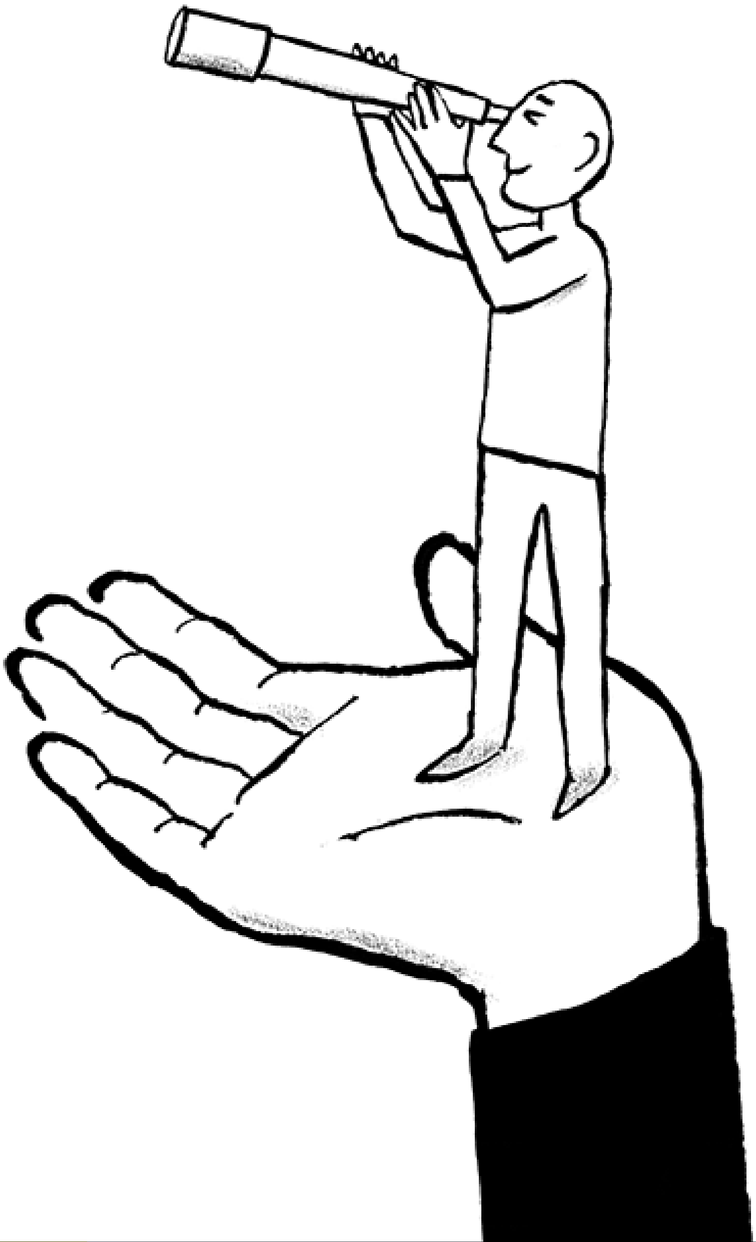
A review of not-for-profit mergers

The Good Merger Index 2021/22



Eastside People

Bringing Change Together

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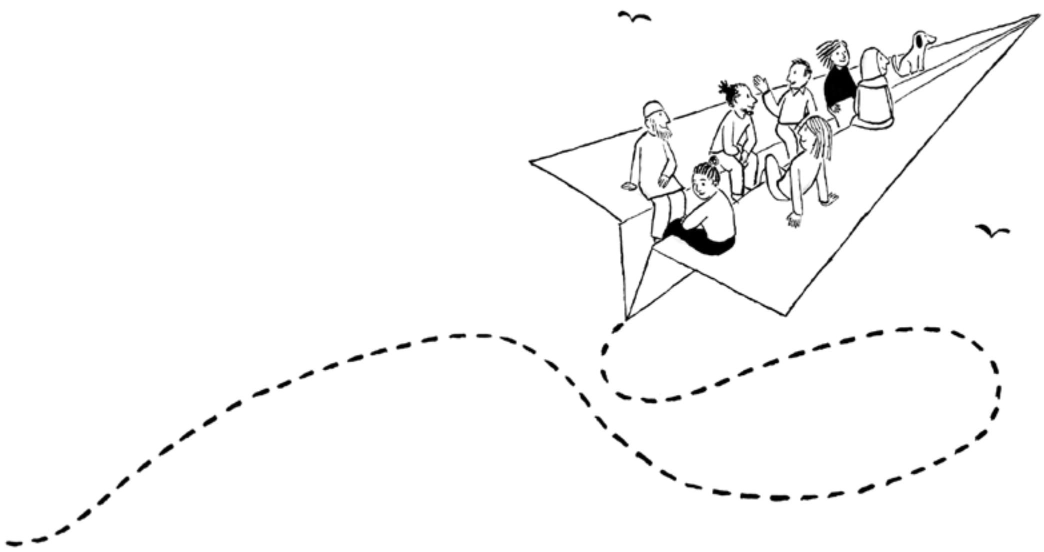

Foreword

Welcome to the ninth edition of the Good Merger Index – perhaps not quite the report we were expecting!

You will remember that last year we reported a year-on-year rise in the number of smaller organisations (≤£1m turnover) involved in mergers, to the highest level ever recorded since we began in 2014; and we also saw takeovers at their highest level. We hypothesised that Covid would push the financial viability of these smaller organisations further and that, as this is most often the driver for merger activity, we would logically see this trend continue.

But that is not what we have seen. This year's GMI starts in May 2021 and runs to April 2022 - still a period of disruption with Covid forcing restrictions and peaks of disease. The financials we use are from the year before merger so, for this report, they are for 2020-21 mapping almost exactly on to the first year of Covid.

Our report shows that merger activity, already low, declines rather than increases in the period, with just 51 mergers involving 103 organisations – just 0.06% of the c170,000 registered charities in our sector – down from 77 mergers involving 166 organisations in the previous period. Takeovers remain the dominant form of merger and are at a higher proportion than in previous years. There are even fewer mergers of equals, but interestingly a rise in subsidiary-type models of merger.

Some of the data reveals that financial stress levels were not as anticipated and so perhaps therein lies a clue. After all, with Government furlough schemes and funders stepping up to support our sector during the pandemic, perhaps financial stress as a key driver for merger was dampened down.

Certainly, merger is not an easy process and, with demand for services ever-increasing and organisations having to pivot to digital delivery and home-working, perhaps the focus has been elsewhere. It may even be that those in-person conversations between friendly Chief Executives or Trustees that often plant the seed of merger discussions just haven't been as easy over Zoom!

It is interesting to see that subsidiary models have risen. It is true that these models are more straightforward, often more palatable to boards and may prove to be a step along the way to full integration. However, retaining identity and brand, whilst creating efficiency through the parent structure, can play well to place-based delivery whilst also operating at scale – certainly something of interest in the new Integrated (health and social) Care Systems.

Of course, we must also remember that these mergers were the successful ones, the ones that made it over the line, whilst many will have faltered along the way. According to the Harvard Business Review, between 70 and 90% of mergers fail in the private sector, principally due to people! So it would be safe to assume that the social sector, not beholden to shareholder value, will not be far behind.

However, our report celebrates, particularly in its case studies, those who, with clear strategic purpose, vision and drive HAVE succeeded and lived to reap the benefits. These organisations have strong leaders, focused on their beneficiaries' needs, who have ambitious service growth plans and who are therefore prepared to consider merger, or indeed other forms of strategic partnership, to secure those goals and create a sustainable future for the social impact they deliver. We are grateful to them for sharing their stories and their inspiration with us.

Tracey O'Keefe
Account Director Partnerships and Mergers
Eastside People

Acknowledgements

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Summary

The year 2021-22 follows what was probably one of the most tumultuous, in which we found a marked increase in takeovers of smaller organisations, continuing an upward trend over several years. This left us wondering what might happen as we entered a year in which Covid was by no means over and in which we may have anticipated seeing the signs of continued stress in the sector.

What we have found is perhaps surprising

Using our methodology, we found 51 mergers, involving 103 organisations. This is a significant reduction from the previous year, and also the lowest level of activity since we began our records in the year 2013-14.

This fall against last year has been driven by a reduction in mergers involving smaller organisations, contradicting the trend of recent years. Most mergers involving smaller organisations are takeovers and frequently reflect their financial stress, but takeovers have reduced by 31% on the previous year.

The amount of income transferred and the total income of all organisations involved is similar to last year.

Given the reduced activity, one might expect a further drop in the total income transferred, but income transferred is driven for the most part by larger organisations, where just a few can have a considerable impact on the total.

The proportion of transferee (receiving organisations) in surplus has returned to a more typical level of around 70%. We would normally expect to see that these organisations are generating surpluses and are therefore in a suitable position to take on the risk of merger.

Conversely, we normally expect and find that transferor organisations are for the most part generating deficits that are driving them to seek a takeover. However, this year, we find that only 47% generated a deficit in the year before merger. This is only the second time in eight years that we have seen the proportion fall below 50%.

It is important to note that we take financial data from the year prior to merger, which in this instance is, for most organisations, 2020-21 – the year of Covid.

Overall, the fall in the number of all mergers and a reduction in the number of takeovers, combined with the improvement in the financial position of transferors could indicate that 2020-21 did not impact the finances of organisations in the sector as negatively as was predicted or might be perceived. We know that the government's furlough scheme and changes in the behaviour of funders were generally very helpful to the sector. Despite the immensely difficult operating conditions of Covid, our merger insights may indicate that financial stress, at least during 2020-21 was lower than usual.

Setting aside purely financial challenges, the sector is nevertheless enduring high demand and difficult operating conditions. If 2020-2021 left most organisations relatively financially secure, the focus in 2021-22 may have shifted away from mergers towards maintaining services in the short to medium term.

Whilst takeover remains by far the most usual form of merger, we do note that we found only 5 "mergers of equals" in 2021-22 against a typical number in the range of 10-20. Given how low these numbers are, it might be difficult to suggest this reduction is significant. However, mergers of equals are more usually complex, so this would fit with a suggestion that current demands are diverting attention away from the demands of merger.

Mergers are at one end of a spectrum of approaches organisations can use to partner and collaborate for increased impact, efficiency and, at times, survival. Our case studies illustrate the nuances and variations that are possible and that, where there is a focus on mission and a willingness to adapt, it is possible to find a form that follows the outcomes desired for beneficiaries.

Methodology

Our research objective has been to identify and collect data on mergers that occurred in the year 2021-22. We have analysed that data in the context of the previous eight years of this Index.

Because many mergers are announced in early April each year, we use a 12-month period running from 1st May 2021 to 30th April 2022.

We have included mergers only where we are confident they have been completed. Some mergers, although announced, are not counted because they concluded after April 2022.

Our geographic focus is England and Wales, although we include significant mergers where mergers in this region involve others from outside the region. Most organisations were registered charities and companies limited by guarantee. Our data can include community benefit societies, registered providers and community interest companies. We do not generally include multi-academy trusts (MATs), universities (regulated by the Office for Students) or pure housing association mergers, except when one party is a registered charity[1].

Identifying mergers is a key challenge for this research, as there is no definitive definition or list of mergers across the social sector, and many mergers that are listed are a result of internal reorganisations. For charities, not all mergers require immediate registration. Other organisations are not recorded in any formal register. Therefore, identifying relevant mergers requires careful investigation of a broad range of information which is not available in a consistent form.

We use two main sources for our research

Public registries

The Charity Commission maintains a register of mergers, but this only covers situations where one organisation is dissolved. From the Charity Commission register for the 12 months, we removed cases where deals happened in the past but were only now being registered, internal reorganisations and tiny organisations with little publicly available information.

Media and organisation websites

We reviewed the social sector press to find deals at the point of announcement and drew on local and specialist publications, social media and charity websites. Many of these transactions had not yet been recorded on the Charity Commission register.

For each deal, we collected financial and non-financial information by referring to the Charity Commission website, Companies House, Financial Conduct Authority (FCA), press releases, organisation websites and our own records.

When assessing income and expenditure for each organisation, we use the most up-to-date figures available at the time of writing. Mergers can significantly skew the income and expenditure of organisations, so we take information for the last available complete year before the year of the merger. Occasionally, charities extend their financial year before the merger so, where this happens, we take the previous 12-month year's figures.

Where finances are occasionally not available (for example, where abbreviated accounts have been submitted to Companies House, excluding income/expenditure), we do not include these organisations in our financial summaries.

[1] Housing Associations, MATs and HE establishments are subject to unique regulation and are also very large, which would significantly distort the data.

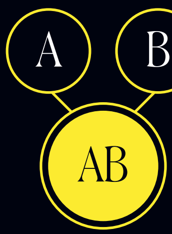
Types of merger

As there is no definitive framework for defining mergers, we use a framework based on Richard Gutch's work in our Good Merger Guide which has been adapted through peer review.

We detail this framework in the appendix on page 16 of this report, but for quick reference, we include brief thumbnails here.

1. MERGER

Two or more organisations join to form a new organisation



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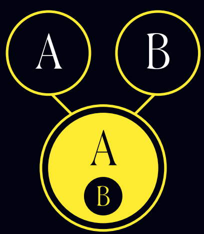
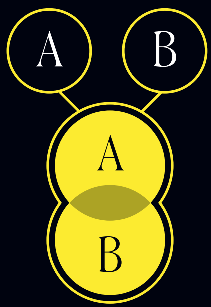
2. TAKEOVER

One organisation transfers its assets and activities to become part of another



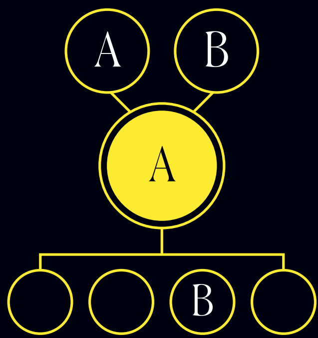
3. SUBSIDIARY MODEL

One organisation becomes a 'wholly owned' subsidiary of another



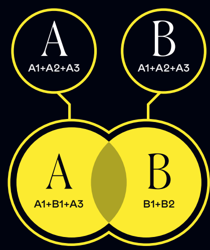
4. GROUP STRUCTURE

Two or more organisations transfer activities and assets to become part of a group



5. SWAPPING SERVICES OR ASSETS

Transfer or swapping of services, and in some cases assets



The Kingdom Hall Trust

Not included in our figures is a substantial amount of merger activity by the Kingdom Hall Trust. We reported on this activity in our GMI for 2020-21, and it has subsequently been reported in the press as indicating a substantial increase in merger activity in the sector in the year 2021-22. In fact, most activity took place in 2020-21 but was only entered in the Charity Commission register of mergers in 2021-22.

The Kingdom Hall Trust states that there are 1,614 Jehovah's Witnesses congregations in the UK[2], an unknown number of which are or were independent charities. In the year to Aug 2020, "1,269 congregations merged with the Trust". In the year 2021-22, a further 354 congregations merged with the Trust[3].

We have excluded all activity relating to The Kingdom Hall Trust from the report for the following reasons:

- We believe this, arguably, falls under the category of "reorganisations", which our methodology excludes.
- It is not possible to accurately enumerate the number of organisations involved or income transferred because many smaller Jehovah's Witness organisations would fall under typical regulatory thresholds and not be reported.
- One could also argue that this is simply one merger.
- Including the figures would significantly skew the data and we do not believe this would reflect overall sector trends.

[2] https://www.jw.org/en/jehovahs-witnesses/worldwide/GB/

[3] https://bit.ly/KHT-21 (Link to 2021 trustees annual report on Charity Commission website)

Trends

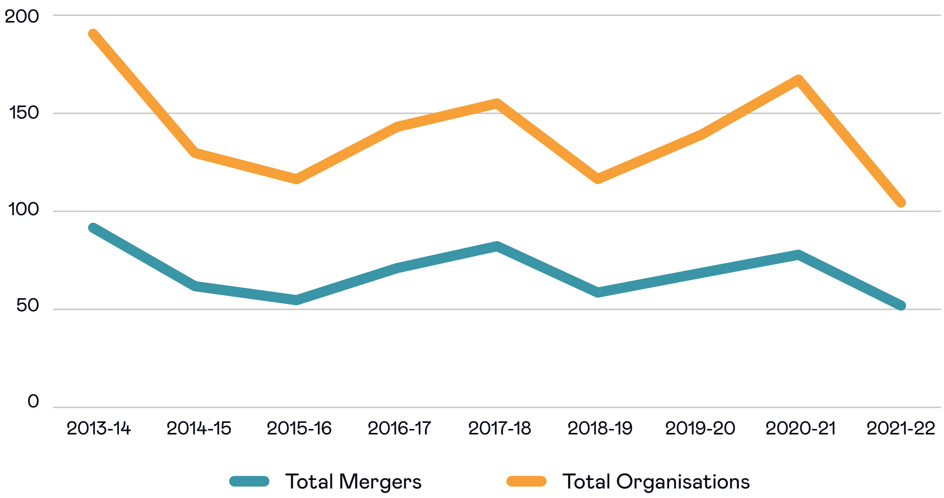
For the year 2021-22, we have taken the data found and placed it in the context of the previous eight GMI years to help us understand the significance of year-on-year changes.

A significant fall in activity focused upon smaller organisations

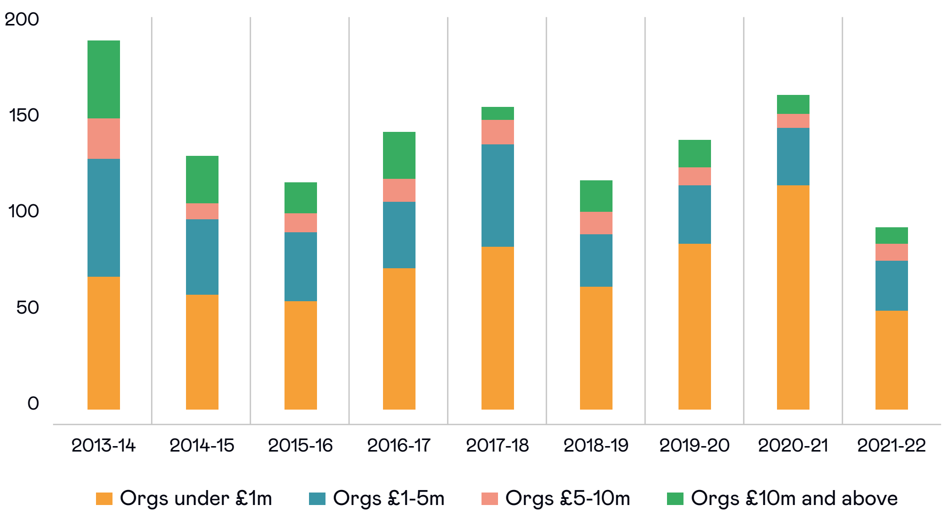
The number of mergers recorded (51) and the total number of organisations involved (103) is the lowest since we started the Good Merger Index.

At the time time of writing, there are c170,000 main charities and c14,000 linked charities in England and Wales[4], which is not significantly changed from a year ago. Considering the size of the sector, it is perhaps surprising that more mergers don't take place.

MERGER ACTIVITY 2013-2022



NUMBER OF ORGANISATIONS INVOLVED IN MERGER 2013-2022 BY SIZE



The breakdown of mergers by the size of organisations involved emphasises a clear factor behind this fall in activity

Size by income of 93 organisations in 2021-22, based upon income in the year prior to merger. Income data not available for 10 organisations.

[4] https://register-of-charities.charitycommission.gov.uk/sector-data/sector-overview

Whilst the level of activity involving organisations with income over £1m is almost unchanged from the previous year, activity involving smaller organisations has fallen significantly.

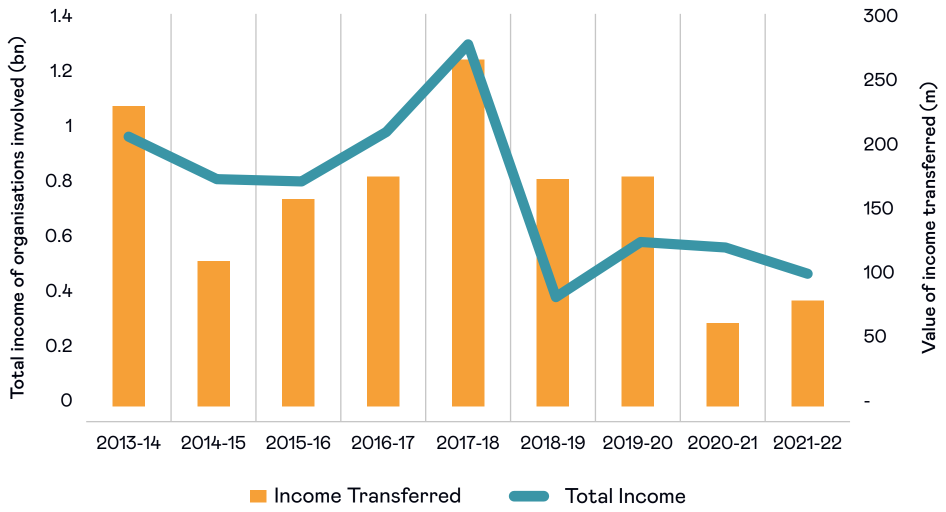
The number of organisations involved with income below £1m is at its lowest level since the GMI began.

The high number of smaller organisations, relative to larger organisations, involved in merger is typical and reflective of the overall makeup of the sector, but the significant fall in smaller organisations involved since last year is thought-provoking when larger organisations' activity is relatively unchanged.

Little change in the value of income transferred

The total income of the 166 organisations involved in mergers was £466 million[5]. This is a fall of £93 million from the previous year.

TOTAL INCOME AND VALUE OF DEALS BY YEAR



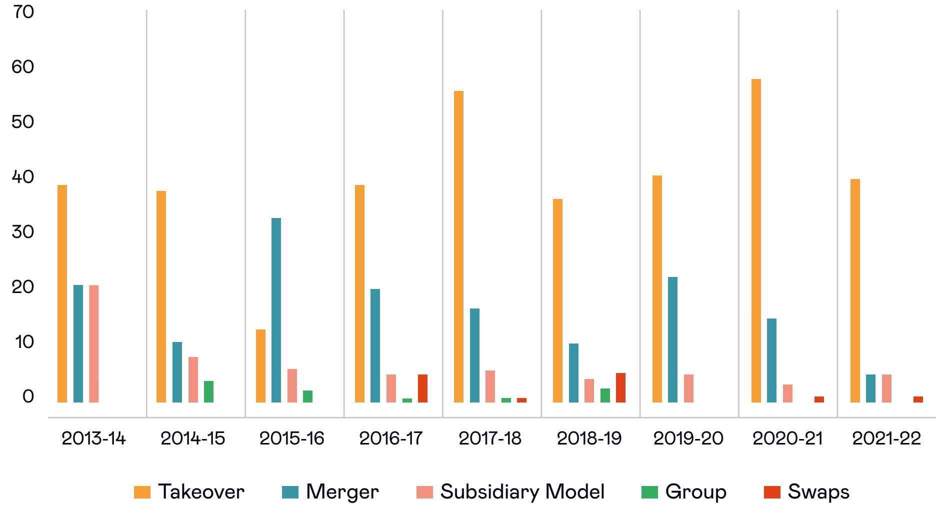
It may appear surprising that, given the dramatic fall in the number of organisations and mergers against the previous year, the income figures have not changed much. However, the drop in activity is confined to smaller organisations which contribute relatively little to these totals.

[5] This is the total income of the 98 organisations for which data was available.

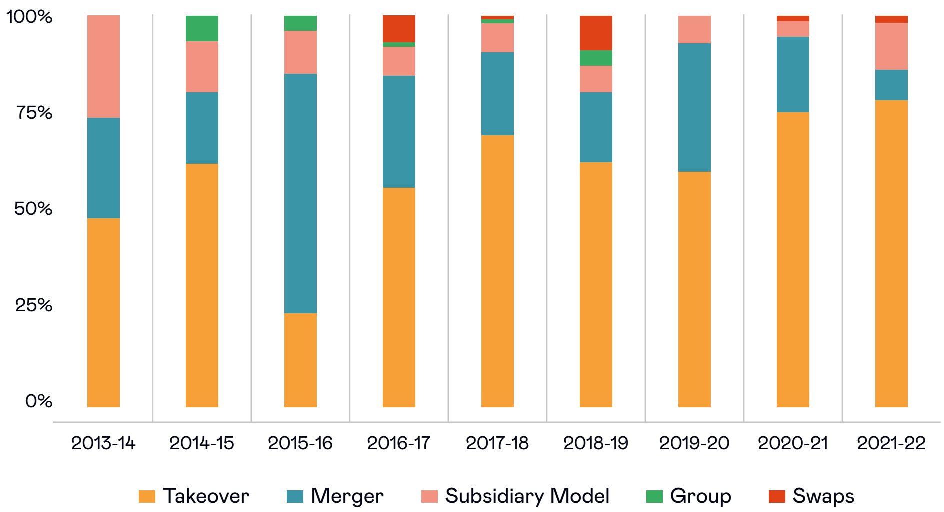
Takeovers remain dominant

Whilst the quantum of takeovers is much reduced, reflecting lower levels of activity, takeovers still represent the most significant proportion of merger types.

NUMBER OF MERGERS BY TYPE 2013-2022



PROPORTION OF MERGERS BY TYPE 2013-2022



Takeovers continue to dominate, at a higher proportion of mergers than in any previous year.

Perhaps of interest in the charts above is the reduction in “mergers of equals” as a proportion of all merger types, and the increase in the proportion of subsidiary-type mergers.

Mergers of equals are more complex to undertake. Subsidiary mergers are arguably more straightforward, and often a halfway house to an eventual takeover. They are also an option for mergers where there is a desire to retain the identity and, to some extent, the autonomy of partners whilst creating efficiencies or removing conflicts.

It is tempting to infer that there is a significant shift away from more complex mergers, however, the numbers involved in any year are very low.

Nevertheless, there were only 5 mergers of equals during 2021-22, the lowest number we've recorded, and less than a third of the number in the previous year.

Financial drivers for merger

For this section, 'transferee' organisations are organisations making acquisitions, while 'transferors' are those either being taken over or taking part in a "merger of equals". This is consistent with how we classify income transferred by merger.

By looking at the surplus/deficit of transferees and transferors, we may gain an indication of whether mergers are of "financial necessity" or driven more by a desire for increased impact.

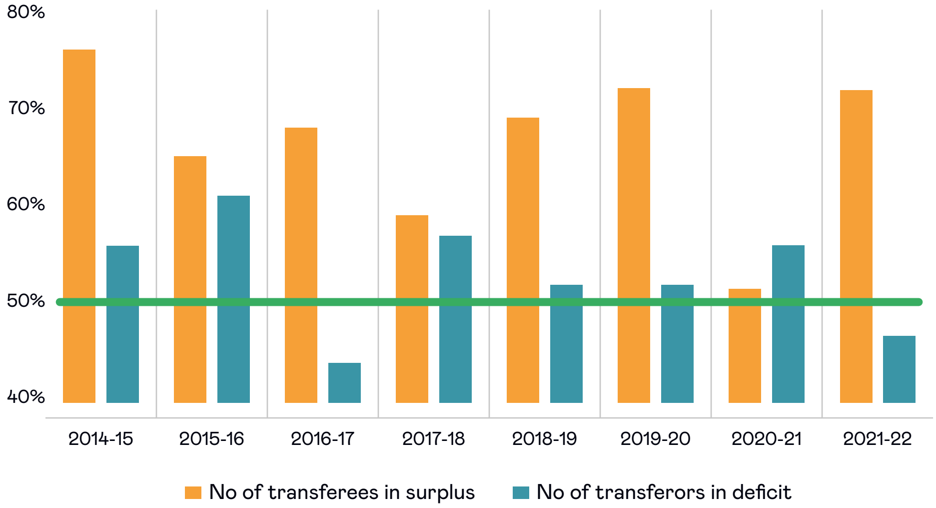
Typically, most transferees tend to be in surplus whilst most transferors tend to be in deficit, but in 2021-22 we see a marked reduction in the number of transferors in deficit.

This may be taken as an indication that financial stress has been a less significant factor for organisations seeking merger. What factors remain, may include more difficult operating conditions, greater complexity of beneficiary needs, and other challenges for the leaders of smaller charities, or a belief that the longer-term funding environment is likely to be too challenging.

This data also calls into question, the assertion that Covid would or has placed increased financial stress upon organisations and forced the closure of a significant number.

Certainly, at this time, our data does not support this.

FINANCIAL PERFORMANCE OF TRANSFEREES AND TRANSFERORS



Top 20 mergers

By the amount of income transferred, these were the largest 20 charity sector mergers in 2021-22. These mergers represent £77,008,235 of income transferred. This is higher than 2020-21 (£55,018,842), although this should not be considered a large change given that one merger alone can skew these figures significantly.

The top 20 mergers represent 97% of the total financial value transferred in mergers that year. This figure is usually close to 90%, reflecting the "long tail" of smaller organisations involved in merger, and this year's higher percentage reflects the marked reduction in smaller organisations overall.

	Organisation 1	Organisation/s 2	Type of deal	Income transferred
1	The Gorta Group (Self Help Africa) (Republic of Ireland)	United Purpose	Subsidiary	19,770,000
2	The Hospice Charity Partnership (was John Taylor Hospice Charity)	St Mary's Hospice Limited	Merger	15,500,000
3	Change Please CIC	AMT Coffee*	Takeover	7,632,000
4	Nurtrio (was Care4All)**	Navigo Extra Ltd Ace Homecare	Merger	5,366,000
5	Community Integrated Care	Life Opportunities Trust	Takeover	5,290,000
6	The Forward Trust	Action on Addiction	Takeover	4,690,000
7	The Mill Hill School Foundation	Keble Prep Lyonsdown School Trust Ltd	Takeover Takeover	4,430,000
8	BCNO Limited	Osteopathic Education and Research Limited***	Takeover	2,850,000
9	Catholic Blind Institute	Bradbury Fields	Takeover	1,570,000
10	YMCA London City and North	Hornsey YMCA	Takeover	1,200,000
11	YMCA George Williams College	Centre for Youth Impact	Merger	1,062,000
12	The Methodist Relief and Development Fund (All We Can)	Y Care International	Subsidiary	1,040,000
13	Deaf Action	Sonus (1065669)	Takeover	1,020,000
14	Family Society	Faith in Families	Takeover	988,610
15	YMCA Fairthorne Group	Park Families	Subsidiary	916,000
16	Children's Cancer North	North of England Children's Cancer Research Fund Children's Cancer Fund	Merger	896,000
17	Royal Society of Wildlife Trusts****	The Wildlife Trusts Wales Limited	Takeover	850,000
18	Age Uk West Sussex, Brighton & Hove	Age UK Horsham District Age UK Brighton & Hove	Takeover Takeover	837,000
19	Crisis	The London Pathway	Subsidiary	730,625
20	Ronald Mcdonald House Charities (UK)	Alder Hey Family House Trust Limited	Takeover	370,000

Notes to the table above
* The acquisition of AMT Coffee by Change Please was reported as having taken effect in August 2021 (https://bit.ly/CP-AMT-2208). Since this time, other reports suggest AMT has been acquired again (https://bit.ly/CP-AMY-2211). ** This was a complex deal in which two subsidiaries of NAViGO were merged into Care4All as it became a subsidiary of NAViGO and changed its name to Nurtrio. Defining this as a merger of equals seemed the best way to reflect this deal. *** At the time of writing, we understand OERL is a "shell" subsidiary and there is a clear intention for it to be dissolved. Therefore, we have classified this as a takeover. **** This merger took place at the very end of the prior year and its implementation continued well into 2021-22. Due to its timing and significance, we have decided it is appropriate to include it in 2021-22.

Case Studies

These three case studies illustrate the stories of three mergers, all undertaken with strategic considerations at the forefront of decision-making, and all carried out in different ways and with different outcomes.

Notably, timescales for mergers such as these are measured in years and not months and, whilst the time and effort required are considerable, the rewards have been immense.

Nurtrio

The charity Care4All and community interest company NAViGO had worked together for several years. Their leaders got on well and they talked about a merger. But despite their good intentions, the initial attempt to merge was, in the words of Care4All's CEO Jo Barnes, "an absolute disaster".

Care4All had been founded in 2007 by Jo and a colleague and had developed into a service provider for people with learning disabilities and older people in North East Lincolnshire. NAViGO, a community interest company, focused on supporting mental health in the same area.

The two organisations worked together on a specific project in 2016, and a memorandum of understanding was in place. The following year, they joined together to buy Ace Homecare, a private home care agency. At the same time, another company, NAViGO Extra (an existing subsidiary of NAViGO), was providing supported living and home care for people with mental health issues in the area.

The organisations were crossing over in terms of what they were delivering and where, and it seemed to Simon Beeton (Deputy Chief Executive of NAViGO) and Jo to make sense to merge to make a bigger, more sustainable body.

In 2021, Jo and Simon decided to try the merger again, but this time bringing in consultants to support the process. They decided that Eastside People, with the team's deep experience of merger implementation, was a perfect fit.

Different organisational cultures, personality clashes and legal hurdles are challenges that beset many mergers, and this merger was no different, compounded by the complexity of several organisations being involved with different legal forms. The independent role that Eastside People's consultant, Deborah Jenkins, played was vital to the merger's success.

While Simon and Jo remained resolute that the merger was going to be a triumph, other staff and board members were doubtful, worrying about losing their own organisations' identities and fearing the legal and regulatory implications of merging a charity with private companies.

"They needed someone to stand back and navigate the process," says Deborah.

Jo agrees, pointing out that Deborah's expertise won over those who were less confident. "Deborah very quickly gained the respect of everyone because she very clearly has a wealth of knowledge and experience," says Jo.

Deborah was able to make use of her independent role to act as a facilitator to diffuse tensions and move everyone towards an agreement. "Someone independent can be the bridge between key senior-level stakeholders, build consensus and navigate through," she explains.

Deborah acted as an adviser to the shadow board – the trustees and board members overseeing the merger – through the governance of the merger. She also offered invaluable support to Jo and Simon (who by this time had been promoted to CEO of NAViGO) during the ups and downs of the process. "It gave them confidence having someone who had already led and been involved in mergers themselves to say, it's a bit of a rollercoaster, but it's normal for it to feel like this and we can find a way through," says Deborah.

Despite the complexity of the merger, Eastside People kept their input lean by ensuring that Deborah's role was very tightly defined as Merger Project Director. A member of staff from one of the merging organisations took on the day-to-day project management, working closely alongside Deborah, who was able to focus on the tasks that only an outside consultant could do.

After just over a year of work, the merger was finalised on 1 April 2022. Jo became CEO of the new organisation, Nurtrio, under the parent company of NAViGO CIC. Today, some of the new organisation's services are consolidating, while others are growing. The ambition is to build a solid organisation that grows organically.

The point of the whole project, says Jo, was being able to better serve the people who require Nurtrio's support and care services. "For me, it was about being able to deliver the best possible services as well as offering more choice," she says. "Our focus is on the people whom we support and those who choose to work with us."

Jo is convinced that working with Eastside People was a good decision. "From the very beginning, Eastside People have shown themselves to be hugely knowledgeable and supportive," says Jo. "Without Deborah's input, I am 100 per cent confident that we would not have achieved the merger."

From the very beginning, Eastside People have shown themselves to be hugely knowledgeable and supportive

All We Can and Y Care International

All We Can is the operating name of a trust, The Methodist Relief and Development Fund, which is an international development organisation, as is Y Care International, a charitable company. The two organisations completed their merger in September 2021 but, in terms of branding they have retained distinct separation as well as boundaries around governance.

All We Can completed a strategic review in September 2020, with growing its impact high on the agenda. At the time, the consultants involved in supporting the strategy work had suggested a merger could help with this ambition.

Even before this, All We Can had strategic partnerships, and had held discussions with the senior leadership team of Y Care International, exploring ways of collaborating on decolonising aid and local partnering.

However, in late 2020 Y Care International approached All We Can, as they were also considering a merger.

The organisations were similar in size. All We Can had roughly 20 staff and a turnover of £3m, and Y Care International had reached a turnover of £5m but then reduced its staff team from 25 down to 5 people, having experienced funding issues. Nevertheless, Y Care International had a significant supporter base whilst All We Can wished to grow its supporter base.

The two organisations embarked upon the merger journey, undertaking due diligence. Whilst this flagged a pension deficit in Y Care International, this was not a significant concern for All We Can. Values and the importance of being faith-based were also very important aspects of initial meetings.

Discussions about governance centred around YMCA's control of Y Care International, and All We Can didn't feel able to accept any external control. As they talked further about collaboration commitments, there was a strong feeling from the board of All We Can that they did not want to be a part of "divorcing the family".

Ultimately, the organisations decided they didn't want to undertake a merger of equals or takeover, where they would become one single legal entity, but that they could take a "one kitchen, two brands" approach. The boards explicitly agreed that there would be no merging of brands over time. They found they could not find an example of this in the social sector, but only in the commercial sector.

Now the process is complete, and the organisations remain legally separate, with the board of Y Care International consisting of all the trustees of All We Can and some YMCA representation. It is important to acknowledge that the duty of Y Care trustees is solely to the charitable objects of Y Care. Y Care no longer employs any staff, with all its functions being performed by the staff team of All We Can, under the leadership of Graeme Hodge, the CEO of both organisations.

This was a process with long, deep, honest and open conversations underpinned by strong faith values, which sustained board and staff members throughout.

3SC

The Eastside People team helped to establish 3SC, which manages and wins public service delivery contracts on behalf of third sector organisations, in 2010. Since then, 3SC has supported charities and social enterprises to access more than £92m of contract income in its role, building and managing supply chains of primarily third sector organisations.

In 2021, however, the 3SC board knew that change had to happen. One of its largest contracts was coming to an end and, while it was winning lots of smaller contracts, the board members knew that the social enterprise's survival was at risk. They, therefore, decided that the best way forward was to acquire or join another organisation.

While the board members all had private sector experience of mergers and acquisitions, they didn't have contacts or knowledge among third sector-focused organisations. That's when Eastside People Merger and Partnership team's sector-specific expertise was brought in to help.

John Swinney, who was 3SC's chair at the time, says: "The Eastside People team worked hard to understand our hopes and ambitions and to identify potential best-fit organisations."

He adds that 3SC appreciated the invaluable contribution that came through Eastside People's understanding of the marketplace: "Understanding the culture is critical in these sorts of arrangements."

The Eastside People project identified a list of potential partners that would be the right fit for 3SC. "They were extremely proactive in driving the process and keeping us updated as a board," says John. And although 3SC eventually chose a partner organisation it was already in contact with, the initial project was a success because it enabled the team at 3SC to have a clear idea of their partnership options and how best to manage a successful process. "Without Eastside People's involvement we would almost certainly have spent much time down rabbit holes, chasing unsuitable partners," concludes John.

In May 2022, Twin Group, which delivers employability, skills and education services for UK and international governments, acquired 3SC. The acquisition means that Twin, with the 3SC brand within it, will continue to support third sector organisations to win government contracts going forwards.

Successful exits are hard to achieve in the third sector, points out Eastside People's Richard Litchfield. "Many organisations fear them because they think they will be perceived as a sign of weakness or failure." In this case, he says, Eastside People's support to put in place a competitive search process (adapted from the private sector to suit the unique nature of the third sector) helped 3SC to manage a successful exit with the best partner for it.

"This is the kind of long-term relationship we like to have with our clients, across their whole lifecycle," says Richard. "It's great to see a good outcome for 3SC that guarantees its long-term future, as well as the opportunity to build more impact, and we're delighted that aspects of our work helped them to achieve that."

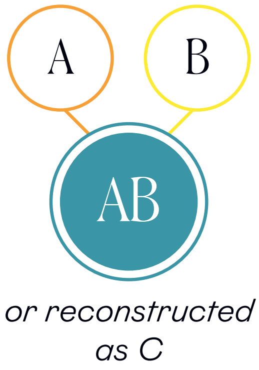
Appendix: Types of Merger

There is no definitive objective set of merger definitions so, as with previous years, we use a framework based on Richard Gutch's work in our Good Merger Guide which has been adapted through peer review.

One of the challenges in understanding not-for-profit mergers is language. Terms like 'merger' and 'acquisition' are borrowed from the private sector and sometimes do not fit well with this sector.

For the sake of this report, we use 'merger' firstly, in a general sense to describe any strategic change that involves the exchange of assets and liabilities, and secondly, in a specific way to describe a genuine 'merger of equals' that is defined in detail in our framework. Our technical application of these terms should not be interpreted as making a value judgement about the importance of any partners involved in a merger of any type.

1. Merger



SUMMARY

Two or more organisations join to form a new organisation either through:

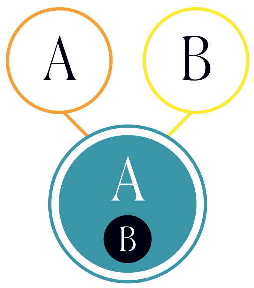
i) Organisation A transferring its assets and activities to Organisation B. Organisation B then establishes a new identity with a new leadership team; or

ii) Organisation A and Organisation B transfer their assets and activities into a new Organisation C and then either dissolve or become dormant (or for housing associations, continuing trading as subsidiaries as part of a group structure)

KEY FEATURES

- Often acknowledgement in the new brand identity of two organisations coming together, or a completely neutral new brand is created;
- Evidence that the top executive team for the newly enlarged organisation has a balanced representation from the legacy organisations;
- Governance of the new organisation must be representative of the two merging organisations

2. Takeover



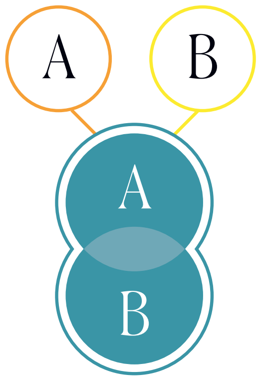
SUMMARY

Organisation B transfers its assets and activities to become part of Organisation A.

KEY FEATURES

- The transferring organisation is dissolved or exists but remains dormant;
- The identity of the acquired organisation is either lost after the takeover, or is retained but only as a service or project;
- Executives from the acquired organisation do not hold roles at the same level of seniority as they did before;
- The Trustee Board of the acquired organisation is disbanded and stood down

3. Subsidiary Model



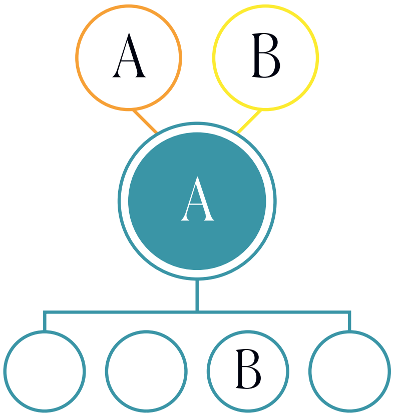
SUMMARY

This type of takeover is achieved by Organisation B becoming a 'wholly owned' subsidiary of Organisation A.

KEY FEATURES

- The transferring organisation retains a separate Board and identity within a groupwide strategy or business plan:
- Job losses at management level are minimised;
- Ultimate control is nevertheless retained by the acquiring organisation;
- Only a minority involvement, if any, of Trustees from Organisation B on the main board of Organisation A;
- Could be a step towards the formation of a group structure

4. Group Structure



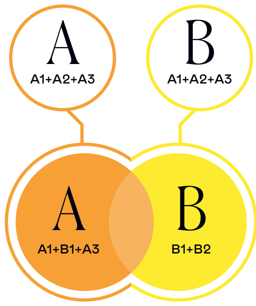
SUMMARY

Two or more organisations transfer activities and assets to become part of a group and operate as one of a number of wholly-owned subsidiaries. In more developed groups, particularly those in the housing association sector, front line services and accountability is largely pushed down to the subsidiaries and the group company has responsibility for overall management and central services. This is similar to a Conglomerate or Holding Company model in the private sector.

KEY FEATURES

- The parent group owns two or more subsidiaries each with their own governance;
- The identity and brand of the subsidiaries are retained, and distinct to the parent, but with a reference to being part of a larger group;
- There is a group CEO and Chair who have key leadership roles and they devolve executive powers to separate individuals who have responsibility for running the subsidiaries;
- Different models of governance can be created which means that it is possible for Trustees to continue to have a role at the subsidiary level;

5. Swapping services or assets



SUMMARY

The transfer or swapping of services, and in some cases assets, in order to help organisations to achieve a more balanced portfolio of activities, income and cost.

KEY FEATURES

- The identity of the service that is moving is absorbed into the branding of the acquiring organisation;
- Employees will be TUPE'd;
- No impact on legal structures or the Trustees of either organisation

About Eastside People

Eastside People is a community of experienced professionals from diverse industries and backgrounds focused on helping social sector leaders to build the capacity and impact of their organisations.

For over a decade we have sought out highly skilled individuals from diverse backgrounds who are passionate about using their skills and knowledge to bring about social change.

These people are committed to advising social sector organisations as consultants, interims and mentors or taking on leadership roles themselves as senior executives and trustees.

We care passionately about results and what gets implemented in the real world recognising that the difference we make is the change that sticks.

We build an evidence base drawing on our own experiences and lessons from over 2,000 consulting and recruitment projects, so that our clients gain access to better insights about how to make organisational change sustainable.

We are recognised as one of the top social enterprises in the country featuring within the Natwest SE 100 Index of the UK's 100 most impressive social enterprises and have a Foundation which provides an alignment of purpose with the clients we serve.

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Bringing Change Together

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