funders consulted about this publication all flatly denied they would be even tempted to consider reducing funding purely on the grounds of better working practices and efficiencies resulting from joint working and merger. Some were categorical that the opposite would be the case.

"The more effectively our grant is used the more we wish to invest."

As well as seeking evidence of effective joined up working through partnerships and project collaboration, both statutory funders and charitable trusts are applying ever more stringent monitoring and assessment criteria to judge performance for their funding. This is all very sensible, yet close-working arrangements can produce real difficulties in establishing the distinctive outcomes for the different agencies and their funders. Concerns arise about who can claim which of the achievements. The language of "double counting" has become a feature of the tensions between merging action and preserving separate accountability. Funders must share this problem if they are not to be, unwittingly, a cause of competition and a force against effective collaboration. A more flexible formula for analysis of performance is required than is often the case, with a willingness to value the efficiency and effectiveness of combining operations and to be more discerning about what constitutes duplication.

Are private sector solutions appropriate?

Decisions about joint working and mergers in the charitable sector, and good practice in carrying out these decisions, require a clear appreciation of the differences between charitable organisations and the private sector. It is vital to take into account the special characteristics of the UK's charitable sector if appropriate approaches are to be properly understood and if experience is to be usefully transferred between sectors - and the voluntary sector may have a great deal to teach the private sector in this regard. There are important individual organisational qualities within the spectrum of charitable organisations that influence relationships. These qualities can determine the likely strengths, weaknesses, opportunities and threats to merger and joint working, and early assessment can improve performance and outcomes.

The 1990s' fashion of adopting private sector practices for charitable organisations, because that is how the "efficient" sector operates, can go too far - it certainly seems to be inappropriately promoted when the issue of merger surfaces.

> *"I worry ... about the often ill-informed assertions that there are too many charities, that it would be a lot simpler and tidier if there were fewer – assertions that fail to recognise that there can be perfectly valid reasons for there being separate and independent charitable organisations doing similar jobs, the failure often reflecting a fundamental misunderstanding of what motivates people to set up charities in the first place – commitment and passion about a need, an injustice or an issue which could easily be lost if "everything was tidier."*
>
> David Carrington, speaking at an NCVO conference as Director of the Baring Foundation, April 1997

What are the differences that distinguish charitable organisations from the private sector when examining how organisations operate together and merge? There are some factors that are quite obvious. Yet comparisons have become increasingly blurred in the public eye as profit-making services compete for contracts with charities, private sector finance underpins provision such as social housing and ever-larger professionalised charities pay competitive commercial salary levels.

Two examples

Social housing provision

There has been no shortage of mergers in the field of social housing. But neither mergers nor joint working have safeguarded the range or proportion of specialist provision in a growth market.

What difference is there between large housing providers registered as charities and those acting commercially or within the public domain? The core measures used to evaluate the effectiveness of the business undertaken are usually concerned with development capacity and unit cost. Hence the drive over the late 1980s and the 1990s has been for larger and larger Housing Associations, with take-overs and mergers a common occurrence. It could be argued that this has happened because the most successful Housing Association businesses, driven by the Housing Corporation growth targets, set a competitive "not-for-profit" culture that was very close to private sector norms. It is the "housing business".

What of the future for those Housing Associations predominantly focused on specific special social and health needs beyond the basic accommodation? They are often small and distinctive for their charitable contribution is in the "people caring business". They reflect the roots of the Housing Association movement, but tend to be significantly more expensive and less flexible in the market place. This in turn makes them vulnerable to being taken over. In these circumstances, whilst the take-over of small specialists by large generalists provides security for operations into the future, the dangers in combining different cultures with different primary goals is clear.

Yet umbrella networks established to foster joint working between special needs housing charities have also experienced a difficult task and many have collapsed through lack of support. One strong movement is the Abbeyfield Society. The branches are independent charities and the national organisation a small core operation promoting standards and good practice. It has experienced the tensions militating against co-operation and joint working amongst a set of similar, but sometimes fiercely independent, local housing charities.

Residential care

What difference is there between registered nursing homes run privately and charitably? The market place has so constrained provision that homes have little scope for a distinctive contribution, except for the more unusual residential charities that have been able to provide significant inputs from their own fundraising sources to improve quality and range of care. Hospices are a good example of well supported charities able to address personal needs so much better from their position of independence and over-riding caring aims and values.

Similar issues affect every facet of the charitable sector and they highlight the complexities at play in judging the wisdom and practicality in merger and joint working rationalisation.

Over recent years, charities have had to earn increasing proportions of their income through anything from service provision to charity shops, so that it may seem increasingly more appropriate to apply the North American label “not-for-profit organisation” in place of the label “charity”. If it is only the presence or absence of the profit goal that distinguishes the sector, then mergers to improve cost effectiveness, market penetration and value for money would be and should be very regular.

Some fear that parts of the voluntary sector are losing that special characteristic of charities: the goal of addressing causes as well as treating effects. In the interviews undertaken for this publication, interviewees brought up time and again the responsibility for being an instrument of change - through raising public awareness, personal empowerment, improved knowledge, better treatments, policy development. Included in the purpose of such a charity is that of changing, reducing or eradicating those factors that brought the need for its charitable existence: poverty, sickness, educational deficiencies, environmental damage, personal disabilities or whatever. This goes beyond the role of organisations defined by whether their purpose is profit or not-profit.

The process of determining levels of joint working, and in particular whether merger is a desirable conclusion, must give a special emphasis to examining the effectiveness of each charity in addressing its particular cause, and that means “the causes of charitable need” and not just the need itself. However far away, the aim to reduce or eliminate the reasons for the charity’s existence should be evident in its mission and work. If it is not, then the measures used in a commercial environment could seem to be entirely appropriate for a not-for-profit service organisation.

CHAPTER 2
PATHWAY TO MERGER

When two organisations take a serious look at one transferring into the legal framework of the other, or both becoming absorbed within a new constitution and image, the considerations are immense. Merger is a transition with permanent consequences both legally and in terms of identity. So, anyone considering a merger must take care to consider other management and joint working options that may be able to address the issues more appropriately.

There is both a legal responsibility and public expectation that issues such as these are properly resolved by charities.

Mergers and joint working at any level can be hampered by clashing cultures, misunderstandings and strategic differences for even the most experienced and committed. If merger is under consideration - take a deep breath and look for the common fundamental problems:

- Merger is permanent unless similar time, effort and resources are expended on unravelling the combined organisation to secure a demerger - not exactly a fallback position, more a rescue from a state of disaster that should not have been created in the first place.
- The merger has to conform to charitable law - unless the charitable purposes and constitutions of both organisations allow the transfer of assets to the proposed charitable recipient merger is a non-starter.
- Merger is not equal - the organisations will jockey for position on a number of fronts and partners should be prepared for one to grow overall in power, status and influence over the other either as they come together or in the early period after the merger. One organisation virtually always gives more than the other. It would be simpler to always refer to "take-over", where, as in the case of the private sector, the smaller is normally consumed by the larger, sometimes in an unwelcome development, but more often as a preferred way forward compared with the problematic alternatives.
- Mergers need significant resources - considerable time, not least of each chief officer and chair, has to be invested, there are legal costs and consultants are often required.
- Mergers involve pain to get gain - there are winners and losers, uncertainties and resistances throughout the process - except in that very rare circumstance where one organisation is happily winding up and just handing over everything to the other.
- Merging involves assets and liabilities - whilst everyone has their eye on the assets, it is often the hidden liabilities that create the biggest problems.

Even the most basic joint working arrangements benefit from standing back and clarifying expectations and objectives. The voluntary sector is scattered with the debris of failed joint projects and bruised encounters. There is often an unrealistic or ill-considered idea put forward by those who, in the enthusiasm of the moment, fail to see the pitfalls so obvious in hindsight.

These false starts have been regular in the experiences of the organisations supported by the Baring Foundation's special fund. In every case the charities involved have fed back that significant lessons have been learnt and clarity of purpose and direction advanced. Below are some examples. The aim is to provide a basis for more realism in determining the journey of joint working to be embarked upon, better information for a safer journey and easier ways to detect where problems might lie.

Soundbites on merger

Kate Cowin

- Failure to merge can result in strategic success.
- Cultural differences militate against successful merger.
- Have clear vision - and don't lose it on the way.
- Absence of a skilled and neutral facilitator is significant.
- Strong leadership, balance and harmony are needed.
- Trust and equity are needed to make sure you get to the end of the process.
- You must leave the past behind after merger to secure the real benefits.

Moira Guthrie

- Take-over is less hazardous than merger of equals, with outcomes more likely to be viewed as successful.
- A planned merger should not be allowed to jeopardise an organisation's future, in case the merger is not implemented.
- Conflict should be brought out into the open and addressed constructively.
- Each organisation should seek to safeguard its interests and recognise that these will not coincide with those of the other organisation.
- It is desirable to have help from non-aligned outsiders with relevant expertise.
- Give visible symbols of equality of power.
- Top management jobs in the new organisation are likely to require different and greater skills than top jobs in the founder organisations.
- Partners should hand over to the new organisation as soon as possible.

Jill Pitkeathley

... on the basis of her work with the Association of Carers and the National Council for Care of the Elderly Dependent which merged to form the **Carers National Association** in 1988.

- People find it hard to give up history.
- Be willing to safeguard sacred cows.

- Make use of independent outsiders.
- It may be necessary to buy in or learn new skills.
- Some things must be taken on trust.
- It is inevitable you will lose some people.
- It is important to conclude as soon as possible.
- Merger is not the cause of all the problems, some would occur anyway.
- Timing is important.

Favourable for a merger
- Same constituents.
- Neither organisation well known.
- Not too much to lose.
- No founder directors.
- Only one chief executive.
- Sense of inevitability.
- No overt financial motive.
- One organisation short of funds.

Differences to contend with
- Ages of organisations.
- Philosophies.
- Members different in numbers and character.
- National office locations.
- Constitutions.

The journey towards merger requires detailed consideration and careful navigation. The first stage of examination often covers ground either never explored before, or long forgotten, as the trustees take a serious look at their organisation, its vision and values, their legal and moral responsibilities and the changing climate around them. Whilst keeping the decision of merger an open option, there is much to be said for completing this process of thinking through all the issues and possibilities. The result is usually a most valuable and tangible benefit, and often the most important result arising from considering merger as an option, whether or not the conclusion is to move it forward.

Five stages

There are five stages from the beginning to the end of the pathway to merger, and at any stage, except the last, the process can quickly and easily be terminated. The first three stages can be approached to provide gains for the organisation whatever the outcome:

1 **Incentive:** Understanding why merger is on the agenda.
2 **Consideration:** Could merger really work for this organisation's purpose?
3 **Exploration:** Information, consultation, analysis and assessment.

The last two stages follow where commitment for merger is confirmed. Here the pain should be expected to outweigh the gain in the short term:

4 **Planning:** Devising the joint Merger Achievement Plan.
5 **Implementation:** Merger of governance, management, operations and identity.

1 Incentive

Who first said we should consider merger?

What prompted this?

What do we stand to achieve?

Unless there is a very clear understanding of what is being proposed and the motivation behind it, the whole process could get derailed at any time. This first stage defines what the driving force is to take the organisation down the merger pathway. This does not need to be a sophisticated thesis - rather a short, powerful summary of why these crossroads have been reached and why the turn towards merger is a serious option.

The incentive is also about who "owns" the possibility: who sees merger as an option now. There is every reason to keep the number of people involved in the first three stages small. But if merger is to be pursued rigorously, a driving force is needed. If neither the chief executive nor the chair is personally committed to a serious examination of the possibility of merger, it is unlikely to get past the starting post. If only one is enthusiastic, or put another way, if there are serious misgivings by either of these key stakeholders, there will be a brake on the whole idea - and something will have to give quite early on.

Seven common motivations for merger

1 **crisis** - funding, management deficit
2 **trends** - changing times for the charitable cause and beneficiaries
3 **growth** - focused on strategic growth in scale or locations of operation
4 **take-overs** - competitors or complementary operators
5 **funders** - imposing conditions on their support
6 **pressure** - meeting expectations of the public or politicians
7 **quality and effectiveness** - to get a better job done

To achieve:

- **rationalisation of resources**
- **prevention of duplication and overlap**
- **solution to financial pressures**
- **improvement in services**

At the end of the first stage we have one piece of paper - the Incentive Paper - that says succinctly why merger could be what is needed and who wants to see this looked at thoroughly. There may be a wide range of motivations and goals, but the Incentive Paper defines what needs the most detailed consideration and exploration later on. For a sample incentive paper, see Appendix B.1.

Now the business of considering the prospect of merger can begin.

2 Consideration

Is this the right thing to be considering?

As soon as merger appears on the agenda, some critically important issues fall into the spotlight. What will be lost by merger, as opposed to what will be gained, now needs attention. This frequently requires a complete revisiting of the mission and roots of the charity, often for the first time for years.

What does our legal constitution say about our purpose under charitable law?

This is a crucial factor to examine right at the beginning. No matter how attractive a prospective merger may look, or how dire the current predicament, charitable law dictates what can and cannot be done with the assets of the charity. Assets can be transferred only if the charitable restrictions that currently apply are consistent with the charitable purpose of the new host charitable body.

If the merging assets are for beneficiaries in a specific geographical area, or age range, or type of disadvantage, the new host has to be able to fully embrace the subject and the categories. If the host's purposes are much broader, the assets may be transferable only if they remain ring-fenced to be applied solely for their original purpose.

If the purposes of the merging charities are different, a new charitable body must be established. The Charity Commissioners will allow charitable resources to have revised purposes only if the old purposes can no longer apply in today's society. Even then they will seek the closest possible revision. Otherwise any new body will need to preserve the distinct purpose and application of all transferred resources within its overall remit.

Frequently, legal opinion is left to the later stages, only to reveal incompatibilities which prevent the merger from being a possibility, or which would require such conditions that the advantages are eliminated. The legal charitable purpose is not allowed to be lost. Organisations considering merger should therefore not delay in involving a suitably experienced solicitor and should seek early advice from the Charity Commission. Fall at this first hurdle and an alternative to merger or an alternative merger partner must be found.

Is our mission best pursued through merger?

It is the responsibility of trustees not only to abide by charitable law, but also to apply charitable resources in the most effective manner. These questions prompt a "back to basics" review of why the charity was set up and what it has been seeking to achieve. It is then necessary to examine honestly whether it could be doing a better job regardless of merger. The comparison that must take place is between the best performance the charity can realistically achieve, in co-operation with others, compared with the prospects within the proposed merger.

An audit of the state of the charity considering merger, with a sharp eye on its mission, objectives and outlook, is a sound exercise regardless of merger. Views need to be taken from trustees and senior managers, who may not all need to know at this stage the thinking that prompted the examination. This first-phase assessment can, within a few days, identify strengths, weaknesses, opportunities and threats. This process leads to the identification of the most appropriate available options. These should be set out in a Rapid Assessment Report (see Appendix B.2 for an outline).

If merger is still seen as a choice of preference, it now needs to be properly explored. If it has not emerged as a real runner, undoubtedly the Incentive Paper and the Rapid Assessment Report will have identified new ways forward. These are likely to involve other forms of joint working that are described later in this document.

3 Exploration of merger

The 10 questions

What detailed objectives do we want to accomplish through the proposed merger?

What qualities does the merged organisation need to have to be capable of achieving our objectives?

What are the implications derived from an analysis of the qualities of our prospective merger partner organisation (where the organisation is known)?

What are the preferred characteristics and qualities of the partner organisation for merger (where not known or there are choices)?

Does the merger need to be fast tracked or can it be phased?

What are the views and opinions of all key stakeholders?

What governance and legal issues must be addressed?

What are the financial issues, including assets and liabilities?

What personnel and administration issues must be considered?

How should the merger planning be taken forward?

For suggestions on exploring each of these questions, and in particular the question on financial issues, see Appendices B.3 and B.4.

It is at this stage that things can start to take a different course and sometimes get into real difficulties.

> *"We weren't all fully in the picture. There was suspicion amongst some trustees that the Chairman and Director were wanting the merger to take place regardless of the findings of the Rapid Assessment. After all they appointed the consultant. So some of us decided 'over our dead bodies'."*

Consultation and confidentiality

It is problematic in the early consideration of merger to be very inclusive about the process, not least because staff insecurities and funders' concerns would be generated over an idea that has not been thought through or even identified as viable.

Whilst merger is a vague possibility being explored discreetly by, say, the two chief executives over a pot of coffee there are sound reasons for saying that careless talk would be damaging. Like private corporations, charities take a great deal of their strength from the support and investment they receive - funders, staff and volunteers. This is all too easily undermined or brought into question when unclear messages abound about uncertain major changes to governance, structures and identity.

But if early informal exploration is going to develop into careful consideration, then the circle of people and institutions needing to be consulted and involved grows. If it grows too slowly then people will feel major considerations are being developed behind their backs - the secrecy can quickly be perceived as conspiracy. If it grows too quickly, then raging debates about unclear possibilities will extend into unfounded assumptions and fears. And the investing stakeholders are liable to feel too uncertain to maintain commitments. Funding can be put at risk, volunteers can desert the organisation, power games can mushroom and insecurities can undermine the charitable work.

This is not too far-fetched at all. It can seem like being between a rock and a hard place getting the information, communication, consultation and confidentiality formula right in what can become a sudden and fast-moving negotiation about the very survival of one or both organisations in their known forms.

Confidentiality needs to be applied responsibly to maintain confidence. Speculative developments need to be explored on a need-to-know basis. But as soon as any become possibilities, then a thorough, regular, open and honest consultation process must be in place. In the earlier stages of sounding out the possibilities, the people and organisations that hold the greatest responsibilities and investments may wish to keep the loop closed to themselves. The chair, executive officers, trustees, chief executive, senior managers, key funders, staff, beneficiaries, volunteers, other relevant organisations, statutory regulators - as the loop grows so too does the need for very effective communication systems.

Rumours can fan flames of discontent and become very damaging at a vulnerable time of transition or self determination for an organisation. For some charities, the politics can be complicated and destructive. This is a time for real leadership, not the faint hearted! The general rule must be to take people into confidence as soon as is practical - getting agreements and taking appropriate steps to include views and concerns.

The decision on merger and all implementation responsibilities lie wholly with the trustees. Their ownership and involvement is fundamental. But one of the most frequent causes of merger entering the frame - crisis - is often characterised by dysfunctional governance. Acute relationship and communication difficulties may exist between the trustees and the chief officer; the trustee body may have become divided or been left with unreasonable demands; there may be differences of view between the chair and other committee members; or the trustees may be exposed to financial risk because of the state of the organisation's funding. The spirit and capability for sound, united, management and planning may be lacking just when it is most needed. The priority has to be to address cohesion, trust and communication amongst the trustees. There has to be the confidence amongst the leaders that merger can be considered and, if appropriate, implemented responsibly and effectively - with due diligence. These circumstances may be best addressed through an independent assessment and facilitation process, but the governance issue will need to be grasped prior to any significant opening of the involvement loop.

Speed and timing

Consultants and voluntary sector managers are divided about the appropriate speed of events from the idea of merger being identified to the agreement being confirmed and the implementation completed.

Some say that speed is of the essence. They argue that this will reduce the opportunity for unhelpful rumour and uncertainty, clarify a positive outcome as quickly as possible, let staff know where they stand sooner rather than later, and position all invloved to focus resources and effort on the future rather than the past.

Others say that ownership is vital and that it takes time. People need to feel fully involved and properly heard. They would prefer such important decisions to be taken carefully and after full consultation rather than in haste and secrecy. They argue that funders and the public will appreciate that some uncertainty is bound to be around and will be patient as long as they too are involved and able to see clearly why merger is being negotiated. Some of these advocates argue that 12 months is not an unreasonable period between the first announcement of the possibility and the legal merger being completed, with full integration taking perhaps another 12 months.

Both of these positions are likely to be over simplistic. The key people engaged in merger negotiations are also amongst the main people with most to gain or lose. For chairs and chief executives the time, strain and personal and professional stakes are likely to be very significant. Often merger has been identified in response to urgent pressures - a leaving chief executive, a funding crisis, a funder's requirement. It may be a window of opportunity or a last ditch survival bid. It may be a calm proposal for rationalisation or a result of heavy criticism. Whatever the case may be, the people with the responsibility for the decision are unlikely to want to take their time. So the answer is probably to determine a time frame that takes the organisations down the road as quickly as reasonably possible, with cut-off points on the way should consideration, consultation or legal factors indicate that the proposal should be aborted.

Preparations

For all levels of engagement, there are repercussions. It is sensible management practice to think carefully before jumping into relationships and to get the basic preparations and understandings in place before confirming commitments. For the more complex inter-agency arrangements, and certainly when merger is a prospect, serious examination is needed to establish the feasibility of what is being proposed before too much time and resource are expended. The more sensitive the possibility being explored, the more urgent and important it becomes to get sufficient work accomplished to determine if it is a serious contender.

On or off

The purpose of this stage is to determine as quickly as possible if merger is to be the goal. If this option is to be terminated, the sooner the better. But options for joint working should be able to be developed, both to strengthen the working relationships between the prospective merging organisation - highly important in itself - and to provide a suitable fallback or intermediary position for better working practices.

If there is confidence to "go for merger", then we enter the next stage - planning. If not, the organisation has improved its self-knowledge and its external sensitivity. It is time to look at Levels of Engagement to establish best practice in joint working arrangements.

4 Planning

Right at the beginning of the planning stage, the organisations involved need to have a Memorandum of Understanding. This is derived from examining together the work that has been done separately by the two organisations in the first three stages. The Memorandum comprises:

- *The merger* - one page on the proposal now underway which everyone involved at the start can sign up to, including both Trustee Management Committees.
- *The management behind the merger process* - who is on the Merger Achievement Planning (MAP) team, from which organisations, and why them. (For a checklist on selecting the right team and its tasks, see Appendix B.5.)
- *Objectives* - where the proposition should take the organisations initially and in the longer term.
- *Levels of commitment* - resources that each organisation commits to the process and agreement on authorities and priorities.
- *Depth and breadth* - defining boundaries to the merger, including what will not be affected such as values, ways of working, commitments already made etc.
- *Critical success factors* - who and what needs to be involved for the idea to flourish and criteria for the evaluation of progress.
- *Phasing* - outlining the proposed phasing of the merger by Level of Engagement where appropriate (see Chapter 3).

This Memorandum of Understanding is the first statement that connects the organisations together as they move towards the implementation of the merger. It acts as the key public document as well as an internal briefing paper for staff, volunteers and other stakeholders.

Each organisation should be quite clear about the significance of the merger for the other organisation and for all the stakeholders who will need to develop ownership. Each has to show it understands the amount of effort and resource that the organisation has to be prepared to expend, giving a sense of the opportunity and risks involved in the merger. The impact need not be the same for both organisations. For a large organisation taking over a smaller one, the impact could be minor and internal. For the smaller organisation, the impact could be fundamental. The different types of impact are discussed further in “Shapes of Significance”, Chapter 4.

With a Memorandum of Understanding in place, the planning can begin. The aim is to be as comprehensive as possible within the time available. Even at this stage it is possible to find reasons not previously uncovered for aborting the merger as the state of awareness and knowledge on pertinent issues rises.

The planning task will need to be defined, taking into consideration:

- timing implications - a question of urgency or thoroughness
- consultants - when to use, how to select
- costs - and funding opportunities
- executive pressures - managing internal time commitments
- commercial sensitivities - recognising confidentiality and constraints

The MAP team will need to:

- define milestones - essential steps to the accomplishment of the merger
- give planning boundaries - recognising risks of limiting the scope, yet being realistic about time constraints
- determine methods - project management, joint reporting, developing ownership through the processes adopted

The pros and cons of using consultants

As soon as the merger possibility starts to hot up, everyone is looking to see where everyone else stands on the issue. This is particularly in the case for chairs and chief executives. Even with an inclusive MAP team, the key drivers of the processes are usually the people in these positions. People will speculate about the motives behind other individual’s preferences - it is only human nature, but it can get in the way of a rational process.

For this reason alone, it is often helpful for organisations considering merger to appoint independent consultants. Combine this with the fact that, more often than not, none of the key players has any experience of merging, and the case for considering an experienced consultant is even stronger.

The disadvantages of using consultants can appear as great as the advantages. Again, those wanting to ascribe vested interests may argue that a consultant is likely to want to stay with a job that continues to unfold rather than gets the axe. This is a question of getting the brief right and establishing clear decision milestones for terminating, changing course or confirming direction.

There is also the question of experience. As there have been so few real mergers in the voluntary sector, there is not that much direct experience to call upon. Nevertheless, the merger journey is a hard one without insightful help. And trusts like the Baring Foundation are willing to fund the use of well-experienced consultants.

An alternative is to have a project manager - a jointly appointed person, working to the MAP team. A project manager will need a defined objective and plan, whilst a consultant is often engaged to help determine the position. A project manager has the advantage of bringing an increase in the resource available for tackling the workload generated by the programme and being an accessible co-ordinator, as part of the staff team. An in-house secondee would have to have the trust and respect of both organisations, whilst an external appointment process could become problematic because of the time-scales. However, the appointments of a project manager or consultant are not mutually exclusive.

The following questions can be used in drawing up a person specification and assignment brief to guide the choice:

- How important is it that the consultant/project manager knows this particular area of the voluntary sector?
- Do we need to engage external expertise to clarify the issues to be tackled and the objectives to be achieved or is this best approached internally?
- If potential consultants are known to be associated with this field or the prospective project manager is internal, how do their experience and reputation place them for an independent role?
- Are we in a position to determine the extent and timing of tasks to be accomplished in the project and to make more than short-term contractual commitments?
- What can we afford?
- Who both within and outside the organisations would expect the consultant/project manger to approach them, and who would expect to be approached personally by the chair/chief executive?
- Are there factors in getting the order of consultation right?
- How far should the consultant/project manger carry out or co-ordinate technical aspects and where should they use specialist advisers?
- How should the consultancy be managed and what arrangements should there be for line accountability?

Governance of resources

Capital and assets are of particular significance. The plan needs to take into account:

Transferring assets

- legalities - restrictions, case histories
- valuing - practice, balance sheets, depreciation, writing-off
- investments - treatment, options
- equipment - commitments, maintenance, restricted use

Property

- optimising - thinking the unthinkable
- restrictions - charitable use, purposes, practical constraints
- disposing - leases, sales, renting, realising the value

The Merger Achievement Plan will need to be scrutinised by lawyers from both organisations and passed by both sets of Trustees. It will need to be quite clear about when authority and resources transfer and whether the new host will be one of the existing charities or, often the preferred option, a new registered charitable body.

Going public

At some stage the merger plans will enter the public domain. It is far better that this is a controlled process, if possible. That will require agreement on timing and content between the parties. It may take the form of a public announcement or of a press release, or quite simply, a circular. The right method and timing depends upon:

- the perceived level of potential public interest and the scope for controversy
- when it would be harmful for people to learn of the developments by other means
- where the personal touch is important compared to the news release approach
- availability of one-off or on-going communications - keeping people up to date, honestly and accurately

5 Implementation

Earlier in this chapter we looked at some of the pressures on the speed of events and some of the differences of opinion between professionals on the desirable course of action. Here we take a more detailed look at moving towards merger after the decision has been confirmed and made public.

Analysing the nature of the journey

- how complex - level of integration, volumes and legalities
- how far - recognising the differences in starting points for organisations and their stakeholders
- what issues to be addressed - the personal, professional and organisational
- how much management time - workloads and responsibilities

Assessing the risks on the journey

- financial pressures - is there a crisis? What costs will integration cause? Is there a price to prolonging uncertainties?
- maintaining motivation - trustees, staff, funders, public will
- understanding implications - cultures, practices and perceptions
- meeting the unexpected - planning for the unexpected and undesirable
- real ownership - where it is important, what inclusive approaches really require

Deciding on the time scales

Advantages of phasing include:

- time to get to know each other - building trust, respect and understanding
- resolving problems - meeting difficulties step by step
- evolving - new cultures, ways of working, expectations
- managing the pace - containing work pressures and financial commitments
- time to respond to external constraints - legal and funding cycles

Advantages of fast tracking include:

- clearing uncertainties - prospects of change, job losses, services amalgamations
- early benefits - achieving objectives, savings and security as soon as possible
- defining leadership - building confidence and support
- tight governance - avoiding grey areas and drift
- responding to external expectations - efficiencies, competitiveness, clarity

On balance, if the organisations have a history of close joint working, fast tracking is likely to be the best implementation programme, whilst little history of working together makes that a high risk option. By working together, we are referring to level of engagement 3 or 4 (see Chapter 3). At lower levels of engagement, little organisational ethos has been shared.

Revisiting assumptions

It is often assumed that if organisations are working together in the same field and have a detailed knowledge of each other's work they are adequately prepared for merger. This just is not so unless very close engagement has been undertaken.

"When we got from the talking and planning and started the merger process we found ourselves in real friction. They had a very authoritarian style, which was not obvious to us before. We found that highly disturbing. In turn they found our democratic style and insistence on consulting staff and volunteers slow and did not like us coming back with suggestions for changes from our colleagues. In the end we couldn't move forward without leaving our people behind - and we weren't prepared to do that, so after 18 months they pulled out."

Possibly even more surprisingly, seemingly identical organisations can be unexpectedly incompatible. In the case of two independent county branches of the same national organisation, needing to merge to reduce overheads:

"One was volunteer owned, the other the personal fiefdom of the director. Something had to go. Unfortunately, after a very bitter struggle we lost virtually all of the volunteers and the director and had to start again with very bitter local feelings remaining."

Joint working prior to merger may not provide the solution, but it could prevent very painful and destructive results of forcing the permanent merger of two impossibly different organisations.

Legal issues

There are important requirements and responsibilities placed upon charity trustees that have to be safeguarded through the implementation period. The most basic is that charitable funds must be applied for the stated charitable purpose. It is possible for joint activities to fall outside of the field of the charitable cause and the area of benefit. As long as the principal result satisfies the charitable objective, there is not a problem, but this can be a grey area.

The following example is of a charity working with another in such a way as to put into question whether it is conforming to charitable law:

Both charities had education and training included in their charitable purposes. One existed to work with unemployed young people and the other provided sheltered employment for young people with physical disabilities. The former had revenue funds but no facilities, and the latter had superb facilities but little revenue funding. Whilst waiting for the new merged charity to become registered they pooled their funds, moved to the purpose-built sheltered training workshop and operated under one director, the other having taken redundancy. They were alerted to the problem when it was pointed out that all of the young people they were working with had long-term employed status in the sheltered workshop, and most of the charitable funds were for the purpose of alleviating poverty amongst unemployed people. Urgent programme changes were implemented.

The same applies to the transfer of charitable resources - equipment or buildings - to another charity. They must continue to be used for the original charitable beneficiaries.

Implementation will require regular reviews by lawyers on the more difficult legal factors including:

- the Charity Commission's views and requirements
- restricting the risks of liabilities from commitments and obligations - contracts, leases, constraints
- specific issues around limited companies
- trading companies - opportunities and choices

Joint governance will need to be carefully devised including:

- structures - it may not be appropriate to take what exists. Often there is a need to decrease the numbers of trustees, but it is desirable to have some representation from both organisations
- delegation - empowering at the right level
- control and evaluation including ensuring effective transition and on-going delivery

Systems, structures and controls needing priority in the implementation process are:

- finance - starting with "A" for audit and authorisation
- personnel - contracts, policies, salaries, pensions and conditions
- health and safety - looking out for the danger zones
- administration and communication - the organisation of the organisation

CHAPTER 3 LEVELS OF ENGAGEMENT AND ORGANISATIONAL PLANES

Organisations engage with each other on a variety of levels. Usually this is very much at arms length, uncomplicated and without interdependence. Really effective joint working is strategic and involves power-sharing. It can be undertaken in its own right to achieve better results and returns, or it can be part of a process of integration leading towards part or full organisational merger. This chapter explores the choices in the levels of engagement and sets out some of the key benefits and implications.

If there are reasons to be considering merger - financial, effectiveness, charitable cause - it is equally important to consider all the alternatives. There are potentially relevant models of joint working, such as partial merger for a segment of operations, that may lead towards a merger at a later date and at a more manageable pace. Considerations specific to a full merger are discussed in more detail in Chapters 6 and 7.

Joint working as a prelude to merger

All the evidence suggests that mergers between organisations with a limited track record of working well together are likely to fall into one of three categories: a simple take-over, a painful experience or an unexpected failure. If this is not what is wanted then an intermediate joint working strategy is an essential consideration.

> *"There was much emphasis given in all of the publicity and external communications about how this was a marriage made in heaven: one charity with loads of money and no relevant services to support because of the demise of residential homes; the other working in prevention and rehabilitation with loads of need and services and very limited resources. Whilst both organisations were well known, we had never previously had reason to work together as we were operating at the two different ends of the caring services. The merged organisation had a new constitution and a new name in the spirit of showing a merger of two complementary equals. In practice money talked – that organisation took the other over and operated in an entirely different style. Most senior staff left within months. But to the outside world this is an example of a great merger model."*

Merger poses many questions that are hard to address unless the organisations involved have a fairly intimate knowledge of each other, particularly when it comes to cultures and motivations. Joint working sheds light on:

- ethos and values - looking for synergy and avoiding friction
- style and habits - sensitivity to working practices
- stakeholding - what to preserve, what to cut loose
- fresh expectations - aspirations beyond the traditions that become possible through merger
- maintaining motivation and momentum - building ownership at all levels

The most fruitful mergers build on existing relationships and deep understanding. Knowing each other is not enough. Tried and tested joint working should be seen as a pre-requisite for successful mergers.

"The Alliance was formed from five organisations all sharing boundaries with each other, all with limited resources, all seeing the benefits of combining forces. But we took two years of joint strategic and operational work before we were ready. Even then certain trustees would not come on board. However, all who left did so amicably and as a merged organisation we hit the ground running. Within six months we all could see the real benefits and so too could our quickly growing band of members and supporters."

Many examples exist of prospective mergers being developed through an incremental approach to combining forces. For some, the journey accomplishes the objectives behind the original merger goal, without the need to complete a merger.

"As a specialist membership organisation for Scotland with insufficient core funding to employ an administrator, we thought our best move was to come under the umbrella of our sister organisation for England and Wales. Discussions with them were very positive and encouraging. They had so much more experience at raising funds and undertaking promotions for increasing membership. Both organisations agreed that we would be stronger and would attract more funds if we stayed separate but worked closely together on strategies and marketing. We no longer felt so isolated and negative. They also really appreciated the chance to work closely with an organisation sharing the same vision and issues – but from another country's perspective."

Joint working as a normal feature of operations

Joint working should be a normal feature of operations. Charitable organisations should be constantly exploring joint working as an important tool for efficiency and effectiveness, looking at all levels of engagement that this can encompass. A charity does not have a divine right to exist. All trustees have a responsibility to ensure that they are confident that their charity is producing outcomes and impact that genuinely represent value for money to beneficiaries and donors alike. Organisations that believe they can just go it alone are unlikely to be fulfilling their obligations and could be doing real harm to the opportunities that should be available to their users.

If joint working is to be undertaken effectively it must not be half hearted, or ill informed, and it must be with the right partner organisations.

There are many kinds of joint working arrangements. To provide a guide to the issues, risks, and opportunities to be managed, these can be simplified into five levels of engagement. The purpose of defining levels is to provide indicators of:

- where the governance and management connections need to be established between each organisation
- who will need to be involved, and why

- where there need be joint structures and where everything is quite separate
- how decision making and planning processes relate

For each level of engagement there is a corresponding degree of interaction on the "organisational plane". These are illustrated in Table 1 and Figure 1, which provide guides to use in answering the four questions above.

An organisation may embark on a number of different joint working activities, on a range of levels, with several different organisations. Table 1 and Figure 1 are for use on a one-to-one basis for examining existing partnerships, analysing proposals under consideration and to prompt more adventurous possibilities. They are designed to help analyse the factors at play and can inform on the advantages and risks at each level.

The top level of engagement, the fifth level, is the ultimate form of engagement between two organisations - merger. The word "merge" means:

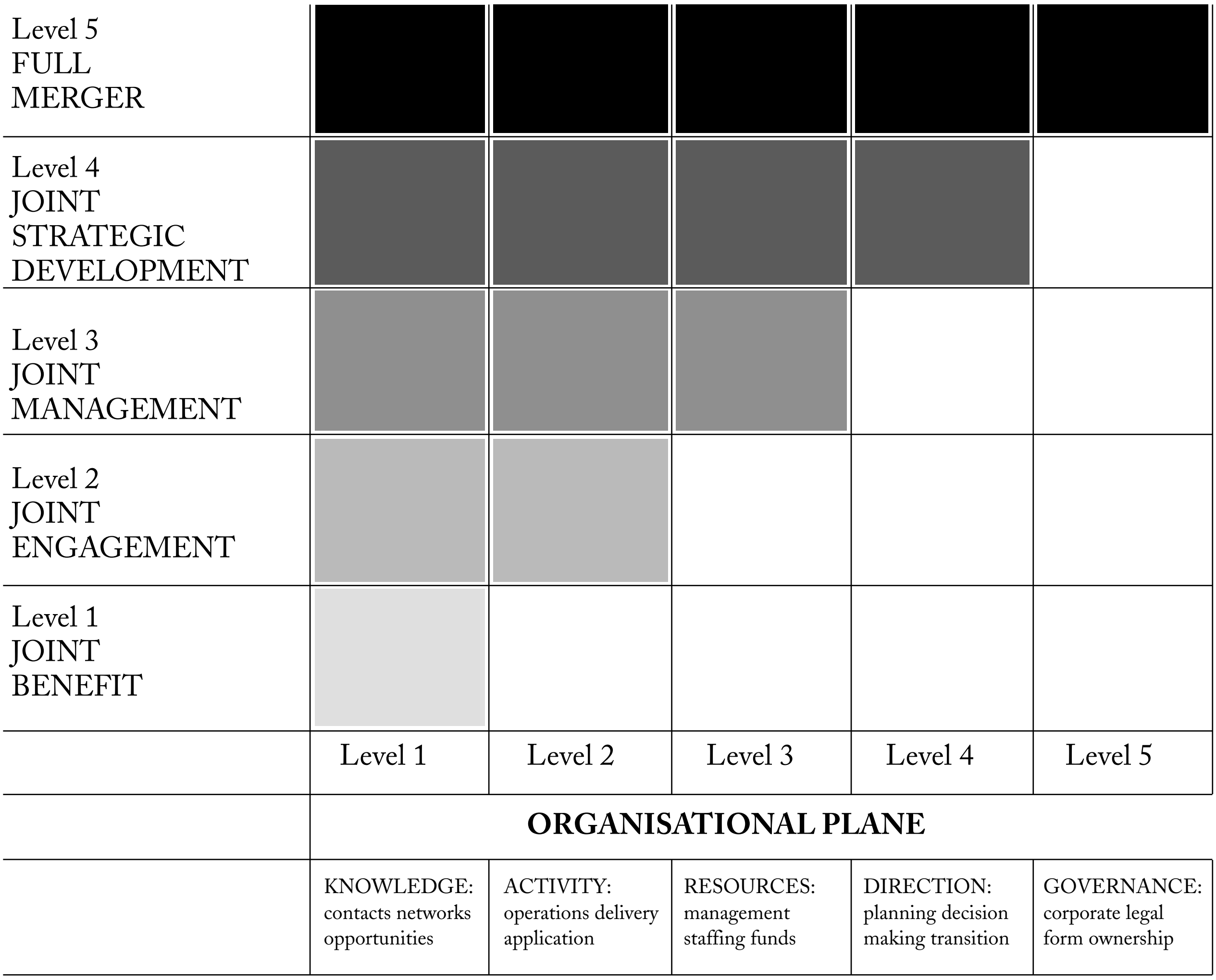
> "to lose or cause to lose, character or identity; to sink; combination"

This fifth level of engagement is the only one that is permanent. It is the only one that transfers full responsibility from one set of trustees to another and both sets are fully accountable for how they approach such an undertaking. As such, it is a rare occurrence in the sector, although one increasingly seen rather simply as a "right course of action". "levels of engagement" provides a definition of the choices of joint working arrangements starting from the level of least engagement.

Table 1: LEVELS OF ENGAGEMENT AND ORGANISATIONAL PLANES

LEVEL	ORGANISATIONAL PLANE	RISK
5 Merger	Combined **Governance:** corporate identity, legal form, ownership	Permanent transition of legal constitution and identity
4 Joint Strategic Developments	Fusion of **Direction:** planning with selected priorities and joint decision making	Major inter-dependence
3 Joint Management	Shared **Resources:** management, staff, funds	Combined programme investment
2 Joint Engagement	**Activity** collaboration: project delivery, operations, applications	Inter-relationships
1 Joint Benefit	**Knowledge** co-operation: contacts, networks, opportunities	Performance inter-relationships

Figure 1: LEVELS OF ENGAGEMENT AND ORGANISATIONAL PLANES



Level I - Joint Benefit

"A charity that has no noticeable history of sharing with others on equal terms is not a charity to choose for merger. Its independence and self-preoccupations forge an isolationist culture that is the barrier that first needs to be broken down."

From a baseline of *ad hoc* communication, the first real level of engagement is where charities embark on active co-operation to help each other's performance. Unlike the next level up, this does not go as far as joint objective setting and project work. Instead, it involves staff or trustees across two or more organisations turning a recognition that working together can improve results into a structured element of the inter-agency relationship for mutual advantage.

Joint benefit means just that - no heavy investment from any party, but by taking each other into consideration in operational activities achievements should be either better or easier for all parties. For joint benefit to work well, the arrangements need to satisfy four Successful Practice requirements:

JOINT BENEFIT - SUCCESSFUL PRACTICE REQUIREMENTS

1 TO BE REGULARISED FOR A DEFINED PERIOD OF EXISTENCE

2 TO HAVE A CLEARLY UNDERSTOOD AND COMMUNICATED PURPOSE WITH MEASURABLE RETURNS

3 TO REQUIRE LITTLE MORE TIME AND RESOURCE THAN WOULD OTHERWISE BE EXPENDED BETWEEN THE AGENCIES INVOLVED

4 TO BE REVIEWED AT AGREED INTERVALS

Examples of joint benefit working include:

- learning and sharing networks
- open access to others facilities and services on a *quid pro quo* basis e.g. staff training, databases, circulation lists, publications, office equipment
- inclusive operations e.g. attendance at VIP events

Joint benefit works because it is based upon "giving" relationships that operate on an equal basis at minimum cost. It goes wrong when:

- there are clearly unequal inputs or returns
- expectations are misunderstood
- time investment escalates

- it becomes institutionalised and less relevant
- it is seen to become a duplication of effort between the agencies involved
- personalities get in the way

Complaints often arise over regular inter-agency meetings where the purpose is half forgotten, the returns are unclear and the attendance is low. To avoid waste and gain benefits, the arrangements need to comply with the four Successful Practice points defined above.

To maximise benefits some less obvious organisations should be considered for joint benefit working. The norm is for like organisations to network with like - the "usual suspects" in each field. These organisations identify with each other, and sharing, except when in a competitive environment, is natural. While not devaluing the nurturing of such close companions, the most exciting benefits become possible when engagement is with contrasting organisations - often from entirely different parts of the voluntary sector with no operational dialogue and quite different organisational cultures.

At a meeting in Belfast called at very short notice to consider a millennium regeneration idea vocational training providers, employment services, multi-media creative artists, the Mayor's office, the Prince's Youth Business Trust, the Arts Council and a city regeneration project sat together - for the first time as such a group. They learnt about activities and issues where mutual interests had not previously been understood, let alone shared. A voluntary organisation was the catalyst. The potential for improved results for all in that room was clear within the hour. They immediately planned ongoing dialogue.

Level 2 - Joint Project

"If you have no history of collaborating together, you have not learnt to respect each others complementary values or different perspectives. To have depth, respect should be earned through experience. Without experience, respect comes from assumptions - not a foundation to build merger upon."

Co-operation moves to the next stage of engagement as two or more organisations agree to collaborate on the achievement of selected common objectives. Such a focus becomes a project because resources are being applied in unison - although under the separate management structures of the organisations. Goals are agreed and delivery is undertaken with regular consultation.

JOINT PROJECT - SUCCESSFUL PRACTICE REQUIREMENTS

1 AGREED COMMON OBJECTIVES TO BE ADDRESSED

2 MEMORANDUM OF AGREEMENT IDENTIFYING THE COMMON GROUND, DIFFERENT CONTRIBUTIONS AND RESULTANT SYNERGY BETWEEN THE PARTIES, FOR ENDORSEMENT WITHIN THE SEPARATE INTERNAL MANAGEMENT AND GOVERNANCE STRUCTURES, INCLUDING AN EXIT CLAUSE

3 SHARED REPORTING AND EVALUATION PROCEDURES TO PROVIDE CONSISTENT FEEDBACK AND FOR JOINT LEARNING

4 AGREED PR PLAN, EITHER PRO-ACTIVE OR RESPONSIVE

5 AGREED LINES OF DEMARCATION AND FIELDS OF RESPONSIBILITY BETWEEN THE ORGANISATIONS

There are many successful examples of joint project working, and they are rich in variety. The approach is regularly in evidence amongst the most successful initiatives and pioneering organisational work. Although most involve a fair amount of hard work, the returns can be high. Joint projects have included:

- campaign alliances to maximise influence and policy leverage
- partnership in service delivery to bring together complementary expertise in different, but associated, fields
- research programmes and dissemination promotions combining knowledge and investigation opportunities
- co-ordinated new developments with the organisations operating side by side, e.g. into new operational fields or geographical areas
- joint events, conferences and publications

Just as the gains can be much greater than in the case of joint benefit co-operation, so too are the risks of part or complete failure. Inadequate preparation in setting the objectives and understanding roles is a key area. The fact that the whole operation is about synchronised working in parallel also leaves no one person or agency in control. Trust, good will, honesty, integrity of approach, openness to discuss any difficulties or areas of clarification, are all essential. This in turn starts to demand a fair investment of time in cross-organisational communication - so the results have to be equally valued by the agencies if both are going to feel that time investment is worth the gains. This level of engagement is also prone to difficulty over differences in organisational styles and ethos. Speed of operation, methods of communication, levels of delegation - all have to flow comfortably between the organisations in so far as the joint project is concerned. The larger the project, the more problematic small differences become. But whatever happens, if hidden agendas are operating or personality clashes occur, this is a middle of the road level of engagement and one that is relatively easy to get out of.

Level 3 - Joint Management

"Sharing control is when the differences can become far more obvious and significant than the comfortable similarities. Who gives and who takes to achieve the compromises or the new ways forward give insight to the conflicts that merger is able to provoke."

In a number of ways this level is easier to operate than the previous one. Here agreeing the common objective is only half the story - for the organisations agree to share the delivery capabilities, combining programme investment under a joint management structure. This avoids many of the problems of running in parallel and operating on a goodwill basis. It is able to conform to sound management practice, but it requires clear rules of engagement, usually endorsed by the trustees, with the risks and exposure shared fully between the organisations.

JOINT MANAGEMENT - SUCCESSFUL PRACTICE REQUIREMENTS

1 CLARITY ABOUT YOUR PARTNER'S STRENGTHS AND WEAKNESSES - AND OPENNESS ABOUT YOUR OWN - SO THAT EACH IS WELL AWARE OF THE RISKS THEY ARE TAKING INTO THEIR OWN ORGANISATION THROUGH THE JOINT MANAGEMENT, AND HOW THE POTENTIAL RISKS NEED TO BE MANAGED

2 FULL OWNERSHIP FOR THE JOINT VENTURE FROM ALL RELEVANT STAKEHOLDERS IN EACH ORGANISATION, INCLUDING FUNDERS, BEING PRECISE ABOUT WHAT IS TO BE ACCOMPLISHED AND WHERE THE INTENDED OUTCOMES WOULD BE BEYOND THE CAPABILITIES OF THE ORGANISATIONS OPERATING SEPARATELY

3 WHERE SIGNIFICANT INVESTMENT IS INVOLVED, A DETAILED RESOURCING PLAN AGREED BY BOTH BOARDS OF TRUSTEES, ANALYSING VALUE FOR MONEY AND EFFICIENCIES, STATING WHERE THE RESOURCES WILL COME FROM, WHERE AUTHORITY LIES FOR SETTING AND MANAGING THE BUDGETS AND THE FINANCIAL REPORTING REQUIREMENTS

4 A PROJECT BUSINESS PLAN WHICH INCLUDES A PR STRATEGY, PERFORMANCE MEASURES, LINES OF ACCOUNTABILITY, AND EXIT ARRANGEMENTS AS WELL AS DETAILS ON ALL LINE AND FUNCTIONAL MANAGEMENT

Examples are far less common at this level of engagement. But some extremely valuable and not too daunting fields of joint endeavour which can give relatively quick and painless execution include:

- facilities management - joint personnel, caretaking, financial services, equipment and building facilities, PR, administration capacity - core services otherwise costly or not attainable at the required standards

- publications, events and conferences - short-life projects sharing risk, connections and expertise with combined implementation
- joint contracting - splitting the activities and delivery responsibilities but with joint accountability on overall performance

Careful implementation avoids many causes of failures. The intrinsic dependency upon each other makes for an incentive to problem solve together. By far the biggest risks are:

- one partner cancelling the arrangement - out of the blue changes in key personnel, concerned trustees or unexpected external changes in one of the parties can result in dire consequences for the project. Exit clauses must provide protection to remaining agency/ies from exposure to liabilities resulting from any cancellation
- tension in joint structures and culture clashes between organisations which can produce painful experiences and put programme performance at risk
- inadequate investment between the parties which can produce a poor service - it is not a method to do something on the cheap

Often, these joint management initiatives are developed through good personal relationships between senior staff or chairs. The professional requirement is to have proper legal contracting in place, regardless of personal trust - as the above indicates.

Level 4 - Joint Strategic Development

> *"Sharing a sense of joint mission is vital to sustain a full partnership and a merger programme. A strong belief in the benefits for the charities converging will help overcome inevitable obstacles and resistances, particularly if based on real illustrations of what is possible".*

Level 4 may or may not build upon the engagement of Level 3. Joint strategic development brings together some element of the destiny of the participating organisations. There is a fusion of some key plans and priorities producing significant inter-dependency in these areas. The difference from joint project and joint management is that at this level the organisations have decided to set a course together to achieve not just an objective, not just a project or programme, but to secure a longer-term strategic development contributing to the vision of each.

Joint strategic development is the most powerful of combinations. Unlike merger, it preserves in full the strengths of each organisation and creates synergies towards fulfilling a shared mission. Oddly this need not be the most demanding model to establish and manage. If the goal is obviously important enough to both/all organisations, the full backing of trustees and directors is secured (often with a joint trustee committee), and adequate resources are deployed. This can become the voluntary sector at its best and most dynamic.

JOINT STRATEGIC DEVELOPMENT - SUCCESSFUL PRACTICE REQUIREMENTS

SUCCESSFUL PRACTICE REQUIREMENTS WILL VARY ACCORDING TO THE NATURE, SCALE, AND BREADTH OF THE JOINT STRATEGIC DEVELOPMENT, DRAWN FROM MUCH OF WHAT HAS BEEN IDENTIFIED IN THE PREVIOUS THREE LEVELS. BUT THERE ARE SOME DIFFERENCES:

1 CONTROL AND DIRECTION MUST COME FROM THE TOP OF EACH ORGANISATION AND A JOINT COMMITTEE IS HIGHLY LIKELY TO BE REQUIRED FOR THE LIFETIME OF THE ENGAGEMENT. THIS IS CLEARLY WHERE EACH ORGANISATION HAS SOME DEPENDENCY ON THE OTHER AND THE WEIGHT OF THE WHOLE OF EACH CAN BE DRAWN UPON.

2 DECISION-MAKING NEEDS TO BE THOROUGH AND QUICK, PROCEEDED BY A FAIRLY INTENSIVE DESIGN AND CONSULTATION PERIOD PRIOR TO AGREEMENT TO THE LAUNCH OF THE JOINT ACTION.

3 IF ONE PARTNER FAILS OR WITHDRAWS THERE IS A LOT AT STAKE. CONSEQUENCES ARE HIGH AND DAMAGE LIMITATION STRATEGIES NEED TO BE IN PLACE AT THE OUTSET.

The main internal threat is likely to be a backlash from disgruntled stakeholders - trustees who were absent when the decision was made, volunteers who feel uninvolved, staff who fear for the impact of change on their jobs. Provided the quest is important enough, such mutinies should readily be avoided by good management practices - consultation, communication, openness. These same issues of resistance emerge when the issue of the fifth level - merger - is discussed.

CHAPTER 4

SHAPES OF SIGNIFICANCE

What are we asking of our own organisation compared with the prospective partner organisation in the proposed merger or joint working arrangement?

A well informed and well considered answer to this question is imperative for the successful management of both the integration of operations and the inter-agency relationship. This chapter provides a model as a way of perceiving and classifying the effects on organisational dynamics.

Whilst the levels of engagement relate to five planes of activity, the shapes of significance relate to six behaviours of organisational impact. Clearly, merger has the greatest intensity both in terms of planes of activity and organisational impact, but even here one organisation can find itself more profoundly affected than the other. This is also the case within all other joint working arrangements where the experience and management impact can vary significantly between the organisations involved. A full indepth understanding of these differences is as important to managing sensitive and professional working relationships between the partner organisations as it is in informing the internal project management.

Shapes of significance are taken from the shapes used by artists to unravel and capture the complex designs in the forms around us. They are used here to provide a means of classification. They do not signify any deeper meaning, but are intended simply to represent visibly the different kinds of behaviour impact that "the shape of events" can have on individual organisations.

Shapes can occur in combinations, as is the case for any dynamic structures and situations. However, for this model we are looking to identify the predominant shape (i.e. over-riding impact) of the proposed joint working idea on the organisation's operations and environment, and this allows evaluation and comparison between organisations.

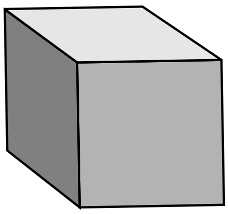
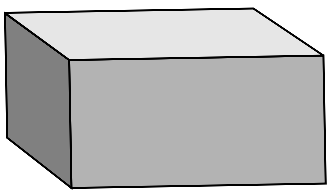
Shapes of significance prompt participants in mergers and joint working to ask questions such as these:

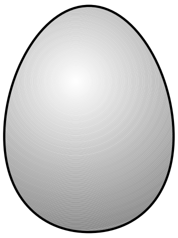
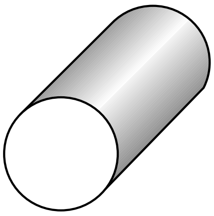
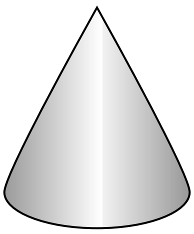
- *Why are they not giving this the same priority as we are?*
- *What level of my organisation should be involved in steering and delivering this?*
- *Where are the repercussions that are going to be felt?*
- *How quickly am I likely to be able to move this through the organisations?*
- *Why is our partner operating at a different pace?*
- *How much cultural change is likely to be generated?*
- *Why am I meeting resistance for what is being proposed from this quarter?*
- *Who needs to be consulted?*

Any modelling of this kind has strict limitations, and will tend to over-simplify. However, adopting the "language" of shapes to classify the behaviour of different kinds of impact can help those involved to consider the right questions and gives some perspective of the comparative power and complexity of joint working arrangements within and between the organisations.

The six shapes used in the model are given in order of impact in Table 2 (1st order being the most basic) and examples of the different impact behaviours are given in Table 3.

Table 2 SHAPES OF SIGNIFICANCE

Shape	**Working description**	**Significance**
Cube REGULAR BEHAVIOUR MAINTAINED 	Closely defined and contained clear, easy to recognise boundaries involving few people internal delivery only	**1st Order of Impact** **minor, internal**
Rectangle STABLE BEHAVIOUR DEVELOPMENTS 	Broader block of activity logical, more extensive field unit of people involved internal goals only	**2nd Order of Impact** **major, internal**

Egg UNPREDICTABLE BEHAVIOUR CHANGE STIMULATED 	More dynamic and inter-active issue dominant, flexible approach functionally driven clear external objectives	**3rd Order of Impact** **principally external**
Cylinder CORE BEHAVIOUR INFLUENCED 	Embraces a full core aspect and value covers all related operations departmentally driven for internal and external impact	**4th Order of Impact** **significant external and internal**
Cone PENETRATING DEEP BEHAVIOUR CHANGE 	Broad range of internal and external inter-faces crossing many organisational fields multi-disciplinary involvement diverse objectives	**5th Order of Impact** **extensive**

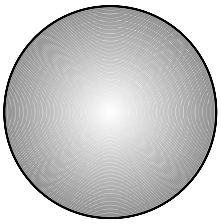
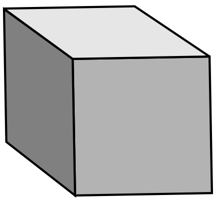
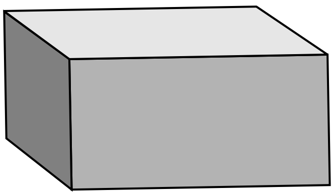
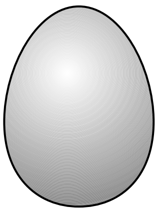
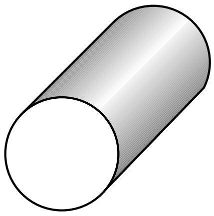
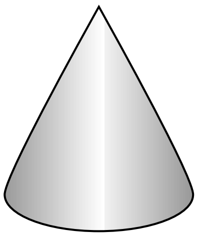
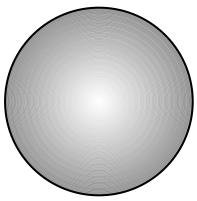
Sphere COMPREHENSIVE BEHAVIOUR CHANGE 	Relates across the full organisation comprehensive involvement impacts on all stakeholders major purpose	**6th Order of Impact** **fundamental** **and comprehensive**

Table 3 EXAMPLES OF DIFFERENT ORDERS OF IMPACT

Order of impact	**Examples of activities leading to impact**
1st - minor, internal 	Local - helpful to internal operations e.g.: sharing office resources information and database exchange sharing good practice *Regular behaviour maintained*
2nd - major, internal 	Significant change to working practices e.g.: shared accommodation joint library provision sub-contracted administration *Stable behaviour developments*
3rd - principally external 	Helpful for new joint external delivery e.g.: joint promotions joint event sub-contracted programme delivery *Unpredictable behaviour change stimulated*

4th - significant internal and external 	Significant changes to products or services e.g.: joint delivery combined fundraising, facilities management, etc. new initiatives and services *Core behaviour influenced*
5th - extensive 	Strategically crucial developments e.g.: amalgamating work units joint management of operation resources *Penetrating deep behaviour change*
6th - fundamental and comprehensive 	Long-term major organisational consequences e.g.: joint organisation-wide planning new cross organisations structures changes to top key personnel/roles *Comprehensive behaviour change*

Different organisations can experience different shapes of significance for the same initiatives. Take the example of the merger of four organisations' fundraising activities with the corporate sector, enabling one full-time worker with a marketing budget and an events programme to work for all of the charities:

Organisation 1

Was already undertaking this function but only as a part-time role for one of three fundraisers in a service delivery organisation with 60 staff. Seen as a minor internal change

→ 1st order of impact = cube = regular behaviour maintained.

Organisation 2

All fundraising was being undertaken by the director of this campaign charity which has a total of 3 staff. Seen as a significant new development with external consequences

→ 4th order of impact = cylinder = core behaviour influenced.

Organisation 3

Had the only discrete corporate fundraiser who had left and offered to recruit and establish this function for all the charities. Seen as an imaginative new approach to working in the sector

⟶ 2nd order of impact = rectangle = stable behaviour development.

Organisation 4

New charity, needing to attract most of its operational income from the corporate sector. Seen as a major strategic decision on how to move the organisation forward

⟶ 5th order of impact = cone = penetrating deep behaviour change.

Decision making; who has to be consulted internally; concern about the outcomes and therefore the monitoring and reporting needs; desire to be involved in management and planning; what kind of person is needed for the post - each organisation will have different views and expectations according to the shape of significance and impact on organisational behaviour.

CHAPTER 5
THE MERGER PALETTE

The combining of two organisations can have one of three results:

1 a new combined chemistry is generated, not the same as either organisation before merging
2 one organisation dominates the other to the extent that it exterminates the other's cultural influence
3 two organisations with exactly the same characteristics reinforce each other.

This chemistry is the essence of the merger of organisations. It is the people factor - traditions, values, diversity, cultures - which the voluntary sector has historically understood so much better than the private sector. However, it seldom manages to truly evaluate this elusive yet powerful dimension.

So many corporate mergers are bloody failures, never achieving the desired integration, and causing immense high-cost fallout because they do not properly consider the organisational cultural issues and consequences. Demergers occur hot on the heels of these failures, with equally careless management and resultant damage. This is where the voluntary sector can take a real lead.

Matching and contrasting

The end of the spectrum of joint working arrangements is fusion - a combining which submerges differences. But cultural mixing takes place in all successful joint working arrangements including strategic alliances, partnerships and multi-disciplinary operations.

Where organisations or operations are thinking about joint working or merger, they must assess where there are matching features and where there are distinctive contrasts.

Matching and contrasting - examples

Matching - both are providers for older people
Contrasting - one provides health care, one housing
Joint estate service for older people

Matching - both prioritise their work for those living alone
Contrasting - one works largely through volunteers, one depends wholly on employees
Joint PR campaign on "Winter Watch"

Matching - both are based in the same town
Contrasting - one covers a neighbourhood, the other the county
Jointly appointed corporate fundraising officer
Many joint working possibilities, but merger would become a take-over and would involve much sacrifice of values and qualities

There can be reasons to seek out either matching or contrasting features when selecting an appropriate partner organisation, according to the purpose of the joint endeavour. The levels of harmony and tension within a new relationship change in balance and nature according to the level of engagement.

Whilst bringing together obviously complementary activities is a sound proposition presenting no serious friction, it is also unlikely to break any moulds. The logic and safety provide few difficulties whilst the joint operations remain small-scale. Smooth operations in joint engagement must be weighed against the likely limited added value of working together. The results though can be worthy:

- better joined up working
- improved communication
- greater efficiency
- good PR
- deeper understanding of context

The more significant the scale of joint operations between organisations, the more likely it is that contrasts will creep in. The matching features become less intense and comprehensive, with contrasts more and more likely to provide the dominant issues to be addressed.

Contrast is the comparison between opposites. The greater the contrast between the organisations, the more they intensify each other, but the more rapidly they neutralise each other when mixed. Contrasts are therefore most powerful when the distinctive features of each organisation are being preserved and highlighted. If the qualities in contrast are fundamentally strengths, then preservation must be the goal. If however the qualities of either organisation are seen as problematic, the goal has to be to neutralise what gets in the way of successful operations. The positive features for joint working with preserved contrasts include:

- synergy from distinct and different contributions
- co-operation without interference
- strength of dual stakeholder groups and knowledge networks
- respect and value for separate identities and power bases
- enrichment and insight through cultural diversity

Equal organisations operating from a position of strong contrasts can work well in parallel, but attempts to combine are likely to meet strong resistance and have a muddied outcome.

In a situation of mixing in order to neutralise, contrast is least problematic when the larger and more dominant organisation has the qualities to be preserved. It needs to be able to absorb the opposites without too much neutralising of its own strengths.

The hardest of all combinations is the David and Goliath, good-over-bad, merging. If the larger operation is meant to be adopting the cultural qualities of the smaller, a major programme will need to be put into action. Goliath will need an attitude change and probably cutting down to size! This is not an option to take on if there is choice, for the chances of losing are significant.

Fusing at different levels

We need to look at the fusion of different operational components, not just whole organisations. Returning to the levels of engagement, they relate to the five organisational planes. These planes are:

- knowledge
- action
- resources
- direction
- governance

This section uses the term "merger" as applying to any aspect of two or more organisations, for it is still the fundamental issue of moving from separate identities into one composite form. We take merger - fusion - as something that can be applied at each of the five organisational planes, and not just the full organisational merger. Each plane can be fused in part or whole, or can operate in joint engagement arrangements at various levels. In each case, we need to know how the probable repercussions - benefits and risks - can be projected.

Expecting the unexpected

Each organisation has its particular values, culture and functional traditions. It is notoriously difficult to identify organisational differences in these areas, yet this is where the pain and gain of merger can be most potent. A seeming "marriage made in heaven" can become a dangerous liaison with a short honeymoon and long regrets. This is surprisingly regularly experienced in mergers between organisations in the same charitable field, with the same beneficiaries and overlapping funders - where logic and instinct say that coming together is obviously right. Simple conclusions can fail to identify opposing characteristics between organisations that in hindsight show immense incompatibilities.

THE ART OF OBSERVATION

- AVOID PRECONCEPTIONS ABOUT APPEARANCE - THE UNEXPECTED IS EVERYWHERE.
- LOOK AT YOUR SUBJECT AS IF YOU HAD NEVER SEEN IT BEFORE, STARTING WITH THE MOST OBVIOUS MAIN FEATURES, THEN GRADUALLY TO THE SMALLER DETAIL.

In this chapter we do not try to do more than prompt consideration of the not so obvious, but powerful, chemistries that can undermine the best intentions of merger.

Colour coding

The three primary and three secondary colours are used in this chapter to provide an illustrative coding for key characteristics. Recognising that even small charitable organisations are complex, this analysis must by nature be crude. It does however draw attention to the factors that are critical within the voluntary sector as opposed to commercial or public agencies that have different agendas and criteria for success.

Colour can be an elusive and changeable attribute, sometimes appearing differently to different people. That is also the nature of the kind of value judgements that need to be taken to assess organisational ethos, culture and value realities. So not only is this somewhat crude, it is open to different interpretations. Given these caveats, there is a critical need to take careful stock before embarking on any form of merging. The task of combining the passions, commitments, motivations and people within voluntary organisations requires real artistry, and success is very hard won!

Drivers

What drives a charitable operation onwards?

How strong and effective is that drive?

What does that tell us about the qualities and cultures within the organisation?

When bringing two organisations together, what are the likely repercussions of combining two differently driven operations or two identical ones?

Throughout this section, the judgements need to be focused on the specific plane which is under consideration for merger, or the complete organisation if that is the merger goal. The word "operation" is used to identify the focus for merger.

Drivers are the central points from which the patterns of organisational behaviour radiate. They provide the over-riding influence defining the type of operation, which in turn starts to define characteristics.

The private sector has grouped itself under broad terms that provide a sense of identity - retail, manufacturing, service, creative etc. Whilst each category can be subdivided ad infinitum, in each case there are more common business features than differences. Voluntary organisations have traditionally grouped themselves under charitable purpose rather than type of operation - childcare, homelessness, environmental protection, animal welfare and health. This tells far less about an operation's chemistry than more recent emphasis on categories such as service providers, grant makers, think tanks, research bodies, intermediary organisations, community organisations etc. So what are the most important operational factors and what is their significance when merging?

The primary drivers

Every charitable organisation and most operations are a sum of purpose, people and power. By this is meant:

PURPOSE

direct charitable assistance to meet presenting needs

Driven by - the desire to provide direct action, to alleviate problems and deliver solutions.

Example qualities - service provider to beneficiaries, operations-focused, demand-led, priority given to accessibility, dedicated to application of available resources, outcome-orientated.

Weaknesses in being exclusively purpose driven - not addressing causes, not strategic, isolationist.

PEOPLE

working with and through others

Driven by - the commitment generated in others.

Example qualities - user involvement, active membership, partnership delivery structures, consultative and responsive style, significant resources applied servicing supporters, staff participation nurtured.

Weaknesses in being exclusively people driven - unplanned direction, no clear results, self-indulgent.

POWER

seeking to influence the causes of need

Driven by - wish to be an instrument of change.

Example qualities - analytical, externally focused, intelligence gathering, profile conscious, politically aware, targeted communications.

Weaknesses in being exclusively power driven - not creating synergies, no direct issue involvement, arrogance.

Intensity of the colours

Red	-	breadth of issues	-	narrower	=	deeper
Yellow	-	stakeholder sensitive	-	greater	=	deeper
Blue	-	climate influencing	-	greater	=	deeper

Secondary colours

There are operations that display an integrated combination of these primary drivers. These become the more integrated secondary colours, but only if they are assessed to be equally strong drivers. If one is clearly dominant then it remains the primary colour and the others can be ignored for this assessment. The secondary combinations are:

Orange	-	empowering
combining red and yellow	-	purpose and people
Green	-	campaigning
combining yellow and blue	-	people and power
Violet	-	strategic change
combining red and blue	-	purpose and power

In each case, these are significantly stronger formulas for success and should eliminate some of the inherent weaknesses in the exclusive and simple primary mode. But as will be seen later, this strength can reduce the value of merger in many cases.

Interpreting the colour coding

The following provides a guide on the interpretation of the colour coding for the specific operational planes that are the subject of merger consideration.

First, define the principal driver of the particular charitable operation:

Red	-	**purpose** fulfilled through direct service provision making a difference through direct operations
Yellow	-	**people** involvement programmes encouraging others to join/support the operation
Blue	-	**power** and influence agendas challenging others to operate differently
Orange	-	**empowerment** operations achieving through building capacity in other operations
Green	-	**campaign** movements building alliances to press for change
Violet	-	**strategic** interventions ensuring own service operations impact on causes

Second, define the most important characteristics of the specific organisational plane by looking at its dominant purpose. This has to be a mapping of what exists rather than of the intentions that are being put forward. If there are significant differences between current style and proposed merged functions then that is where the problems are going to be most acute.

knowledge		**importance and effectiveness**
red	-	to improve own operations
yellow	-	to inform independent operations
blue	-	to challenge current status
orange	-	to improve all work in this field
green	-	to enable more successful joint operations
violet	-	to feed own practice lessons into policy development

action		**importance and effectiveness**
red	-	developing own operations
yellow	-	developing membership
blue	-	challenging other operations
orange	-	improving external agencies
green	-	building alliances with joint campaign objectives
violet	-	mobilising experience to secure change

resources		**importance and effectiveness**
red	-	geared for internal efficiency and/or growth
yellow	-	responding to external demands
blue	-	seeking to achieve leverage over others
orange	-	investing in joint operations
green	-	improving campaign movement
violet	-	own flagship and demonstration developments

direction		**importance and effectiveness**
red	-	organisational development
yellow	-	developing supporters' base
blue	-	political astuteness
orange	-	facilitating representation
green	-	joint planning and synchronised communications
violet	-	strategic impact
governance		**method**
red	-	appointed board
yellow	-	elected board
blue	-	high professional board membership
orange	-	significant user involvement
green	-	key stakeholder representation
violet	-	investor representation

Looking at your own organisation's operation and then comparing it with the other provides the following possibilities:

- same colours
- different primary colours
- different colours including at least one secondary colour

Same colours

Same colours show matching values, but natural competitiveness. If both organisations are making an equivalent investment, the deeper toned organisation is likely to take over the other by dominating the merged operation with their own intensity or success. The importance of that can be set against the shape of the venture to the organisations concerned (see Chapter 4).

Mixing primary colours

Mixing colours provides for a new dynamic chemistry. On the basis of equal tones some very powerful combinations are possible:

red and yellow → orange

these qualities are about empowering through the delivery of services, strong in inclusivity, sharing, partnerships and direct results

yellow and blue → green

this is about providing a platform for people to be heard and influential - good for membership campaigns for example

blue and red → violet

here the potential is for devising policy and practice solutions targeted to influence and change

Mixing colours of different depth

A more sensitive and accurate comparison can be achieved by applying a tone to each colour. Generally, the greater the significance (importance and effectiveness) to the organisation, the deeper the tone. The organisation with the deeper tone may become dominant in joint working. In addition, deep contrasting tones may not make for a good mix. An example, using governance would be:

Organisation	Characteristics	Colour code
A1 has an appointed Board	very centralised power base	deep red
A2 has an appointed Board	most power delegated	pale red
B1 has an elected Board	full membership democracy	deep yellow
B2 has an elected Board	limited democracy and consultation	pale yellow

Combine A1 and B1 governance - very centralised with very democratic

→ deep red + deep yellow = brown

may lead to a loss of both strengths, conflict

Combine A2 and B2 governance - delegation and some consultation

→ pale red + pale yellow = orange

a stronger ethos for empowerment and partnership should result

Putting a secondary colour into a mix

Colours neutralise each other when they are of equal strength and one is a secondary colour. A coming together of a strong primary organisation with a strong secondary is unlikely to be of any benefit unless one is clearly dominant to the other. And then the danger is a lot of "dull brown" - no clear and distinctive advantages and a muddle in values, methods and purpose. This can be appreciated by drawing together the descriptions of the two colour codes, for example:

Violet plus Yellow → own strategic impact plus people involvement

A cancer research organisation is coded as violet. It undertakes targeted research programmes designed to eliminate the causes of clearly defined cancers affecting women. It is approached with a view to merger by a national self-help membership organisation of women who have had cancer and treatment - coded yellow - as it has outgrown its management structures and is having difficulties with core funding. The research organisation has a national reputation, is well managed and has knowledge of value to the membership organisation, which in turn has a strong national network that could provide a sound base for local fundraising and profile to support the research operations.

What would the merger look like?

knowledge to feed own practice lessons into policy development

to inform independent operations

action mobilising experience to secure change

developing membership

resources own flagship and demonstration developments

responding to external demands

direction strategic impact

developing supporters base

governance investor representation

elected board

A rapid assessment would indicate that merger would be a problematic mix. A strategic alliance would be more helpful to the research organisation, but it is unclear what gains the membership agency would achieve if it is not helped with its management. It is therefore likely that a joint long-term project on membership development and fundraising could be worth serious consideration.

Table 4 MERGER PALETTE COLOUR CHART

	KNOWLEDGE	ACTION	RESOURCES	DIRECTION	GOVERNANCE
RED	Improve own operations	Develop own operations	Internal efficiency/ growth	Business development	Centralised appointed board
YELLOW	Inform independent operations	Develop membership	Meet external demands	Develop supporters' base	Membership-elected board
BLUE	Challenge current status	Challenge other operations	Leverage over others	Political astuteness	Status - high professional board membership
ORANGE	Improve all work in this field	Improve external agencies	Invest in joint operations	Facilitate representation	Significant user involvement
GREEN	Enable successful joint operations	Alliances with joint campaign objectives	Improve campaign movement	Joint planning and synchronised action	Full stakeholder representation
VIOLET	Own learning to develop policies	Experience to influence change	Flagship and demonstration projects	Strategic impact	Investor representation

CHAPTER 6
MERGER HEALTH WARNINGS

This chapter focuses on some common danger zones in the merger minefield. The most common cause to place oneself on alert is in response to being approached to consider merger. It may or may not have been on your agenda, but someone else has taken the initiative. Why? Merger approaches can be strategically sound. However, they may not be if they arise because:

- an organisation wants to be taken over
- an organisation wants to take over your organisation
- a funder is presenting conditions

A request to be taken over

It is surprisingly common for organisations to go in search of another asking to be taken over. Motives for being "taken-over" fall in to a number of categories, each with its own "beware" notices:

Financially in serious trouble

- Often the approach is left very late, requiring very quick consideration and action to avoid closure and insolvency, militating against proper consideration of all the associated risks - marriage in haste.
- The financial problems are a symptom - the causes need to be clarified and addressed. Records are often in a shambles and the full scope of the problems unclear.
- The liabilities are seldom all known. The scale and risk of exposure to losses must be thoroughly examined with legal advice.
- What to preserve and what to cut from the organisation in the rescue take-over has to be understood and agreed by both parties. Even coming cap in hand, the outgoing charity often has conditions and expectations that may be unacceptable or problematic. It is best to sort this out first, before wasting too much time on all the expensive and time consuming financial and legal investigations.

"A small specialist training provider could not sustain its operations under new government contract payment conditions. They had dedicated staff, well-equipped workshops and a sound reputation with employers. The receiving charity worked in the same field but in different locations. It convinced the government to make a special grant as a bridging injection to allow the organisation to continue operations whilst the financial and legal position was established and then resources, staff and contracts transferred. The government was willing to do this as its own investment of public funds in this organisation over a number of years would otherwise have been lost."

Organisation A was a long established arts organisation employing four people, with a sound reputation. It had a regular revenue deficit that it could no longer sustain as subsidy grants had been cut. It owned buildings and equipment in excellent condition. It approached organisation B in a state of crisis, unable to pay its salaries, wanting to be taken over, providing B could deal with the liabilities that had built up.

Organisation B was a new arts organisation employing ten people, with a strong entrepreneurial style. Well-funded by sponsors, but as a new body, it had yet to establish assets and credibility. It was attracted to the immediate gains that a merger would produce.

The "take-over" discussions collapsed when "B" produced its plan to turn the operations of "A" over a two year period into a sustainable self-funding arts operation under its control. In practice "A" had wanted no change to its activities, but to retain control and receive ongoing support and subsidy from "B". Subsequently, after searching for other potential merger options and failing, "A" closed.

End of its charitable journey

- If the charity really has out-lived its cause, what has encouraged the approach to you? Why now? And who else is being considered? Ask a lot of questions.
- The legal fit for transfer of assets has to be right and approved by the Charity Commission, and that takes time and consideration - be prepared for the costs as well as gains.
- There can be a problem of continuity or one of being hit by surprises in the years ahead if everyone associated with the old charity just walks away.
- It is particularly important to be covered for the unknown liabilities.

"A charity whose sole asset was a significant building that had fallen into disrepair wanted to close and hand over the land and property to a successful charity working in the neighbourhood. The recipient charity was able to attract a major lottery capital grant that the dormant charity would not have been able to do. The building was refurbished and brought back into use."

"A number of Community Development Trusts have actively sought out old grant making parish charities or mothballed endowment funds where the specific motivating cause has long since disappeared or changed beyond recognition. With Charity Commissioners' approval they are able to breath new life into these funds and make them available again for charitable causes as close to the original as possible."

Leaving of the founding light

- When the founder of a charity leaves it has a profound effect. When the conclusion is to hand over the charity to another, it clearly may not be a full going concern. Look out - all the weaknesses may not yet be evident.
- Without the founder some support, funding and credibility will be lost, whilst others may be gained. Until there is some distance from the leaving of the founder, it is usually difficult to weigh up the true worth of the organisation.
- There needs to be clear added value from the merger within the host organisation.

Withered and weak governance

- When trustees propose merger because they are unable to meet the demands placed upon them, it does not mean that they wish to let go of their own personal stake and involvement. Be clear about their expectations and conditions from the outset.
- Tensions can be present between trustees and staff, and sometimes problems managing certain staff have been a principal motive behind the offer of a merger.
- If trustees have been finding it hard to cope, aspects of the organisation's management will have suffered and knowledge about financial performance will need to be scrutinised with particular care.

"A local branch of Age Concern had lost many of its most motivated trustees and decided that, provided their day centres would be secured a future and they could have a say in the operations, they would like to be taken over by their neighbouring branch. This it was pleased to do, encouraging active involvement of day centre users and benefiting from having a better network of facilities."

Performance fatigue

- After a long, long uphill struggle, merger may seem to be the best way out whether the problems were caused by failed fundraising or reduced impact of the work. There will be weariness in the ranks of the organisation, probably low morale - and look out for cracks which may have been hidden for a long time.
- Fallout may have occurred amongst supporter, funders and general external relationships which will need to be addressed in the merger process.
- The demands on the prospective host organisation to turn round longstanding performance difficulties and failings needs to be taken fully into account.

The proposal to take you over

"We are a minnow in the charities pond, and the big fish seem to be getting bigger and more menacing. Some of them have stopped looking like charities at all ... Smaller voluntary organisations can operate on the cutting edge of social development. We can experiment, take risks because we are small ... Without us an innovative spark will be extinguished... The big charities ... need to recognise this. What is needed is a policy of restraint and co-operation by the big boys, perhaps even a willingness to share the available money more fairly"

Karen Irving, Director of Parents for Children (turnover £200,000) in Big charity business, The Times *13/4/95.*

An approach from a significantly larger or stronger organisation proposing merger is an increasingly familiar tale in the voluntary sector. Hostile take-overs in the private sector are the most frequent kind of merger. But for charities, with the exception of the rare intervention of the Charity Commission or funders, little can happen to enforce what is not wanted. Yet some practices from the corporate sector, however unwelcome, have been used by some larger charities to build their influence, geographical coverage, competitiveness and market penetration by taking over smaller, vulnerable charities. These include:

- diverting income streams from vulnerable charities
- dominating the market place and contracting opportunities
- splitting trustees' loyalties
- encouraging members to elect pro-merger trustees

The ruthlessness and lack of regard for beneficiaries, quality of services or user choice have on occasions been profound. Thankfully there are only a few cases known to the author, but it may become more common as commercial contracting and competition breeds commercial thinking and tactics. Empire building is certainly a fear amongst many working within small and more vulnerable agencies, which treat large charities with suspicion.

"The government department was quite up front. They wanted to change multiple contracts to fund just one organisation to do this work nationally just for administrative simplicity. We knew who would get the contract - they got all of the major contracts. I believe our tender was competitive and innovative and built on an impressive achievement record. But we didn't have experience of running a full national infrastructure. When we were told they had got the contract it was suggested we should approach them to act as a sub-contractor in those areas where we were active and they were not. Needless to say they refused to enter such discussions - politely signing our death warrant. They suggested we merge our now much reduced operations into theirs. I left rather than take that. But the inevitable happened, and within a year they had eliminated what they considered to be all the opposition."

So take-overs can be more than meets the eye, with the recipient organisation getting more than it was prepared for - or it can be very good news to all. If care needs to be taken for offers arriving as take-overs, it is even more necessary for merger where both parties have strong expectations of what they will gain by combining forces.

Arranged marriages

The issues surrounding forced merger can also apply where joint working partnerships are not self-selecting, perhaps because of the criteria applied in a funding programme, or a local authority determined to see joint practices between similar service operators. If the option for saying "no" is either not there or too problematic to contemplate, then living with the arrangement has to be accomplished in the most productive manner. You could find yourself in the most difficult of company or it could all be natural and flow. Experience generally shows though that the less choice given, the more likely difficulties are to occur. In the case of merger a successful outcome becomes quite doubtful.

Pressure from funders is particularly worrying where this is imposed on a "do it or else" basis. This is happening in cash-strapped local authorities, in the purchasing arrangements of health authorities and in tendering requirements of certain government programmes. Whilst the reasoning may sound very logical and well-motivated, its unintended impact on independent charities can be profoundly negative.

CHAPTER 7 IMPLEMENTATION - THE RISKS AND THE WAY FORWARD

The first three stages - incentive, consideration and exploration - were positively concluded. Action planning, the fourth stage, has also been completed. But as the green light is on - "go for merger or joint working" - this is the essential time to take stock. And also a time when there can be immense pressure for speedy implementation.

Do we move to the next stage of commitment?

Do we tell the world?

This chapter says "Look before you leap!" There are risks in all joint ventures. We need to know the order of risks and how to manage them. We also need to know when to pull the rug and opt out, even at the last minute. The stakes are often very high, and in merger they are fundamental for one or both parties.

Where do governance and management connections need to be operating?

Who has to be involved in implementation?

Where must organisational structures coincide?

How do decision making and planning processes inter-relate?

The four areas to measure for risks within joint action are the value for beneficiaries, the commitments to action, the compatibility of the organisations and the levels and thoroughness of preparation for the tasks.

Beneficiaries - Value Audit

There must now be a thorough audit of the proposals' status and value for beneficiaries, given all the information and analysis that has been compiled in the process to this stage. Beneficiaries, for example, may be defined across a range of relevant categories such as type and location of services used, age range, gender, ethnicity, employment status, etc. Proposals seen as good news for some may be bad news to others because of the impact on particular circumstances or needs. In the end, the mandate for taking the next steps must come from the beneficiaries and this "Value Audit".

- *Has consultation been sufficient to inform the plans and proposals so there is absolute confidence in the overall improvements for beneficiaries?*
- *If there are losers as well as winners, has this been fully quantified and have all possible steps been taken to minimise the negatives?*
- *Is there a clear appreciation of the results for beneficiaries arising from organisational cultural, structural and governance changes that are consequences of the proposals?*

Commitments to action

The range of stakeholders needing to be involved in and supportive of joint action varies significantly according to the level of engagement and the significance of the project within the organisation. Gaps in the list of those fully committed and signed up can become a critical undermining feature. Resistance from volunteers, staff or trustees can damage prospects for joint action, as can that from funders, beneficiaries or the general public - dependent upon the circumstances. Now is the moment to be quite clear who is against, who has yet to declare and who you may have forgotten.

Revisit the levels of engagement and organisational plane diagram in chapter 3. Draw up a list for your own organisation and your prospective partner of all the people - beneficiaries, trustees, managers, staff, volunteers, key supporters - who would have a direct stake in the proposed joint working.

For each, note whether they have been consulted, and if so what views have been expressed for and against to indicate how much more work needs to be done on commitment and where resistances are strongest. Be as focused on specific individuals and special groups as possible.

Compatibility of the organisations

Compatibility for the task in hand has to be at least adequate. This may cover organisational ethos, people involved getting on with each other, ways of working and common priorities and values. Incompatibility will undermine commitment and waste investment.

Code the merger palette colour chart for each organisational plane involved (chapter 5), one set for your own organisation and one for the partner. Get the right colour and depth of colour, using black where you do not know enough. Undertaking this process on OHP film provides an easy and clear view of compatibility, contrast, useful mixes, unknown risk areas and potential clashes of culture.

What have you learned about the organisation's management style since merging interests were identified? If the factors (listed below) indicate friction or resistance, implementation would best be approached slowly, if at all.

Management style factors (Datta 1991/ Chatterjee 1992)

- attitude to risk
- decision making approach
- tolerance to change
- flexibility
- level of participation by subordinates
- reward systems

Thoroughness of preparation

How far the planning has progressed and what remains to be determined also have a major effect on the level of risk. The further down the process, the more likely risks have been identified and included in the management process. Review the five stages to merger using Table 5.

Table 5 Stages on the journey to merger

STAGE OF PLANNING	LEVEL OF DETAIL	COMMENTS
1. INCENTIVE	Incentive Paper	
2. CONSIDERATION	Legal constitution	
	Rapid Assessment Report	
3.EXPLORATION	10 Top Questions	
	Consultation and confidentiality	
	Speed and timing considerations	
	Preparations for outcomes	
4. PLANNING	Memorandum of Understanding	
	Merger Achievement Plan	
	Planning Team	
	Milestones and boundaries	
	Methods, systems and structures	
	Assets and liabilities	
	PR strategy	
5. IMPLEMENTATION	Defining the nature of the journey	
	Appointment of consultants	
	Revisiting assumptions	

Will it work? Is it worth it?

Remember that merger is:

- permanent
- bound by charitable law
- not equal
- resource/time hungry
- pain for gain
- about both assets and liabilities

Is merger going to achieve:

- resource rationalisation?
- prevention of duplication?
- financial solutions?
- better services?

Are we now clear about:

- the partners' strengths and weaknesses?
- issues of ownership?
- the resourcing plan?
- the projected business plan (or Merger Achievement Plan)?

APPENDIX A

Case Study: The HIV Voluntary Sector

As images of tombstones and icebergs hit the nation's TV screens in the autumn of 1986, many believed that HIV was one of the biggest public health challenges ever to face this country. There were a number of embryonic voluntary organisations in the emergent "HIV voluntary sector", some of which were quick to establish a national profile.

The decade that followed was to see a rapid growth in voluntary and volunteer responses to both the prevention of HIV and the provision of services to those infected. HIV started with a blank sheet. Through good communication, by taking notice of both users and carers the HIV voluntary sector was able to achieve the best in standards of care. For lessons, people tend to look to the United States which was seen as being at the cutting edge in terms of the epidemic, of service configuration and community advocacy.

Changes in the perception of HIV as a public health issue, the downward revision in epidemiological projections, the development of new treatments and the end of ring-fencing have initiated a period of major change both for people with HIV and within HIV dedicated services. There have been a number of high profile closures (Positively Irish Action On AIDS, The Fountain Project), repositioning (the AIDS and Housing Project) and down-sizing (London Lighthouse), with new approaches to joint working and the exploration of merger as a serious option.

The purpose of this case-study is to briefly examine the development of the HIV-dedicated voluntary sector over the period 1986-97, to look at the changes in the external environment and the factors that have affected the way in which the sector has been reconfigured. This examination provides lessons for those in other sectors who are embarking on a period of change.

Growth and self-confidence

The "founding fathers" of the early voluntary agencies were strong in their opposition to homophobia, fear, ignorance and the prevailing plague mentality. They juggled with the paradox of "living with HIV" and "dying from AIDS" and were angered and frightened by the hostility they had experienced at the hands of mainstream services. The self-help ethos, the adoption of a rights-based approach, the involvement of users in both sides of the purchaser/provider split meant that the responses were very individualist in tone and often very person-dependent.

The self-help ethos suited the liberal individualist view of society that was politically dominant at this time. It also meant that projects were not outward looking. They were driven by their own agenda, they were entrepreneurial, they were good at fundraising and capable of being very pragmatic.

This went against the trend of voluntary sector development at that time which was already becoming more contract-based and focused on relationship management. The agencies that emerged in the early days of the epidemic had the motivation - through the hostility of other services - and the resources (through statutory funding, charitable funding, street collections, benefits and the like) to maintain an independence of mind.

So, HIV very much forged its own path that was separate from changes in management practice in the rest of the voluntary sector - even though there were examples of cross-fertilisation. This was partly to do with epidemiology and its association with marginalised groups. It was also to do with the fear and prejudice people faced from mainstream service providers. There was clear evidence that people with HIV were too frightened to go to generic services - the only way to encourage client numbers was to create a specialist service. As a result the sector was not in a position to make links with other care groups and this meant that HIV was staking out a very different position from that of basing need on the disabling consequences of the condition.

In London alone there were 80 voluntary agencies at the peak. Much of the growth in agencies was fuelled by:

- a genuine belief that the number of people with HIV was set to rise
- a belief that responses needed to be culturally sensitive given the nature of the issues being discussed
- the need to provide a range of services and
- evidence that mainstream services were not going to respond.

The voluntary sector had quickly emerged as a key player in the development of strategies for the provision of prevention, treatment and care. In London, organisations such as North West Thames Regional Health Authority, London Voluntary Services Council, the Association of London Authorities and the West London Standing Conference (WLSC) served as vehicles for developing or co-ordinating this role. They were reinforced by the provisions of the NHS and Community Care Act with its focus on the development of new "health markets" and new ways of "commissioning" and "purchasing" services.

The commissioners wanted to find consistent and appropriate responses to community care that were non-institutional. The WLSC focused on the approach to the voluntary sector and established the first set of commissioning principles. From there they took on an organisational development role with the voluntary sector. They provided advice, training and funding to enable agencies to develop tools such as quality standards, costing and pricing mechanisms and systems for financial control.

Change and reconfiguration

One of the first indications that things were going to change was in 1996/97 when ring-fencing ended and there was a 7% cut in funding from the Department of Health. This followed a significant reduction in the number of new cases and of even the most pessimistic epidemiological projections.

The commissioners were becoming more integrated into the corporate structure of their authorities. The health authorities wanted to see fewer contracts and reduced management costs. They needed to achieve equity with other care groups and to reduce duplication. They aimed to deliver year-on-year reductions through cost-reducing efficiency savings.

A third key driver was the introduction of combination therapies. In July 1997 the Vancouver International HIV Conference heard a range of papers talking up the success of new drugs and combinations of drugs in the containment of HIV. Up until then all services had essentially been palliative. Now, there was a treatment that could provide hope. The doctors within the acute sector wanted to be able to prescribe it, and the health commissioners wanted to be able to pay for it.

Even by the autumn of that year it was clear that the medical model was in the ascendant and the social model was in decline. Commissioners agreed that it was too early to start dismantling the patchwork of provision. However, the holistic approach to service delivery was now under threat and, in seeking to find the money to pay for new drugs, the commissioners appeared to look to the voluntary sector to deliver savings.

From this period on the commissioners attempted to reduce and reconfigure both the voluntary and statutory sector. The 7% reduction was handled well by commissioners and heralded a more contractual relationship with the voluntary sector. In London, the consortium of providing agencies said that it wanted serious reconfiguration rather than salami slicing. However, the speed of events and a series of mixed messages made it a very hard situation to read. This resulted in a commissioning framework driven by finance rather than strategy.

Mixed messages

Government funding	announcing cuts and then increases
Client need	some clients could not take combination therapies whilst for others they gave a new lease of life
Voluntary sector	seeking reconfiguration and seeking their own survival
User views	seeking to save the services they use

Both mergers and alliances were encouraged by commissioners as part of their desire to see a smaller number of contracts and a reduction in management costs and the government's agenda of partnership and co-operation. Reconfiguration should encompass a range of options. However, mergers are by far the most comfortable for commissioners:

"You can pretend that the services have been preserved and that the only thing that has been lost are the 'high' management costs".
(HIV voluntary organisation)

The response of the sector

The commissioners appeared to drive the agenda whilst the voluntary sector struggled to find its voice. In London, the Providers' Consortium attempted to co-ordinate a response but was defeated by the speed of change and the difficulties its members had seeing beyond the short-term financial and commercial imperatives.

Many of the organisations involved had lost their "founding fathers". They had been replaced by a managers focused on the best way of delivering services and ensuring organisational sustainability.

This has had a major impact on the values of these organisations which was not necessarily being properly acknowledged.

Joint working and strategic alliances have had some success. On example is 5PI, which is a consortium of prevention providers who have come together to avoid accusations of duplication and to work with the commissioners on a development of strategy. A number of agencies (among them Red Admiral, Positively Women and Blackliners) now offer services through a range of satellites.

Commissioners are continuing to put in resources to drive further merger discussions. However, any savings come from the willingness of agencies to try and preserve services and through volunteer effort - particularly of trustees. Mergers were resisted by voluntary agencies. One, between the Terrence Higgins Trust and Immunity, ended with only one member of staff making the journey across to the new merged service - thus confirming the prejudice that there are no mergers only take-overs?

A new contract for health

The commissioners of HIV health services came out of a grassroots background and inevitably some of their decision making lacked critical distance. This was a strength during a period of expansion and innovation, but a handicap later when costs were being reduced and clearer boundaries needed to be in place. Initially they had closer links with the HIV sector than their own commissioning or corporate body. As the NHS reforms “kicked in” between 1991 and 1994 they became more corporate. As this happened they became more gung-ho and focused on the bottom line.

In 1997 the HIV health commissioners said it was too soon to draw conclusions about the outcome of the new drug therapies and then felt they had to begin the process of reconfiguration and invest significant resources in enabling change. One problem has been the keenness shown by commissioners for mergers as a simple way of reducing the number of organisations and the number of contracts. Such mergers have gained a bad reputation and are seen as being full of hidden costs whilst ignoring organisational values.

In fact, with more time, a new dynamism has begun to emerge amongst providing organisations. As they were able to assess the outcome of the new treatment regimes, they were better able to assess the needs of the client group, and to read the runes of the new political environment in which they were working. As a result they sought new relationships and some mergers. The organisations that have managed the process of change with the greatest ease are those with very strong values bases and/or which have retained a focus on meeting need.

Learning

Any merger between two agencies requires a third component or “common threat” that brings them together. Mostly, as in the commercial sector, this is financial or market-driven. However, any merger will fail if the organisations focus on the wrong threat. This is particularly the case if the voluntary organisations only focus on structural issues. Hence it is legitimate to say that mergers are only dynamic when organisations share values.

Over the last 10 years or so, many voluntary organisations have become not-for-profit businesses. This is reflected in the agencies themselves as well as statutory bodies (in all sectors) identifying themselves as the "independent sector". This has meant that agencies have ceased to be in the business of bringing about change for the benefit of the people with whom they work, but merely to provide a service to them. As a result, many agencies have lost their ability and credibility to advocate on behalf of a community of interest.

Whenever a cultural shift is being proposed, the machinery to aid that shift is the machinery of the previous culture. This by its nature inhibits change. When combined with sectoral and individual vested interests it becomes a real force for frustration and stagnation. It is an environment which not only inhibits change: it impedes it.

Experience tells us that we need to work with those operating at a strategic as well as an operational level. Both perspectives should inform each other.

However, we ask organisations to do two things at once which, without overt encouragement or even perhaps instruction from a senior level, could undermine the process. We ask organisations to come up with a "new way" at the same time as managing existing provision in the manner previously prescribed.

Even if individuals, organisations and sectors accept the logic of a different approach, it is experienced as a response to funding reduction. As a result, change starts in a negative atmosphere and the first inclination of individuals, organisations and sectors is to defend themselves against perceived attack rather than to look creatively at new opportunities.

Any discrepancy between internal logic and public pronouncement leads to a corruption of any process that attempts to open up communication. Public announcements must truthfully reflect the reasons for change. Here the voice of user, if it can be trusted, has a crucial role. Any work programme needs to create a space in which the thinking created has a practical application for those engaged in a major reconfiguration of services. This will necessarily involve a need to work against a conflation of the process of commissioning and the tasks related to contracting.

There are a number of paradoxes or mixed messages at each "level" e.g.:

Commissioners	-	need a strategic overview and need to monitor contracts
Providers	-	want to be dispensable and indispensable
Users	-	want to be normal whilst getting what they want

Somewhere there is a need to maintain an overview and to communicate it. The role of strategic funding (whether it comes from the statutory or charitable sector) is to support each of the segments to achieve their aims, to create a space in which new thinking can take place and to recognise the need for the process to remain positive.

Conclusion

The bottom line is important but it is no substitute for a proper examination of the changing environment in order to establish a new paradigm. All stakeholders fear change and there is a natural assumption that any "review" will lead to a reduction in resources so that things will be worse. For any new approach to be accepted and worked with, the "motivation" behind it has to be seen to be about meeting need rather than cost cutting.

APPENDIX B
CHECKLISTS AND DOCUMENTS

B.I. Incentive: A sample incentive paper

Incentive Paper - Drayton Youth for Conservation

Proposal - merger with the Drayton Environmental Trust

WHY	IMPORTANCE
1. Crisis	**2**
2. Trends	N/A
3. Growth	N/A
4. Take-over	**3**
5. Funders	N/A
6. Pressure	N/A
7. Quality and effectiveness	**1**

8. Quality and effectiveness - will be improved by combining expertise, operations and resources as we share the same goals and geographical coverage. Youth for Conservation has a strong school and student volunteer involvement strategy, whilst the Environmental Trust has broader public volunteering and education programmes and better Local Authority connections.

9. Whilst we do not have a crisis now, we could face one soon as income has been declining year on year and our main source, the education budget, is increasingly under pressure. Together we will be more cost effective and better fundraisers. The Environmental Trust benefits from some legacy income for its core costs and is more stable for the long term.

10. The Environmental Trust is a significantly bigger yet complementary charity. It has a highly experienced board of trustees. We have suffered from poor attendance and high turnover of trustees. Our motivation comes from field work projects with schools and this will be well supported by the Trust and we will be relieved of current management pressures and problems.

Signed

Chairperson ....

Schools Liaison Officer ....

B.2. Consideration: Sample structure of a Rapid Assessment Report

1. **Summary of Incentive Paper**
- why is merger on the agenda?
- what is the proposed goal?
- is merger the best or only answer?

2. **Summary of Legal Constitution**
- charitable purposes of the organisation
- constraints and essential matches required

3. **Stakeholders Views on the Organisation - Current and Future Beneficiaries**
- trustees and members
- funders
- managers, staff and volunteers

4. **Financial Position**
- assets and liabilities
- current and projected financial performance and risks
- areas to be addressed by merger

5. **Looking Long Term**
- trends that impact
- changing context
- vision to be realised
- strategic planning and merger

6. **What We Offer Prospective Partner Organisations**
- motivation for merger and joint working
- values, governance and management
- performance track record and credibility
- presenting problems and strengths

7. The Potential and Prospects

- gains that can be secured
- losses that could be involved
- the unknown to consider

8. Opportunities and Threats

- going it alone
- merger as the best option
- other joint working choices

9. Worst Case

- what could go wrong?
- how to prevent that happening
- assessment of the risks

10. Best Case

- what could be achieved?
- how that needs to be delivered
- what are the realistic chances?

11. Summary

- status review (1-5)
- ways forward (6-8)
- risk assessment (9-10)
- conclusion

Appendix B.3. Exploration: Checklist for answering the 10 questions

What detailed objectives do we want to accomplish through the proposed merger?

This is an expansion of the Incentive Paper, embracing all organisational strategic objectives, resourcing, timing and PR issues, and is capable of being a public consultation paper.

What qualities does the merged organisation need to have to be capable of achieving our objectives?

This needs to cover basic organisational, cultural and value issues referring to the Merger Palette.

What are the implications derived from an analysis of the qualities of our prospective merger partner organisation? (Where the organisation is known.)

Risk assessment - an honest appraisal of partnership weaknesses and tensions as well as strengths, and the resultant implications divided between "likely" and "possible", again referring to the Merger Palette.

What are the preferred characteristics and qualities of the partner organisation for merger? (Where not known or there are choices.)

In this case, the answer will be more a wish list divided between essential and desirable attributes to be used in assessing prospective marriages using the Merger Palette.

Does the merger need to be fast tracked or can it be phased?

Risk management needs to take into account how closely the organisations have worked to date, levels of unknown factors, pressures for speedy results, challenges in combining forces etc. It should include an examination of the choices within levels of engagement and the shapes of significance to establish the different impact on the two merging organisations. This will help in clarifying the best process and the implications.

What are the views and opinions of all key stakeholders?

Consultations with all trustees, senior managers, selected staff, funders, volunteers, lead central or local government officers, closest partner organisations, etc. seeking consensus on whether to proceed.

What governance and legal issues must be addressed?

Charitable law, company law, merged structures of governance, leases and long term commitments, personnel contracts, funders' commitments, insurances, inherited agreements, exposure to risk - looking for any major problems.

What are the financial issues, including assets and liabilities?

Capital, revenue, cash flow, audits, contractual obligations, investments, software systems, etc. - assessing combined resources and risks.

What personnel and administration issues must be considered?

Rationalisation of structures, union recognition, salary differentials, redundancies, increased responsibilities, changed workloads, office accommodation, systems, IT, health and safety, etc.

How should the merger planning be taken forward?

Joint MAP (Merger Achievement Plan) Team, communication procedures, timing, intermediate governance, staff consultations, performance management, hand-overs, new legal frameworks, external liaison, media and PR. This becomes the working brief for the next stage - Planning.

The investment involved in joint action can also cover a multitude of essential requirements. Time of key staff, cost of specialist advisors, and flexibility with overhead expenditure will be present for many cases. The sustainability of these inputs needs also to be assured for the life of the project. One partner withdrawing one element of investment could be the death-knell to all the plans and aspirations.

Appendix B.4. Exploration to implementation: Funding implications

As discussed in Chapter 1, charities considering merger and joint working sometimes perceive a risk to their funding. Consultation and reporting arrangements will help eliminate these perceived risks. It is also important not to overlook the new funding opportunities which may open up due to:

- funds specifically established to encourage collaboration and merger
- funding sources for which the organisations may become eligible because of the combination of activities arising from the joint working, or because of the nature of the partnership
- an improved profile in existing fundraising arenas
- increased attractiveness to sponsors because of extended networks and exposure
- an ability to reach new public support bases

Some key factors for consideration and action are:

Public sector

- core grants and core conditions - avoiding losses, exploring gains
- be sensitive to views about your prospective partner organisation and the particular initiative - within central and local government and with public authorities
- the small print - looking for implications in existing grant agreements
- partnership programmes - the impact of current requirements and expectations across government programmes
- consulting - testing the proposals

Trusts and foundations

- existing relationships - taking care, looking for improvements
- help available for transition - covering costs of feasibilities and developments
- broadening the backing - increasing support in the long term

Service contracts and earned income

- approval and accreditation - standards and conditions to be preserved or created
- tenders and new business - best practice and competitiveness
- rocking the boat - risks of losing turnover
- improving the performance - aiming for gains in efficiency and effectiveness
- VAT - what are the issues?

Fundraising and sponsorship

- a question of image - helping funders make sense of changes
- joint operations - combining strengths and infrastructures
- market positioning - reviewing potential, competition and strategy
- checking appeal - testing before leaping in the dark
- corporates - their particular interests and views

Appendix B.5. The merger team

Getting the right team

Planning and implementing a merger effectively will depend upon the team of staff and consultants engaged on the partnership project. Getting the right team is crucial and follows from answering two sets of questions:

1 Who has to be involved and when?

- chairs and trustees
- chief officers and managers
- organisation to organisation
- independent assistance
- funders' representatives
- other stakeholders

2 How must the team function?

- early stages - confidentiality, intelligence gathering, pathfinding
- internal communications - status, image, openness
- inter-agency connections - joint operators, funders, competitors
- over-arching management - chief executives and chairs, trustee boards
- accountability - internal and external
- commissioning - consultants, studies, solicitors, surveyors

Managing the project's performance and impact

1 Managing change

- communications, communications, communications
- handling responsibilities - delegation, teams, tasks, feedback
- implementation plans - schedules, time-scales, priorities
- progress reviews - problem solving, performance improvements
- key milestones

2 Setting standards

- vision - defining aspirations
- goals - quantity and quality

- performance gearing - targets and time-scales
- monitoring and evaluation

3 Areas for special attention

- culture clash - unresolved differences in style, attitude, expectation
- governance and management - entrenched when need to achieve an adaptable, focused progressive, and realistic approach
- staff and volunteers - developing commitment with flexibility to embrace change
- finance - controlled, but cutting off the fuel for the necessary changes
- users - their voice, views and concerns.

APPENDIX C

Baring Foundation Fund for Strengthening the Voluntary Sector Programme

The objective of this programme is to improve the organisational effectiveness of voluntary organisations. The Foundation wishes to fund work which will lead to a significant and lasting change in the effectiveness of an organisation by improvements to its strategy, structure, systems or skills. This could involve work on mergers and joint structures. For example, grants have funded the following kinds of activities:

network development
- analysis of the most significant and relevant networks needed
- development of a regional structure to mirror government regionalisation
- assistance to grow and adapt to changing circumstances
- strengthening linkages between branches

merger because of external circumstances
- funder-influenced creation of a more robust, better-funded service
- speculative exploration of merger options
- strategic combining of three similiar local organisations within one borough
- exploring three organisations moving into one building

creation of a joint structure
- small new organisation able to negotiate joint working with a large charity
- operational alliances for particular pieces of work
- piloting shared central services

demerger
- tranfer of a specialist service to a new organisation

Please note that eligibility for these grants is subject to geographical restrictions. The Foundation accepts applications from constituted not-for-profit voluntary organisations working:

- nationally across England and/or Wales and UK organisations working with partner organisations and community groups in developing countries
- across the whole of London or in more than one borough or providing services to other voluntary organisations in one borough
- on Merseyside (i.e. in the districts of Liverpool, Knowsley, Sefton, St Helens and Wirral)
- in Devon
- and in Cornwall

APPENDIX D

Merger organisations most often quoted in the literature

Existing merged organisations

Eating Disorders Association - from Anorexic Aid and Anorexic Family Aid in 1989, then Society for the Advancement in Research into Anorexia in 1993.

Employment Policy Institute - from Employment Institute and Action Trust in 1993.

Fairbridge - from Fairbridge Society and Drake Fellowship in 1987.

Jewish Care - from the Jewish Welfare Board and Jewish Blind Society in 1989 followed by Jewish Home and Hospital at Tottenham, Food for the Jewish Poor, Jewish Association for the Physically Handicapped, British Tay-Sachs Association, Waverley Manor and further organisations.

Mental Health Foundation - from Mental Health Trust and Mental Health Research Fund in 1972.

National Association for Special Educational Needs - from National Association for Remedial Education and National Council for Special Education in 1992.

National Asthma Association - from Asthma Research Council and Asthma Society of Friends of ARC in 1990.

Policies Studies Institute - from Politics and Economic Planning and the Centre for Studies in Social Policy in 1978.

Relate Co. Durham and Dales in 1993.

Royal Association for Disability and Rehabilitation (RADAR) - from Central Council for the Disabled and the British Council for Rehabilitation for the Disabled in 1977.

RPS Rainer - Rainer Foundation and the Royal Philanthropic Society in 1997.

Aborted Mergers

Children's Warehouse and Newcastle Play Council, 1989.
Parentline and Exploring Parenthood in 1990.
Women in Manual Trades and Women in Construction Advisory Group in 1991.
Radar and Disabled Living Foundation in 1992.
Surrey Youth Clubs and PHAB and Surrey Association of Boys Clubs in 1992.
DIAL UK and either FIAC or DLF in 1994.
Alone in London and Capital Housing Project in 1996.
Crisis and Housing Association Charitable Trust (HACT) in 1997.
The Peabody Trust and Network Housing Association in 1997.

Take-overs - name consumed

Business in the Community - took over Action Resource centre (ARC) in 1994.
Charities Aid Foundation - took over Charities Effectiveness Review Trust in 1993.
Henshaw's Society for the Blind - took over Liverpool Workshops and Birkenhead Society for the Blind in 1993.
Greenwich Law Centre - took over North Charlton Community Project in 1993.
The Disabilities Trust - took over Dysons Wood House in 1995.

Transfer of part of an organisation

Residential projects for young people with learning difficulties were transferred from Barnardo's to United Response in 1994 as the children grew to be adults and required a different form of care support agency.

APPENDIX E

Ernst and Young Management Consultancy Services

- press advert July 1998

Merger Integration Services

Realising Deal Value

when you bring two companies together...

Companies spend millions to structure and execute deals. There is ample evidence that the majority of these fail to realise optimum value, often caused by the poorly executed integration of strategies, cultures and operations.

As part of the Strategic Advisory Services Group, our Merger Integration Service Line supports clients in both the pre and post deal aspects of merger integration activities. This covers strategic development, synergy analysis, transitional planning, day one operations and the post merger integration of people, processes and technology.

... It's the third that makes it ...

In keeping with our pro-active response to the market's ongoing consolidation/restructuring, we require additional M&A Specialists to deliver measurable added value to our growing client base. Your experience of merger integration, acquisition and joint venture programmes at a strategic and/or operational level will ideally be accompanied by a post graduate qualification.

As an M&A Specialist you will do more than just help clients integrate their businesses to capture value. In addition, we work with our clients to create value by developing an enhanced business strategy to position them for growth and profit.

Experience of any of the following competencies would be particularly useful: systems integration; programme design and management; organisational design and cultural alignment.

... A success

In return, you will receive a very competitive remuneration and benefits package that is commensurate with both the position and our stature.

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Bromley Borough Council

Dave Wall, Director, Northern Ireland Association for the Care and Resettlement of Offenders

David Carrington, Director, Baring Foundation (to 1998)

Focus Central TEC

Gillie Johnson

Government Office of London

Julia Unwin

Julian Blake, Bates, Wells & Braithwaite

Kathleen Duncan, Director General, Lloyds TSB Foundation

Liverpool City Council

London Borough Grants

National Association of Youth Theatre

Norma Hartshorn, North West Divisional Manager, Crossroads

Northern Ireland Arts Council

Peter Molyneux, Director, Health and Housing

Physically Handicapped and Able Bodied Association (PHAB) Scotland

Scottish National Association of Youth Theatre

Steve Wyler

Voluntary and Community Unit, Home Office

ABOUT THE AUTHOR

Bill Mather has extensive experience of voluntary sector mergers and joint working arrangements, often in a pioneering context. He has held chief executive and trustee positions in national, regional and local charitable organisations. As chief executive, or troubleshooting as interim chief executive, he has led organisations from many parts of the sector such as Apex Trust - the ex-offender employment organisation; the campaign organisation Action on Smoking and Health (ASH); the grant making body, the Housing Association Charitable Trust (HACT); and Beckenham MIND - a local mental health organisation. He has been involved in a variety of mergers, rescue operations and take-overs, as well as the creation of new partnerships and innovatory forms of joint working practice. He is deputy chair of the Employment Policy Institute, a leading think tank which was itself formed through a merger.

Between 1992 and 1997 Bill Mather was a voluntary sector consultant as a managing partner of Leading Edge Consultancy Services with clients including central and local government, funders, community organisations and national voluntary organisations. He was also an associate consultant for the Charities Aid Foundation, latterly with lead responsibility for merger assignments.

Since 1997 he has been chief executive of the charity TS2k (Talent and Skills 2000), a partnership tackling unemployment and social exclusion by matching the cultural diversity and talent amongst London's young unemployed people with the needs of the expanding creative industries.