IVAR

Institute for Voluntary
Action Research

Thinking about...
Merger, during Covid-19

In partnership with:

Bates Wells

Who is this guide for?

This is primarily for senior staff and trustees of small and medium-sized voluntary organisations. It is not a guide to financial aspects of merger, nor is it a step-by-step 'toolkit'. Instead, it brings together the experiences of a wide variety of voluntary organisations and advisers that have contemplated or carried out merger to highlight different dimensions of 'thinking about merger'.

Some people may be able to consider merger carefully and patiently with their boards, staff and partners; others may be in more of a hurry and feel they have little choice – whatever your circumstances, we recommend fully exploring the feasibility of merger with your prospective partner(s) before you commit.

We cover:

- **Reasons for thinking about merger**
- **Stages in the merger process**
- **What makes a successful merger?**
- **A collaboration spectrum**

Foreword

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Ten years ago, when we first published *Thinking about Merger*, our shared view was that mergers entered into out of strategic choice were most likely to yield benefits to beneficiaries (e.g. more and better services) and organisations (e.g. greater impact). Our experience was that, in these mergers, both partners see themselves as embarking on an exchange, with each organisation providing something that neither could achieve alone. And we had seen from our work together that articulating and aiming for a shared vision helps organisations to build consensus and joint buy-in, and feel that they both have something to gain from coming together, which can make compromises more bearable.

Traditionally, this ideal kind of merger requires time, money and an unavoidable element of risk-taking: after all, mergers are an inexact science. For all the due diligence in the world, they always require a leap of faith. The challenge now is that, during a global crisis when organisations feel anxious and beleaguered, and where the space for thinking imaginatively and creatively about the future is squeezed, the conditions and resources for careful, constructive mergers are less likely to be in place. **For organisations with their backs against the wall, the merger proposition now may be: the preservation of something versus the potential disappearance of everything**.

If we strip the insights and guidance set out in the following pages down to their bare bones, five things stand out:

1. After the 2008 financial crisis, we found that organisations were more likely to survive and, over time, thrive if they were open to asking themselves fundamental questions about themselves such as: Who are we? What are we trying to achieve? What is the best vehicle to use to make that happen? At a moment of crisis, there may also be **an opportunity to focus minds and bring the possibility of merger into discussions about the future.**

2. **For organisations with their backs against the wall, the proposition may be: the preservation of something versus the gradual disappearance of everything.** But even if you enter merger explorations on the back foot – preoccupied, say, by survival rather than growth – **it's still important to identify and then pursue a positive agenda about change in relation to the needs of beneficiaries.** Keeping a service going might not feel like the most compelling vision, but that may be the vision that is possible right now.

3. However bleak your prospects, merger may not be the answer. In addition to a shared vision, **you need a feel for the fit with your potential partner(s).** Do you have enough in common, enough shared values, to trust in the potential of a merger to work? There is no shame in concluding not. We have written before about the importance of having an 'awareness of mortality'. For organisations whose aims are no longer appropriate, or for whom sources of public funding on which they were overwhelmingly dependent no longer exist, or who have not been able to make a transition to a new environment or find a sustainable alternative business model, **it may be more responsible to close down rather than compete with others or struggle on, hand to mouth.** Or there may be steps short of merger that can at least preserve some of what has been achieved – such as hiving off a non-loss-making service, or simply much closer collaboration.

4. Under normal circumstances, we would encourage possible merger partners to think about possible deal breakers upstream. These might include questions of identity (including name and brand), location, service model, and staffing. Without the luxury of time, or resources to support a staged process, **it will still be important to articulate and be mindful of what each partner is not prepared to give up or take on.** Without, at best, addressing these 'red lines' or, at worst, putting in place plans to do so, the risk of failure will increase.

5. Finally, there is one key deal breaker which will need to be resolved as early as possible in the process: leadership. Here, as with all design considerations in a merger, form needs to follow function. In other words, **what kind of leadership will the new, merged entity require to give it the best chance of succeeding?**

Introduction

A merger is one of the most challenging organisational steps charities can take – aside perhaps from formation or closure. It can create tensions as well as excitement, be the cause of much debate and lead to permanent and irreversible change. Our research suggests that, in order to work, mergers should be treated with a degree of caution; and need to be thought through patiently and carefully.

This guide is primarily for senior staff and trustees of small and medium-sized voluntary organisations. It is not a handbook on the financial aspects of merger, nor is it a step-by-step 'toolkit'. Instead, it brings together the experiences of a wide variety of voluntary organisations and advisers that have contemplated or carried out merger to highlight different dimensions of 'thinking about merger'.

We consider preliminary thinking to be a critical part of any merger process in voluntary organisations.

Our case examples

The examples we use are from IVAR's collaborative research projects or research published by others. We include the experiences of community sector membership bodies and voluntary organisations working in the fields of HIV and AIDS, homelessness, lone parenthood, looked-after children, volunteering and housing. To protect anonymity, we do not name the organisations featured, except where drawing on documents already in the public domain – *Story of a merger: DTA and bassac create Locality*[1] and *Merger as strategy: the experience of TACT*[2] – to highlight a number of 'critical success factors'.

The terms we use

There is no single agreed definition of **merger**; practitioners, legal experts and academics have found a variety of different ways to explain the term. At its simplest, it can be understood as a formal long-term coming together, to work collaboratively. For the purposes of this document, we use an adapted version of the definition of merger found in the Charities Act 2011. The Act applies to mergers where one or more voluntary organisations transfer all their property to another voluntary organisation and then cease to exist.[3]

It is, though, important to note that merger might not be the only option for organisations; other types of collaboration might work just as well. For example, a specific one-off development might be better pursued through a joint venture; a service can be hived off; or core costs can be reduced by contracting out a function such as finance or IT. Trustees and senior staff therefore need to be satisfied that merger, rather than an alternative form of collaboration, is in the best interests of the organisation, its mission and its stakeholders.[4]

In practice, collaboration can reflect points on a spectrum of relationships, involving different levels of commitment, degrees of permanence, risks and rewards. The collaboration spectrum in Table 1 shows the key features of some frequently used methods of collaboration; further details are in the Appendix on p16. In our own research we have observed that some of the problems that arise around mergers are due to confusion about the range of organisational collaborations available.

Attempting to combine features of different types of collaboration can be particularly problematic.

Table 1: A collaboration spectrum

Informal alliance	An arrangement that is essentially informal, based on good relationships and understandings that may be documented but are non-binding.
Contract-based alliance	A relationship that is underpinned by a contract between the parties that sets out the objectives, respective roles, cost-sharing and charging arrangements.
Joint venture	The parties establish a legal entity, which they jointly own and control, for the purpose of undertaking specified functions.
Group structure	One example of a group structure is when parties agree to become controlled by a holding entity, which owns or controls the parties (subsidiaries preserve their original identity).
Merger	The parties merge on whatever basis is agreed. This either creates a new entity (where there is relative equality between the joining parties) or enlarges one of the existing entities, whilst the others cease to operate. In the commercial world this is usually referred to as a 'takeover'.

Reasons for thinking about merger

Our research experience suggests that any contemplation of change on the scale of a merger needs to be firmly rooted in an exploration of why it is potentially relevant to an organisation.

Merger in the voluntary sector can be a reactive strategy, such as:
- a last-resort effort to survive in response to external pressures
- a strategy for dealing with an environment of uncertainty and scarce resources
- a response to pressures arising from commissioning and contracting
- a response to the influence of funding bodies.

On the other hand, it can be part of a more proactive strategy to:
- meet users' needs more effectively
- have greater influence on the external environment
- expand the range of services provided.

In practice, it is often a combination of factors that has a bearing on the decision.

Through our work tracking and supporting the response of smaller VCSE organisations to the Covid-19 crisis,[5] we have observed their extraordinary resilience, creativity and integrity. This is a precious resource and needs to be understood, valued and nurtured. At the same time, for a myriad of reasons, the possibility of merger is beginning to loom large for many of these organisations. Leaders are feeling frustrated, worried, and unsure about how to shift gear out of crisis and into recovery. Faced with daunting challenges – funding cliff edges and sky-high demand for services – some are beginning to look at merger as a way of continuing to deliver for their beneficiaries. **In this context, we recognise that the proposition may be: the preservation of something versus the gradual disappearance of everything.** Even if this applies to you, and you are entering merger explorations on the back foot – preoccupied, say, by survival rather than growth – **it's still important to identify and then pursue a positive agenda about change in relation to the needs of beneficiaries.**

Stages in the merger process

While formal legal merger takes place on a particular date, the melding together of two independent organisations into one entity happens over a period of time – both prior to and beyond the official date of merger.

'When can a merger be considered "successful"? When the ring goes on the finger or at the golden wedding anniversary? Or when nobody talks about a separate entity, when the merged parts assume the spirit and body of the whole? ... The prize offered by merger takes time to achieve.'[6]

Merger is a challenging mix of 'head' (meetings, plans and decisions) and 'heart' (emotions, feelings of loss, shifts in power and unforeseen events).

We have found it helpful in our work with voluntary organisations to consider merger in four stages: negotiation; decision making; planning and legal; and implementation. The amount of time needed for each of these stages will vary and they are unlikely to be self-contained. Often they will overlap or have pauses between them. And, in the current context, it might be necessary to accelerate the process in order to reach a decision and a steady state as soon as possible.

Stage one: Negotiation

Stage one is about identifying the perspectives of key people inside the organisations on issues such as:

- the drivers towards merger
- the overarching purpose and vision of a possible merger
- broad issues of organisational fit
- any obvious deal breakers
- the level of commitment among management teams and boards to take discussions to the next stage.

Stage two: Decision making

Stage two involves:

- completing initial consultations with key stakeholders
- reaching consensus and formal agreement on a vision and outline model for the new organisation
- exploring how the more obvious power/governance issues might be addressed – for example, how to decide the roles of trustees, chair and chief executive
- agreeing timescales and a process for subsequent stages.

Stage two might usefully conclude with boards reaffirming their initial decision in principle to proceed to a merger, possibly by drawing up a draft 'heads of agreement' document (see next page for an example of issues to be discussed at this stage).

Alongside the paperwork and formal agreements, this second stage of the merger process relies heavily on the build up of trust. The decision to merge is a momentous one: no amount of planning and budgeting will avoid the feelings of loss, disquiet, upheaval, excitement and hope it can cause but careful preparation can help reduce the anxieties that may arise. It usually requires the people involved to make a leap of faith. As such, decision making needs to be grounded in dialogue, reflection and debate, all of which can help build trust.

Heads of agreement

Top level issues for the heads of agreement stage of discussions are likely to include:

1. Will a new charity be established into which both existing charities merge or will the assets and liabilities be transferred from one entity into the other?
2. If the merger is into an existing charity, will its objects need to be changed? If so consent will be needed from the Charity Commission (or in Scotland, the Office of the Scottish Charities Regulator) and, if applicable, the Tenant Services Authority.
3. Will the transferring organisation(s) continue as a shell or be wound up?
4. What shape will the new board take – will some trustees resign and if so which ones? Who will chair the board? Should joint meetings begin informally before the formal transfer?
5. Will all employees be retained? If so, will that be on their existing, or new, terms and conditions? Particular attention should be paid to pension issues. What initial discussions will be held with staff and what will the message be? Formal consultation will need to be undertaken in accordance with Transfer of Undertakings (Protection of Employment) Regulations (TUPE) and any collective/trade union agreements.
6. Will any existing properties be vacated/replaced?
7. What level of due diligence has been undertaken and what is left to carry out? Are the parties satisfied with the responses to date?
8. What level of warranties and indemnities will be given? At a minimum the continuing organisation should agree to meet all liabilities subject to reasonable exclusions and the transferring organisation should warrant that it has given full disclosure in response to the due diligence questions that it has been asked.
9. Are the following willing to grant consent (and has this been secured formally):
   - Funders?
   - Landlords?
   - Suppliers?
   - Any other contractors?
10. Is there to be new branding, and if so has this been agreed?
11. What is the date for completion of the transfer?
12. What steps will be taken in relation to the media/publicising the merger or the pre- merger discussions? Is a non-disclosure agreement required for the initial stages?
13. Who will bear the costs of taking the merger forward?

Stage three: Planning and legal

Stage three is about completing the formal and strategic preparations for merger including carrying out a 'due diligence' exercise. Planning needs to extend beyond financial and human resource matters to include issues related to:

- quality, performance and management
- preparing transfer arrangements prior to the formal and final decision to merge
- the necessary legal and financial transactions that this will involve.

Legal issues to consider

Power to merge?

Both merging organisations need to check that they have the power to merge. This can usually be established by checking an organisation's governing document (the Articles of Association for a company, or otherwise a trust deed or a constitution).

Compatibility of objects

If one or both of the merging organisations are charities, particular care must be taken, as charity assets must continue to be used for the charitable purposes set out in a charity's objects. Clearly, the objects of both charities must be compatible. The objects are normally set out near the front of a charity's governing document. These are not usually the same as a charity's vision or mission and are usually expressed in more formal legal language.

Where the objects of the transferring charity are narrower than the recipient's, one charity's assets may need to be transferred on separate trusts or as 'restricted funds' and even after the merger may be used only to further the objects of the transferring charity. Alternatively, it may be possible to change the objects of one charity to remove the restriction.

Due diligence

Due diligence helps an organisation identify and assess the viability of its merger partner. It is a mutual process intended to provide detail about the other organisation's assets and liabilities and help identify any potential problems that might obstruct or delay the merger. The information gathered will be used to prepare a transfer agreement.

A typical due diligence process will involve each organisation sending the other party a 'due diligence questionnaire' – questions about assets (including property), employees, liabilities, complaints and legal claims, finances and general state of the merging charity. The responses can then be used to:

- check the financial position of the merging partner
- identify risks posed by the merger
- review employment and pension arrangements of staff. This may identify a need for specialist pensions advice
- identify any third-party consents that are needed to the transfer, e.g. funders, contractors, banks, insurers, HMRC or landlords.

Key legal steps

The legal process will vary depending on how the merger is carried out. For instance, sometimes the merging organisations establish a new entity and then transfer their respective assets (subject to their liabilities) to the new venture. See the box below for a broad summary of the legal steps involved.

Summary of legal steps to merger

1. Checking the compatibility of each charity's objects
2. Due diligence (discussed opposite)
3. Formal board resolutions to proceed with the merger. This may include identifying any legal issues to resolve, setting any conditions and a completion date
4. Drafting a transfer agreement
5. Seeking third-party (e.g. funder) consent where necessary
6. Formally notifying staff in compliance with applicable employment legislation
7. Usually, further board resolutions to approve the transfer agreement and authorising one or two trustees/directors to sign
8. Completion – transfer agreement signed and dated – assets transferred
9. Notification of third parties about the merger where necessary
10. Preparing final accounts for the transferring charity, then winding it up and potentially applying to record it on the Charity Commission register of mergers.

Stage four: Implementation

Stage four is about beginning to realise the new organisation's vision and strategy. It may well take years to achieve full integration of staff, systems and procedures, although the length of time will depend on the size and complexity of the merger partners. It is a good idea to regard the post-merger integration period as an ongoing process of change that requires leadership, resources and structures. For organisations needing to expedite mergers, much of the detail may need to be deferred until after the formalities of merger have been concluded.

What makes a successful merger?

Our research suggests that the following factors can make a merger between two or more voluntary organisations more likely to succeed and secure the hoped-for benefits:

- **A shared vision for the merged organisation**
- **Strategic and organisational fit**
- **A business case for merger**
- **Leadership**
- **Recognising human factors**
- **Good communications**
- **Identifying deal breakers**
- **Clear plans for the merger process and beyond**
- **Resources**
- **Sensitivity to different organisational cultures.**

Some of these factors relate specifically to particular stages of the merger process; others apply throughout.

A shared vision for the merged organisation

Successful mergers are rooted in a clear vision for the merged organisation, in terms of its primary aims and how it will benefit its service users. Even in the current context, when you may be more preoccupied with survival, **it's still important to think about change in relation to the needs of beneficiaries.**

The TACT mergers found that: *'There have to be tangible benefits for service users: if you can't see them or can't envisage them, don't do it. If you can, don't let the egos get in the way.'*

A commonly understood vision can help people overcome obstacles and deal with difficult decisions; without it negotiations can stall. It is particularly important when a merger takes place between organisations of different sizes, when power imbalances can create problems. In such circumstances, a shared vision can be a powerful reminder that the two organisations can help each other to realise their shared ambitions. The concept of exchange – where each party offers something that the other wants – helps contribute to the realisation of the shared vision. However, the articulation of a vision can take time. It will not necessarily be clearly defined at the outset of a merger process. Rather, it is more likely to emerge out of the various discussions and debates that take place as merger parties work more closely together on their joint endeavour.

Questions to consider:
- Is there a shared vision for the merged organisation? If not, how can this be developed?
- What does each organisation contribute towards achieving the shared vision?

Strategic and organisational fit

Before taking the decision to merge, it is useful to consider how well matched the potential partners are with respect to:

- historical roots and ideology
- governance, structure and decision-making processes
- financial resources and funding base
- organisational strategy
- the use of technology.

A good match is not necessarily about similarities; complementary differences can contribute to an exchange.

Questions to consider:

- In what ways are the organisations similar? In what ways do they differ?
- What areas of each organisation do these similarities and differences relate to?
- Could the similarities help smooth the merger process? In what ways?
- Could the differences create barriers to merger? Or are they useful complementarities?
- How can the ethos of each organisation be protected in the merged organisation so that the shared vision can be achieved?

A business case for merger

It is helpful if the voluntary organisations involved in a potential merger are able to set out why and how merger would enable them to meet their respective objectives more effectively than remaining independent. This may include being able to demonstrate tangible benefits to users and beneficiaries or greater financial strength that would enable the merged organisation to expand its services or meet other objectives.

A strong business case may help overcome a reluctance to consider merger by focusing attention on meeting the needs of beneficiaries.

Questions to consider:

- What will your clients and beneficiaries gain if you merge (or what will they lose if you don't)?
- Can you achieve these benefits by any other means?
- Have you compared the business case for merger with the business case for not merging?

Leadership

Firm leadership is essential at all stages of a merger and particularly once the decision to merge has been taken. This does not mean that a single person needs to do all the work associated with a merger: many of the organisations we support find that a merger working group, drawn from all partners and reporting to both boards, is the most effective route. Delegating work in this way can help share the workload and ensure 'buy-in' to the merger beyond the senior staff team and trustees.

Even when the work is shared, clear personal leadership is required to:

- explain the vision for the new organisation
- find solutions to contentious issues
- tackle unanticipated problems
- disseminate clear information to avoid rumour and uncertainty.

Questions to consider:
- How will leadership be distributed within and between the partners during and after the merger process?
- Who has formal and legal authority to make key decisions about the merger?
- Who has the personal qualities to be a 'merger champion' on a day-to-day basis?

Recognising human factors

Merger negotiations in voluntary organisations can unravel if they do not fully recognise from the outset the importance of human factors in achieving organisational change. Mergers and strategic alliances are not only about rational choices; they also involve emotions and politics. A distinctive feature of voluntary organisations is the personal investment that staff, trustees and volunteers often make in an organisation's values and goals. As a result, changes to the work environment can be seen as threatening, although the extent and nature of threats may not be of equal weight between the merger partners.

Questions to consider:
- How will staff concerns be monitored and responded to during the merger process?
- What plans can we make to ensure that staff of the newly merged organisation develop a common set of approaches and values?

Good communications

Staff involvement in the merger process will vary according to role and seniority and in a large organisation it may not be possible to consult everyone. All the same, keeping people informed and reminding them of the purpose of the merger will help to minimise anxiety and avoid rumours. It can be difficult to strike the balance between telling everyone that merger is under discussion – and hence raising anxieties – and attempting to keep negotiations under wraps, thus running the risk of anxieties arising from rumour.

Our research experience suggests that the best course of action is to share information as soon as a decision is made to proceed towards merger. This information may include implications for individuals and an idea of timing for decisions about jobs. It can be helpful to have a designated individual for those affected to talk to.

Questions to consider:

- How will staff and trustees be kept informed about the merger process?
- Who needs to be informed and when?
- What issues are negotiable or open for consultation? What is for information only?
- How and by whom will the integration process be communicated to staff and trustees?
- Is there a process for dealing with enquiries or a designated person for staff and trustees to talk through anxieties or raise questions with?

Identifying deal breakers

Having an articulated vision for a merged organisation can help those involved in merger negotiations to begin to identify their deal breakers, which may include:

- the new organisation's name and brand
- the composition of the new board
- the first chair
- the chief executive officer
- retention of staff
- finances, with key bear traps to look out for including pension provision and future liabilities.

Questions to consider:

- What is your bottom line in terms of what you would not want to give up from your own organisation, or take on from the other?
- Where might you be able to compromise?
- Where is compromise not possible?

Clear plans for the merger process and beyond

Once a decision to merge has been reached, organisations can benefit from a clear plan and timescale for key aspects of the process, including:

- strategic planning
- decision making on trustee and staff positions
- melding organisational systems
- internal and external communication planning.

Delegating work on specific aspects of merger to members of a working group can help share the workload and ensure 'buy-in' beyond the senior staff team and trustees. Building in an evaluation of the merger process can also be useful as a way of checking whether initial goals have been achieved. It can also provide a focal point for reflection post-merger.

At an early stage in the negotiations between bassac and DTA, the merger working group agreed a process for the discussions and a timetable for the work to be done: *'the process was the most significant thing'.* The merger working group meetings and planning played a crucial part in keeping the merger on track: *'that made it really good; that's what just made it move and* [ensured] *the thoroughness, insights and depth of the process'.*

Questions to consider:

- How will the change process be managed?
- Do you need a merger working group?
- How will responsibility for the process be shared between the merging organisations?

Resources

The cost of merger – in terms of staff time, money and human resources – should not be underestimated. The cost of developing a new organisational infrastructure, identity and publicity materials is likely to be substantial. Our research also suggests that a merged organisation will struggle to make savings or increase its voluntary income in the immediate short term. Organisations' two biggest expenditure items are often staffing and property. Property costs may be determined by the length of leases which can prevent short-term savings being made. And in relation to staff, even where redundancies will yield long-term cost savings, the statutory consultation period, combined with the contractual notice period in employment contracts, will usually mean that it is months before payroll savings can be made. Proposed organisational structures should therefore be discussed and costed at an early point in the merger process.

Questions to consider:

- What are the yearly financial implications of the merger for the next five to ten years?
- Can the costs of merger be recovered in the medium term?
- Is any external involvement needed to support the process?

Sensitivity to different organisational cultures

Research on mergers by a range of authors points to difficulties in reconciling organisational cultures – for example, styles of decision making and ways in which staff relate to users and volunteers. This is a point to bear in mind, as it has implications for the successful integration of staff from the merging organisations.

Some organisations that have successfully implemented mergers have gone through a joint process, prior to merger, of describing and sharing the cultures of their respective organisations in order to discuss how their organisational cultures might fit together or how a new organisational culture might be developed.

Questions to consider:

- What are the differences and similarities between the merger partners' organisational cultures?
- Can these be reconciled? If so, how?
- What is the vision for the organisational culture of the new merged organisation?
- How will staff and trustees be helped to develop a new organisational culture?

Appendix:

A collaboration spectrum

INFORMAL ALLIANCE

— an arrangement that is essentially informal, based on good relationships and understandings that may be written but are non-contractual.

Pros:	Cons:
• maximum flexibility • cheap to establish and operate • preserves complete autonomy of parties.	• could prove ephemeral because it depends on relationships • becomes less suitable the more resources are required • unlikely to attract third-party funding • informality risks ambiguity and uncertainty.

CONTRACT-BASED ALLIANCE

— a relationship that is underpinned by a contract between the parties that sets out objectives, respective roles, cost-sharing and charging arrangements, etc.

Pros:	Cons:
• full flexibility at inception and subsequently flexible for alterations and additions if agreed by parties • relatively cheap to establish and operate • preserves the autonomy of the parties (other than to comply with the contract) • relative certainty for the duration of the contract • can cope with significant operations such as staff employment, provision or sharing of services, etc.	• less suitable as a long-term or permanent arrangement • scope for significant cost savings through shared services is limited by the term of the contract.

JOINT VENTURE

— an arrangement whereby the parties establish a legal entity, which they jointly own and control, for the purpose of undertaking specified functions.

Pros:	Cons:
• legal entity brings structural solidity to the relationship between parties, and is therefore less dependent on specific relationships • preserves the autonomy of parties (except in relation to the areas covered by the joint venture) • permanence of arrangements increases scope for cost sharing and common service provision • entity can be used for a wide range of purposes (subject to the agreement of the parties) • ringfences risk in a structure which is separate to each of the parties.	• more costly to establish and maintain • issues of governance, leadership, separate accounting, branding, roles, etc. come into play with any legal entity • the entity is a new party in the relationship between the 'owners', creating more complexity and some scope for 'playing games'.

GROUP STRUCTURE

— an identity-preserving form of merger, which comes in many forms – for example, parties may agree to become controlled by a holding entity, which owns or controls the parties (which in turn become operating subsidiaries).

Pros:	Cons:
• can preserve the original identity of the joining parties • provides substantial scope for sharing all back office services, which can be provided by the holding entity • can be a 'halfway house' for an eventual full merger, with less cost incurred at this stage than if a full merger takes place.	• may be expensive to establish and can create an additional superstructure of running costs • issues of governance, leadership, accounting, branding, roles, etc. are crucial and ultimately determined by the holding entity and not the subsidiaries • loss of autonomy by the subsidiary • can cause confusion to stake-holders and potentially risks having separate power centres and undermining unity.

MERGER

— *the parties merge on whatever basis is agreed – either creating a new entity (with relative equality between the joining parties) or enlarging an existing entity. The latter is more properly referred to as a 'takeover'.*

Pros:	Cons:
• provides maximum scope for savings and economies of scale as all back office services and any existing overlapping services will be rationalised • simplifies governance and executive authority with the possibility of maintaining former brands as operating divisions or service labels.	• expensive to establish and implementation is front loaded • can result in a prolonged period of inward focus at the same time as operational work has to continue (while the terms of the merger are thrashed out and subsequently implemented) • more likely to involve loss (or greater loss) of senior executives and board members.

Endnotes

[1] IVAR (2011) *Story of a merger: DTA and bassac create Locality,* IVAR: London

[2] IVAR (2011) *Merger as strategy: the experience of TACT,* IVAR: London

[3] Charities Act (2011) s.306. Available at www.legislation.gov.uk

[4] La Piana, D. (2010) 'Merging wisely', *Stanford Social Innovation Review,* Spring 2010 www.ssireview.org/articles/entry/merging_wisely

[5] www.ivar.org.uk/covid-19-briefings

[6] Moran, R. et al (2009) *'Assuming the spirit of the whole': Small and large organisations engaged in merger,* paper presented at the Association for Research on Nonprofit Organisations and Voluntary Action (ARNOVA) conference, 2009

[7] The phrase 'due diligence' is used to describe 'the steps organisations take to assure themselves that a merger is in their best interests ... the investigation of another charity or charities in advance of completion of a merger.' Charity Commission (2009) *Collaborative working and mergers: An introduction (CC34)* Liverpool: Charity Commission, p43

To read more about the research, please visit **www.ivar.org.uk/merger**

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