10 things you need to know about charity mergers

Eastside Primetimers has been providing advice on mergers and partnerships for charities, social enterprises and other non-profit organisations for over 10 years. Our talent pool of over 100 individuals has first-hand experience with mergers, and we pride ourselves on our cross-sector experience. These tips are based on experience not theories. If you would like a meeting with our director Matt Knopp, contact Elliot@ep-uk.org or call at 020 7250 8440.

1. The idea of mergers making the charity sector monolithic is a myth

There are sometimes concerns about the sector becoming over-centralised or dominated by a small number of monolithic charities, but this thinking is out of step with the facts. There are 164,000 registered charities in England and Wales alone, not even accounting for other types of not-for-profits. In our Good Merger Index, meanwhile, Eastside Primetimers found that in 2013-2014 there were just 90 mergers, involving a total of 189 organisations - about 0.1% of all charities. Not only is there plenty of evidence that many charities would be more capable and sustainable if they had greater scale, these numbers also tell us that moving the needle towards more mergers will still leave the sector's rightfully prized diversity very much intact.

2. For the sake of the beneficiaries, boards need to think about their charity's purpose, not its status

Beneficiaries don't care about the badge on the front of the service as much as charity managers and boards sometimes seem to think they will. What they truly need is a good service they can rely on. If that same service is ultimately more sustainable or more able to expand as part of another organisation, then that should be its rightful home, regardless of the brand. The needs of the beneficiaries come first, forever and always. And as an aside, if it sometimes turns out a few services ultimately aren't workable there either, they were probably never going to be. Another problem is that some trustee boards aren't well-equipped to evaluate the business case for a merger, and we see cases where ego or identity become barriers to progress. For example, if a £500k charity is trying to take over a £100k charity the business case for this is likely to be weak, since the merger will be risky and time-consuming for the £500k charity, and potentially of minimal benefit to beneficiaries. By contrast, either of these charities being taken over by a secure multi-million pound organisation would shore up their services in a tough environment and give them an opportunity to expand their reach, allowing them to help far more people. But in our experience, trustees often prefer the first kind of deal all the same. This suggests 'status' or a lack of critical thinking are blocking out due consideration of the business case or the real needs of beneficiaries. The price of this can be heavy for charities, and all those that rely on them.

3. You shouldn't let so-called "non-negotiables" hold up good mergers

If the broad contours of a deal are good for a charity – if its core services and founding social aims are advanced by the deal – it's leaders shouldn't necessarily sweat the smaller things. As it stands, too many small charities try to demand the maintenance of their brand or an outsize role in the new organisation. I've seen these sorts of objections stop sensible mergers going ahead, preventing vital charities from securing a future for their services.

4. Not every charity is "unique" – we need to accept this

Again, there are 164,000 registered charities in England & Wales alone - let's drill down into a few sectors. Eastside Primetimers recently found out that there are around 100 charities focusing on breast cancer (though two of the three biggest research-oriented ones merged recently, an admirable example of consolidation). There are at least 900 armed forces charities and 500 in animal welfare. There are over 700 charities for blind people – last year the RNIB chief executive Lesley-Anne Alexander told BBC News "we can't need that number", and recounted a story about how a smaller blind charity proudly spent an entire month recording a talking book RNIB had already produced professionally. And in his final speech last year, former Charity Commission head Sam Younger told us that "The result is duplication, inefficiency and, sadly, too many charities that are not managed well enough. As charities compete for resources and face ever-greater scrutiny, I think we should be bolder in saying that not all of the charities the commission registers end up making an impact". The charity sector badly needs to accept this.

5. Small charities fear being "swallowed up", but the facts tell a different story

You will often hear scare stories about small charities being "swallowed up", but we must remember a few things about this. First, if the charity's services are better delivered or sustained within a larger organisation in any case, what is the problem with the smaller charity being taken over? Second, much of the time if the charity wasn't taken over, the charity wouldn't exist now, since many (too many) of the mergers we see involve a smaller charity that was in severe financial distress. These services would have disappeared and probably not been retendered. And third, if maintaining operational autonomy or a distinct 'identity' are priorities for smaller charities, it's worth remembering that they would be in a better negotiating position if they sought merger earlier when their charity was stronger and more attractive.

6. There is a misplaced fear in mission drift

Closely tied to the fears about being swallowed up by a larger charity are the concerns about small charities losing their mission after they're taken over. These fears are usually misplaced, though. If a larger charity has undergone the expense and complexity of identifying a partner it would like to take into its family, it's usually because the smaller charity represents a niche or a specialism - or perhaps a strong link to a particular community - that the larger charity feels will make them a valuable asset. Their intention is then usually to stabilise or scale their new partner organisation, to make the most of its value, rather than beating all the uniqueness out of it. Small charities with something to offer shouldn't sell themselves short.

7. Scale and cashflow are becoming more important – size really is beginning to matter more

The rise of social investment support in the sector shows that the government and funders are committed to the sector becoming more self-sustaining. This is also closely interlinked with the way public sector commissioning is changing. Contracts are getting bigger and are being bundled in order to tackle chronic siloisation in public services, which means only larger multi-purpose charities or hastily-arranged consortia have any hope of securing them. Contracts are also increasingly structured around Payment by Results (PbR), delaying reward and requiring charities to maintain adequate capital if winning them is to be a realistic prospect. This is why large profit-driven firms are squeezing out the social sector and winning the vast majority of public contracts. As our chief executive Richard Litchfield recently argued in *Civil Society*, "while mergers are unlikely to have much of a limiting effect on competition within the third sector, where they could do a world of good is by helping [charities] scale up and compete with private sector companies in the public sector commissioning market". If charities do not react quickly enough to these trends by securing their future through merger, we will see many fail to make an impact or simply go to the wall.

8. Charity sector mergers are a seller's market – small, well-positioned charities can gain more than they give up

We touched on this point above, but it bears repeating again, because the wisdom of this is just not cutting through to charities and their trustees. If small, innovative charities in a secure financial position seek merger with larger entities, they represent a valuable asset that many larger charities would be keen to take on. Seeking merger from a stable position also gives charities more time to cast their net wider in terms of potential partners, weigh their options and hold out for the best possible offer. This all empowers the smaller charity in negotiations, often allowing them to gain more than they first thought possible and to secure an exciting future for themselves. But instead, it's currently more common to see vulnerable charities wait until they are in trouble before they seek merger as a last resort (if they ever manage to – see BeatBullying last year). By that stage, the offer they might be able to secure is likely to be less favourable, assuming one can be secured at all. Charities need to start embracing mergers with larger organisations as a positive and transformative step towards scale.

9. Merger is not widely understood by the sector

In 2009, New Philanthropy Capital (NPC) noted in a report that following the financial crisis, official research found 64% of charities turning over £1m or more were concerned about their financial stability due to the downturn – despite this, only 3% reported they had even *considered* merging. NPC also commented that what little understanding of charity mergers there is tends to be informed by anecdote, due to a relative lack of hard data. At Eastside Primetimers, we run frequent merger roundtables with guests from across the voluntary sector, and while some of those who attend are experienced with mergers, others come along to learn the basics and get a feel for it. The sector as a whole needs to go back to school on mergers.

10. We need to tear down the taboos and language barriers

There is also a reluctance in the sector to even use the word 'merger' or technical terms like 'acquire', as some in the charity sector still feel they carry aggressive or corporate undertones. Woolly euphemisms such as 'partnership' are instead common. This habit gets even stronger when the deal in question is actually a takeover. In our Good Merger Index, we found that 73% of mergers were essentially some kind of takeover (where one organisation is acquired by another, assimilating or becoming a subsidiary) and only 23% were specific mergers (where two organisations partner to form a new organisation). However, in their public statements, 58% of charities described their deals as 'mergers', while only 12% used the term 'takeovers'. These aren't small distinctions, as although the temptation to sugar-coat is perfectly understandable, clarity is also key. As Richard Litchfield warned in a piece for *Third Sector* last year, "acquisitions branded as mergers or amalgamations can cause confusion and raise false expectations, especially for the people involved". It's also important to remember that though some of these terms may be reminiscent of those used in the private sector, the comparison largely dies there. The dynamics of the third sector are fundamentally different – shareholder value and profit distribution don't exist, so social impact and sustainability are the prizes we're after.