On board the merger bus?

Introduction

The external political and economic environment presents major strategic challenges and opportunities to the nonprofit sector. Charity leaders scanning the external landscape will inevitably encounter the tempting concept of 'merger'. Mergers are not for the faint-hearted, but neither are they necessarily to be avoided. This thought piece briefly indicates some of the external influences that are driving the merger bus, and suggests that organisations should fully understand that not only the why of a merger decision, but also the how are critical to ensuring a successful outcome.

Merger mood music

In 2000 the Baring Foundation suggested that: "Mergers will be the major cultural change for charities in the new millennium".[1] Since that time we have seen much chatter both from Government and various commentators with each year apparently being 'the year of the merger'. But is there much below the radar activity behind the noise and the well publicised mergers of large charities? Has the headline growth in charity numbers over the previous decade masked consolidation or is the sector relatively unaltered?

Merger talk does not always lead to action. When Capacitybuilders explored the impact of the economic downturn on the sector in 2010, it found that while 39% of respondents had considered a merger in the last two years only 7% of these had either completed or were going through a merger process.[2]

The impact of Government

To what extent is this merger mood music externally inspired? From 2002 onwards Labour advocated modernisation, shaping the sector to enable

[1]Mather, Bill (2000) *Merging Interests*. London: Baring Foundation, p9
[2]Gabriel, M. (2010) *Learning from mergers.* Birmingham Capacitybuilders, p10
http://webarchive.nationalarchives.gov.uk/20101216053118/http://www.capacitybuilders.org.uk/files/capacitybuilders/Learning%20from%

greater involvement in the Government's public services reform programme. Thus the 2006 Charities Act including several technical changes to facilitate mergers. Among other Government initiatives directly supporting charity mergers (such as the Modernisation Fund), financial investment led to a slew of collaboration and mergers 'how to' guides and case studies from third sector infrastructure and umbrella bodies: NCVO established a Collaborations and Mergers Unit.

The Charity Commission also played its part, establishing a dedicated Collaborative Working Unit in 2005, and publishing useful legal and other guidance for trustees and chief executives considering the merger option, especially CC34 *'Collaborative Working and Mergers'.*[3]But these publications, while undoubtedly helpful, should be considered within the individual context for each charity rather than being understood as a wake up call to the sector as a whole.

The current Coalition Government's declared policy is to let the sector organise itself as it sees fit, but where it has direct financial control it has displayed ruthless pressure for consolidation, notably in the Transforming Local Infrastructure Fund.

The response of the sector

To what extent the merger mood music has originated from within the sector or indeed influenced behaviour is unclear. The highly influential *DeakinReport*, commissioned by the sector and published in 1996, helped shape Labour Government policy. Yet, modern managerialism is wholly absent from the report: none of its wide-ranging recommendations refer to collaboration or merger. In fact *Deakin*robustly defended the sector against pressure for consolidation: "People are free to come together to try and meet a need or support a cause…The ones that go on to prosper, grow and become more

[3]Charity Commission (2009) *Collaborative working and mergers - CC34*. London: Charity Commission, passim

established have generally trodden a hard path…. All are free to try their hand but, for the most part, only the effective survive."[4]

Charity merger activity can be difficult, expensive, time consuming and fraught. The private sector merger experience is not wholly positive, with evidence from Cass Business School that only 30-40% of mergers and acquisitions are successful. "Most deals fail, no matter what drove the companies to the point of combining. Study after study has confirmed this, no matter what criteria have been used to determine success."[5]

This paper does not suggest that charities avoid mergers, rather that merger activity is agreed within a wider strategic context, not as a standalone panacea, and, where possible, considered in full understanding of the drivers, benefits and challenges.

And while the various 'how to' guides often discuss merger as a discrete activity, thinking about merger is surely best envisaged as an aspect of strategic planning, whether reactively as a response to the external environment or as a proactive drive for future success. Other equally valid strategic choices could also encompass driving for organic growth, downsizing in line with changes in the funding regime, becoming a niche provider or developing and piggybacking on earned income to support charitable activity.[6]

Collaborations

In fact collaborations between charities are far more common than merger: while merger may sound an attractively businesslike concept for a fragmented sector, the real landscape is one of collaborative working at varying levels of formality. The Charity Commission reported in 2003 that while only 5% of charities surveyed had been created through a merger in the previous 10

[4] Report of the Commission on the Future of the Voluntary Sector (1996), *Meeting the challenge of change: voluntary action into the 21st century, NCVO,* London,p103
[5] Moeller, S, (2009) *Surviving M&A,* Chichester, John Wiley,p36
[6] Courtney, R (2002), *Strategic Management for Voluntary Nonprofit organisations,*Routledge Abingdon, pp202-4

years, 22% said they currently were working in collaboration with other charities. The larger the charity the more likely they were to collaborate.[7]

Merger is often described as part of a neat spectrum, just one aspect of collaborative relationships between charities. Collaboration may indeed lead to merger, but unlike most collaboration, merger is (usually) irrevocable requiring major organisational and cultural change.

Merger drivers

What are the charity merger drivers? Some 44% are said to be rescue missions.[8] Others result from funder pressure. But absent these admittedly powerful motives, how should charity leaders contemplate merger?

Merger drivers may usefully be described in three main groups; internal (organisational challenges or deficiencies), external (changing environment) and those driven by the nonprofit sector (to improve services or reduce costs).[9] The decision to merge is undoubtedly incorporates risk assessment, but ultimately the final decision to proceed may be a feeling "of whether it is the right thing to do rather than from a single identifiable rational reason".[10]

Clearly the external environment may be a key determinant as to whether charities decide to seek merger partners or alternatively to form collaborative partnerships, whether the macro economic and political climate or the microclimate for the particular charity or sector. Thus the major consolidation of HIV/AIDS charities through the Terence Higgins Trust was fuelled by changes in public funding.

But some 80% of charities receive no state funding and purely internal factors may lead them to consider the merger option. Maybe a governance change or crisis, whether the loss of a founder or key staff, gives a charity a rare

[7]Charity Commission (2003) *Collaborative working and mergers - RS4*. London: Charity Commission, p3
[8] RS4, p3
[9]Capacitybuilders p13
[10]Institute for Voluntary Action Research(IVAR) (2011) *Thinking about merger.* London, IVAR,p23

opportunity to fully review its strategic purpose. Merger, rather than organic growth, may create more sustainable organisations, whether financially or through better management, enhanced staff opportunities and improved learning and skills.

Charities may describe merger drivers as an opportunity to make them or the sector 'better' in some way, with such strategic decision making again only indirectly influenced by the external climate. Examples include reducing costs, or duplication of activity; raising the profile of a cause or activity; improving services to beneficiaries; expanding the range of services; knowledge sharing; allowing the organisation to have greater influence on the external environment.[11]

Others seek to grow, sometimes proactively to gain market share, and sometimes reactively through consolidation as the niche that they occupy is seen to be under threat. Growth may be geographical, or through adding a different but synergistic service activity.

The two parties may consider merger for different but equally valid reasons. Childline approached NSPCC in 2005 due to concerns about their poor financial outlook. For NSPCC, ten times larger in turnover, merger offered an opportunity for a niche service and an unrivalled source of information on what children worry about. The merger preserved the Childline brand, bringing growth though investment, while enabling NSPCC to further enhance its own public profile through raising awareness of children's mental health issues.[12]

Barriers

Cultural difference, whether real or perceived, is a major stumbling block, with one survey finding 52% of respondents from recently merged organisations

[11]IVAR, p1; Charity Finance Mergers and Collaborations, charities survey (2004) http://www.ncvovol.org.uk/uploadedFiles/NCVO/What_we_do/Collaborative_Working_Unit/Models_of_collaborative_working/Mergers_and_Collaborations_survey_2004.pdfp6
[12]Copps, J (2009) *What place for mergers between charities?* New Philanthropy Capital: London, p9

viewing this as the most common barrier.[13] Caution is however advised: is cultural difference a smokescreen to disguise other issues, such as a clash of personalities between chief executives or a lack of unity among trustees, or indeed a fear of loss of identity? The role of ego or the real or feared loss of personal position in preventing merger is sometimes alluded to only elliptically.

Failures in planning and process can often act as barriers to success. These may include: a failure to set out objectives; lack of project planning; unrealistic timescales; and a failure to communicate with staff and stakeholders.[14] Mergers may take a long time to complete, and even longer to integrate post merger, with the retention of momentum, leadership, vision and unity proving problematic.

Benefits

Some argue that analytical published merger evaluations would encourage merger activity through demonstrating best practice and measuring success.[15] But rigorous evaluation is costly with demands upon already stretched management time. It seems too that some charities may resist public disclosure of their merger stories as revealing either a failure to achieve objectives or internal discord. Furthermore, a hasty marriage, perhaps occasioned by financial stress, sees the preservation of as many activities and programmes as possible as a good outcome, success of a sort, with deeper evaluation both impossible and unnecessary.

There are acknowledged shortcomings here. A Charity Commission review of 447 charities that had contacted its helpline found 91% of the 191 completed mergers rated the merger as either very or quite successful, but also revealed

[13] Charity Finance (200); *Mergers and collaborations charities survey*, p7
[14]Charity Commission (2009) *Choosing to collaborate: Helping you succeed* http://www.charitycommission.gov.uk/Library/colltoolkit.pdf, p7
[15]Social Finance (2010); *Charity mergers. Tackling the issues in practice,* p51 http://www.socialfinance.org.uk/resources/social-finance/charity-mergers

that the majority (64%) had not undertaken an evaluation, raising the obvious question of how did they reach their conclusion![16]

But, however imperfect, evaluations demonstrate a range of benefits arising from merger. The Terence Higgins Trust mergers generated some £1.5 million in savings through eliminating overheads and an improved back office/ contract income ratio, while acknowledging further work was needed to understand other post merger costs and benefits and the internal time and opportunity costs.[17]

The valuable independent review of the mergers that created Volunteering England found that some of its ambitious goals were only measurable or achievable in the long term. But most merger objectives had been met including creating a national volunteer development fund, speaking with a single voice that could strategically link policy and grant-making, reduced duplication, and a significant increase in grant funding. The three merging organisations already worked in partnership, and achieved success through compatibility of purpose and vision, careful planning, effective communications, access to professional skills, addressing concerns and managing expectations.[18]

Similarly Social Finance's review of 11 charity mergers found benefits including: a wider more consistent service; increased campaigning influence; better geographical reach; enhanced fundraising capacity; and access to a wider range of contacts.[19]

Success factors

Successful mergers are built upon robust planning and process. One useful study defines four phases in the merger process: Exploration; Initial feasibility;

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[16]Carol Goldstone Associates (2009) *Charity Mergers: Experiences from the Charity Commission:* http://www.charity-commission.gov.uk/library/charmercga.pdf, p10
[17] ACEVO (2003) *Managing mergers – a guide. London:* ACEVO, pp 38-42
[18]Charity Commission (2007) *An evaluation of the merger that created Volunteering England.* London: Charity Commission, p23 and passim
[19] Social Finance, pp49-51

Detailed appraisal and execution; Post deal phase.[20] As in all aspects of strategic planning key initial steps include establishing a business case for merger and deciding whether the proposed partner is a good strategic and organisational fit.[21] These steps may be conceived as part of a change management process with an integrated approach achieving optimum results.

Clear objectives, an agreed timetable and action steps, are part of this process. Key stages will include facing up to difficult issues early including the appointment of a merger group and the SMT of the merged organisation, together with identifying potential deal breakers and a timely decision-making process.

The softer aspects of change and the strongly personal factors that help a successful merger and sometimes ignored in private sector mergers are also crucial. Indeed, the typically collaborative culture of the charity sector may enhance the possibilities for achieving good merger outcomes and help manage the inevitable tensions between preserving values and enhancing organisational effectiveness. A sector comfortable with values should readily understand the importance of creating and reinforcing a shared future vision. Other similar ‘softer’ success factors include acknowledging the importance of human factors and engaging with stakeholders to build a commitment for change.[22]

Knowing each other and experience of collaborating together are strong success indicators, helping to lessen the elephant trap of cultural difference and generating the high degree of trust necessary for successful mergers and post merger integration. Communication especially to overcome cultural difference is essential: internally; between the merging organisations; and externally. But, unrealistic expectations need to be managed, whether the

[20] Social Finance, pp8-9
[21] IVAR, p23
[22] Charity Finance, p9

belief that merger can solve all of an organisation's problems or with the speed of post merger change.[23]

Research also demonstrates the critical importance of strong clear personal leadership at all stages of the process. The chief executive must crucially balance the conflicting time and management demands while developing the professional skills required to see the merger through.[24]Merger leadership is one intense aspect of effective leadership.

Due diligence includes appropriate legal and financial reviews. Further, experienced external support is commonly identified as a major success factor, personalized over a period of time, including the merger negotiations and post merger integration. Project support, HR, or post merger integration of finance and/or IT systems is especially useful. Softer skills are also key, whether a trusted facilitator between two parties, to guide the organisations through an agreed process and overcome barriers or a coach or mentor for the Chief Executive of the merged organisation.

Next steps for charity leaders

Staying true to your organisation's mission is central to authentic leadership. It is in this context that siren calls – whether to merge or to engage in public service delivery through consortia, should be judged. A great deal of useful practical merger guidance is readily available, but a successful merger outcome is based at least as much on the why as on the how. As in all successful marriages, developing a mutual strategic vision and selecting the right partner are the real keys to success.

[23]Charity Commission (2007), p19
[24]Acevo p5

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She is also a tutor on the New Chief Executives programme and the MSc course. She has also recently completed a research piece on Government policy in respect of charity mergers. Her experience of mergers and collaborations includes public sector contract delivery through consortia. With a background in marketing and business development,

Further resources:
Podcast exploring mergers:
http://www.knowledgepeers.com/networks/327/item.html?id=6071

Find out more about support from Cass CCE:
http://www.cass.city.ac.uk/__data/assets/pdf_file/0013/106321/MergersFlyer2011.pdf

KnowHow NonProfit offers several resources on topics related to merger:
Collaborative working wiki
http://www.knowhownonprofit.org/organisation/collaboration/collaboration

KnowHow Nonprofit provides a mergers wiki:
http://www.knowhownonprofit.org/organisation/collaboration/mergers

How to merge how to guide
http://www.knowhownonprofit.org/how-to/how-to-merge

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