BEYOND COLLABORATION – CONSORTIUMS AND MERGERS ARE NEW MODELS TO ACHIEVE HIGHER IMPACT AND COHERENCE IN HUMAN SERVICES

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Presenters:

Lydia Sai-Chew, co-CEO, Skylark Children Youth and Families

Marg Campbell, co-CEO, Skylark Children Youth and Families

Tony Diniz, CEO, Child Development Institute

Tony Pignatiello, MD, FRCP (C), Associate Psychiatrist-in-Chief, The Hospital for Sick Children

Moderator:

Steve Lough, Lough Barnes Consulting Group Inc.

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Agenda

- Introductions
- Courtship
- Engagement
- Wedding
- The First Year

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Learning Objectives

- Factors to consider when contemplating a new way of doing business for your organization given today's context
- Some different approaches taken and why each approach fit for the specific circumstances of the organizations involved
- What worked well, what didn't work as well, and apply these learnings to your own organization
- Post-amalgamation integration – what to expect and how to move your organization into the future as smoothly and effectively as possible

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"Courtship"

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Drivers for change

- Many current CYCMH’s were started as individual charities and responding to local need.
- The current context has shifted considerably for agencies to see themselves as part of a system
- Rising public expectations that CYMH services be available and delivered as part of a public service

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Drivers for change (Cont’d)

- Economic pressures and efficiencies
- Competition / collaboration paradigm
- Simplified access, better client pathways and experiences with less disruption and hand off
- Not enough scale and critical mass for critical business functions such as IT and high program development functions such as QA and QI
- Required outcome reporting without the needed capacity, structure or know how
- Need to address ‘systems’ perspective, address redundancies and overlaps
- Need for a bigger footprint to attract higher volunteers and greater fund raising capacity

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Drivers for change (Cont'd)

Drummond Report – 'expenditure growth in social programs is not sustainable in the current fiscal context'. New model of transformed services is required.

Current System → Transforming To → Reformed System

Current System	Reformed System
Transaction focused, with limited information on client outcomes	**Client-focused programs that provide services and benefits fairly across client groups in similar circumstances**
Complex maze of programs that create access barriers	**Improved co-ordination or clustered programs resulting in reduced overlaps, greater efficiencies and improved client outcomes**
Unclear how programs respond to client needs	**Simplified and transparent access**
Services funded and delivered inconsistently	**Improved data collection to ascertain which programs meet client needs and achieve intended outcomes**
	Consolidated back-office operations through a shared service delivery model

Partner Identification Matrix

	Positive Fit	Guarded	Red Flag
1. Mandate Alignment	Mandates align and connect to produce value add i.e. better access, service continuation, tighter integration etc.	Mandates fit broadly but no obvious values add other than mass	Mandate misfit. Possibly unsustainable except as a separate business
2. Culture Fit	The two organizations respect each other and have similar cultures – i.e. theoretical framework for service, values, work style etc. The consolidation fits easily	It is anticipate that the culture issues can be mitigated and / or managed within 2 years	Culture issues are profoundly different leading to a protracted change management process

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Partner Identification Matrix (Cont'd)

	Positive Fit	Guarded	Red Flag
3. Receptivity to Change	There is openness to a change in the dominant culture and the new identity can be achieved within 1.5 years	There is ambivalence in the prospective organization to change so that the new identity can likely be achieved within three years	There is substantial resistance in the dominant culture to the change and this will lead to hard conflict and/or protracted 'guerilla war'
4. Fit to Strategic Plan	The prospective partner has assets in either people or established programs that will add immediate fit and added value to the strategic plan. Such a merger will accelerate the positive sense of how we are perceived and add value to our "brand"	The prospective partner has neither assets nor liabilities to move us toward perceived excellence. The merger adds mass only	The merger will drag or delay the attainment of our strategic goals and/or lower the brand and reputation

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Partner Identification Matrix (Cont'd)

	Positive Fit	Guarded	Red Flag
5. Financial/ Business Plan Fit	• The prospective partner is financially sound and brings resources into the new arrangement • The proposed consolidation (including salary equalization plans) produces financial savings or measureable efficiencies that can be harvested	• The prospective partner has financial issues that can be readily addressed within 12 months • The proposed consolidation is financially neutral	• The prospective partner has substantial financial issues • The proposed consolidation is financially negative and produces loss rather than savings or added value

Partner Identification Matrix (Cont’d)

	Positive Fit	Guarded	Red Flag
6. Fundraising Fit	The fundraising net (capacity and results minus need) is in the positive and enhances our combined fundraising capacity	The fundraising net is neutral so that there is neither benefit nor drag	The fundraising need net is negative and would thus likely be a negative fundraising drag on resources
7. Leadership Fit	There is an agreed to plan as to how leadership will be managed in a consolidation	There is uncertainty about the leadership issue but confidence that it can be successfully resolved	There is conflict as to how leadership will be managed

“Engagement”

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“The Pre-Nup”

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Deal breakers-to be dealt with before intense due diligence work. Should be a joint board committee that decides on:

- Who will be the new CEO? Or is there agreement on the process to reach that decision?
- How will the new board membership/composition be decided on?
- Who will be the new Chair of the Board? Or what is the process to reach that decision?
- What are the high level financial implications of the merger…will it reduce service, lay off staff to equalize wages, etc?
- What is the new entity going to be called? Or what is the process for naming?
- Funders' support – do your major funders support this move or are at least neutral about it?
- The concept of equals. If this is a merger – even if one organization is big and the other is small…is there an agreement to allow equal voice to the future vision and direction of the organization?

The “Pre-Nuptial” (or Memorandum of Understanding) is signed off by both Board Chairs. It is a non-binding agreement. It documents the decisions on the above 7 points and outlines an intent to merge that addresses many other details including:

- how will costs be split;
- confidentiality;
- timing of the agreement;
- guiding principles to be followed;
- work to be done;
- how will the MOU be terminated if the process ends in a decision not to go forward.

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Feasibility and Due Diligence

- Establishing a Joint Committee to review and prepare report
- Use of a Facilitator
- Building a merged model and business plan
  - Seek major funder support that funding will continue to NewCo.
- Understand Labour costs – one-time severance costs, leveling salaries and implications, union considerations
- Actual merger costs
- Identifying and quantifying expected benefit and value
- Due Diligence
- Brand management challenges
- Risk and Liabilities (once the eggs are scrambled, there’s no putting them back into their shells again)
  - Documenting possible historical claims and risks
  - Understanding historical insurance arrangements
  - Mitigation strategies

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“Wedding”

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Legal Activities

- Approvals by Board, Members, major funders and CRA
- Issues in the legal process
  - Amalgamation agreements
  - Purchase of assets agreements
- Merger Costs

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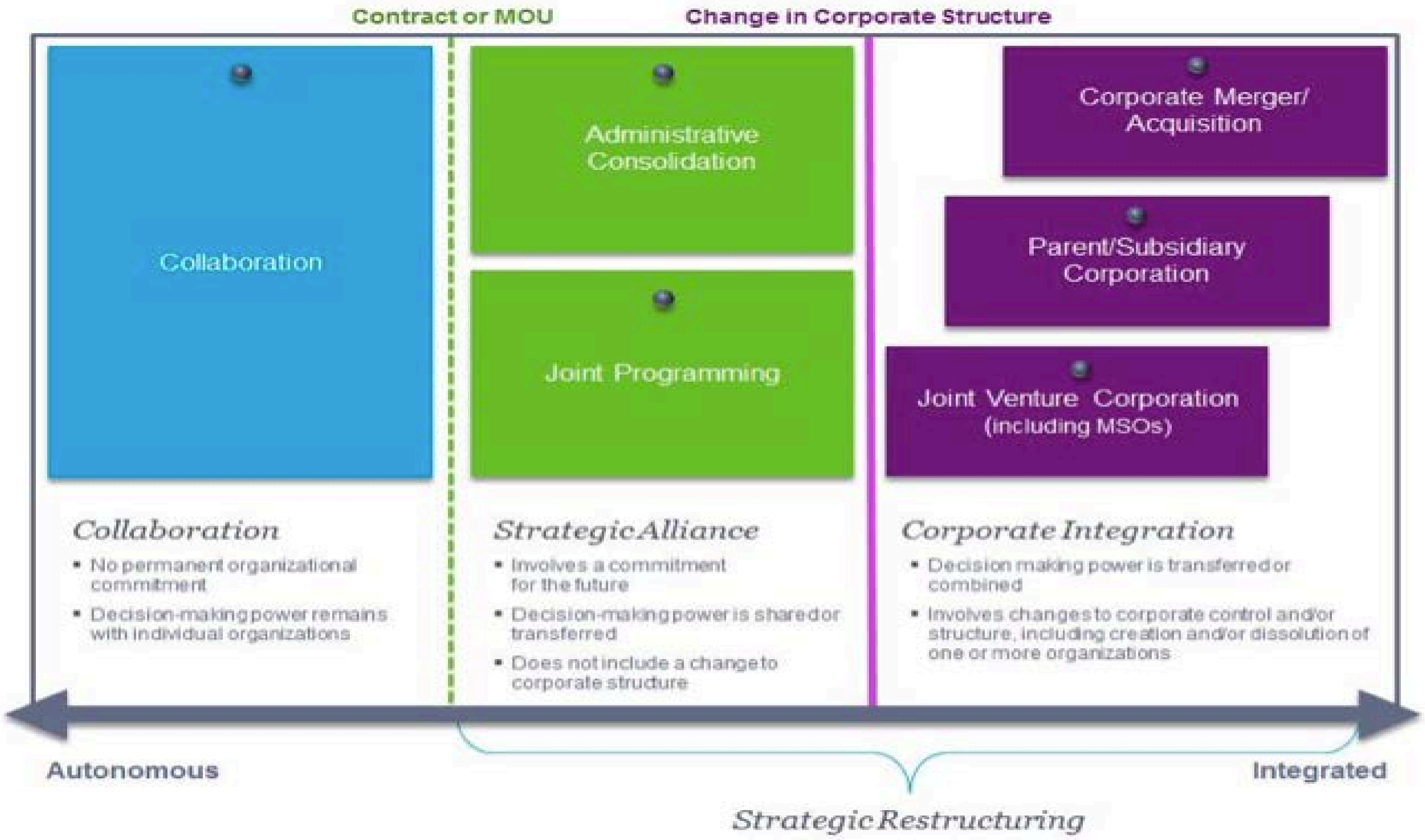
Integration Models – The Collaboration Matrix



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Integration Models (Cont’d)

- Informal Network
  - Information sharing with overlapping mandates, joint advocacy, government relations
- Formal association or other ‘collective’ for defined benefit – e.g., common GR, joint buying
- Contractual Consortium with a Lead
  - Integrated programming though autonomous governance
  - Competitive Bidding
- Formal Consortium as a new company (MSO)

Integration Models (Cont'd)

<u>Shared Back Office</u>

Functions that can be shared:

- Finance, HR, IT, Facilities Management, Purchasing

Creation of a MSO

Potential Benefits:

- Centralisation of effort, expertise and costs to reduce or eliminate duplication across organisations
- Standardisation of processes and systems, leading to enhanced services
- Enhanced ability to share best practice, knowledge and experience across organisations leading to improvements in productivity
- Improved use of resources (hardware, software and people) leading to reduced requirements at an aggregate level

“The First Year”

(or Post-Merger Integration)

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Organizational Culture

From "What is an Organization's Culture" article, August 2006, Clayton M Christensen for Harvard Business School and "Organizational Culture and Leadership", 1988, Edgar Schein.

Culture is comprised of ways of working together and of shared criteria for decision-making which at one point in the organization's history were explicitly debated but which have been employed so successfully so often that they come to be taken for granted.

These basic assumptions about processes and priorities become non-debatable and non-confrontable and form the foundation of an organization’s culture.

Strong culture is essential to consistent decision-making as the organization’s size and scope expand.

However, culture can constitute a disability at times when change is critical to addressing unexpected directions.

For a successful match in a merger/integration, the manager must have a clear understanding of their own organization's culture, and the capabilities and disabilities that this culture constitutes, before looking for other organizations with which to merge and then must quickly get to understand the culture of the other organization.

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“And they lived happily ever after……”

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