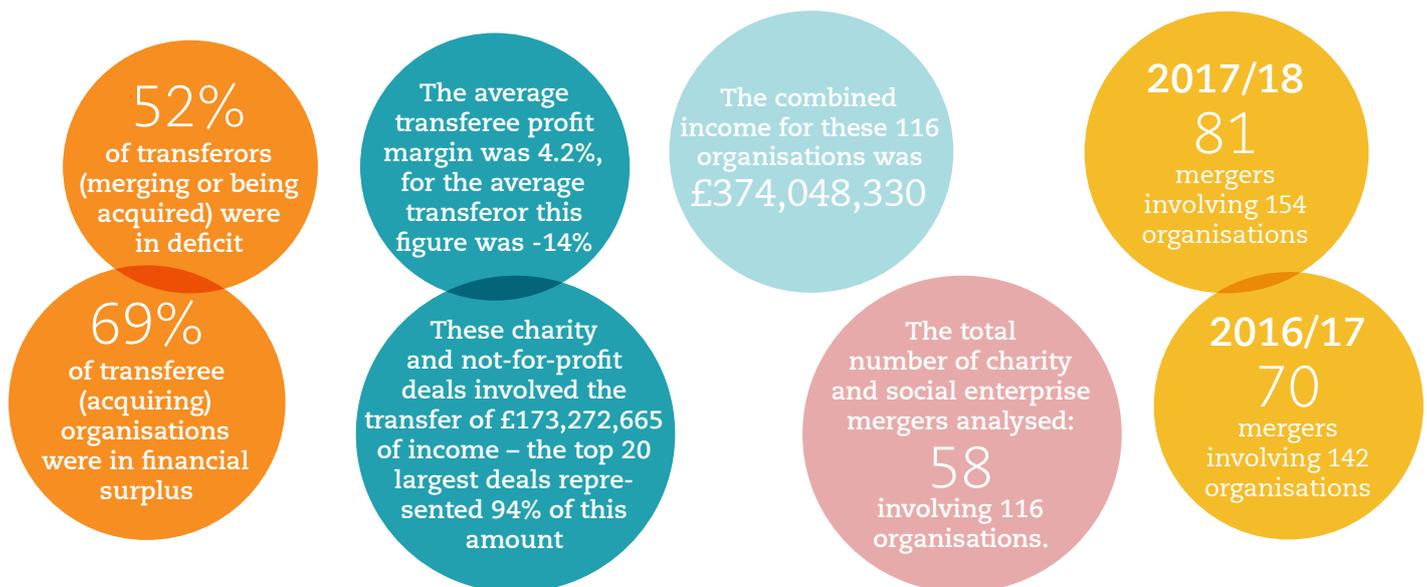


GOOD MERGER INDEX 2018/19: DIGEST

This is the sixth annual edition of the Good Merger Index, Eastside Primetimers' unique study which seeks to investigate and report on mergers amongst charities and social enterprises. In this "Digest", we aim to provide a summary of the 2018/19 Good Merger Index in a concise and short format that identifies the key stats, themes and areas of discussion that the report touches upon. This is an attempt to make the report more accessible and comprehensible to a wider audience, whilst reducing paper waste.



Merger Trends

Based on our methodology, 2018/2019 saw 58 mergers take place, involving 116 organisations, a very small portion of the 168,000 registered charities in England and Wales¹. This figure is at the lower end of the 'normal' range of around 55-75² mergers a year that we have seen over the last six years of the GMI. There remain significant structural barriers to mergers in the social sector, including a systemic lack of knowledge and awareness of merger processes, limited funds available to support mergers and an absence of motivation or incentive for boards to consider merger unless as a result of external (usually financial) pressure. Although difficult to say with any certainty, anecdotally, the lower figure this year may have been driven by a combination of factors including political and economic uncertainty in the UK, and an unwillingness to engage in long merger and partnership processes in a challenging, austere environment.

The total income of the 116 organisations involved in mergers was £374 million. We estimate that £173.2 million of value was transferred from one organisation to another, either through an existing organisation being taken over or becoming a subsidiary, or through the formation of a roughly balanced organisation from two equal merger partners. 94% of this value was concentrated amongst the largest 20 mergers, however, this reflects the size of the difference in scale between the largest and smallest charities in the social sector, not a dominance of larger charities in terms of the number of merger deals carried out. Merger activity is still dominated by takeovers (63%) and mergers (18%), although there was some increase in other types of merger deal; asset and service transfers increased from 1% in 2017/18 to 9%, group structure deals to 4% from 1%, though subsidiary models stayed the same at 7%. There was also a significant drop in the percentage of deals involving federated charities, falling 12% from last index and representing only 12% of deals.

Merger types in 2018/19

Mergers of equals 18%	Group Structures 4%	Subsidiary deals 7%	Takeovers 63%	Asset/Service Transfers 9%
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¹ Charity Commission website – 'Sector Overview'.

Available at: <https://apps.charitycommission.gov.uk/showcharity/registerofcharities/SectorData/SectorOverview.aspx>

² Although the figure for 2017-18 was 81, this figure was arguably artificially bolstered by the merger of around 10 charities within a single large federated charity structure

Attitudes and Impact

For six years this Index has sought to quantify mergers, but less tangible questions have remained about outcomes and what the sector thinks of mergers. Therefore, we have supported the quantitative research findings with a qualitative look at past merger activity, examining processes, challenges and outcomes across five case studies from the past six years. This is to gain an understanding of mergers from the unique perspective of the chief executives, including why and how organisations merged and what outcomes and social impacts were realised. This was supplemented by interviews with infrastructure body sector leaders. Three sector leaders were chosen, from bodies that work directly with or represent not-for-profits and therefore have a prominent oversight of the sector, in order to provide an overview of the attitudes, challenges, opportunities and support networks available in merger discussions and processes.

There still appears to be a “fear of mergers”, with our quantitative findings year-on-year demonstrating that a negligible part of the sector utilises mergers as a strategic tool. Nevertheless, the case studies and leader interviews we have carried out highlight the importance of strategic planning before, during and after mergers to deliver impact to beneficiaries in ways that were not happening before merger. This has included improvements to policy and campaigning voice, innovation in reaching new beneficiaries, wider geographies of services and strengthened local responsiveness, improved relationships with commissioners, and streamlined back office functions.

Human emotion remains a key barrier to merger discussions and is an intangible variable to measure, particularly given the huge emotional investment that not-for-profit sector staff, trustees and beneficiaries have in their organisations. Leaders and trustees should feel empowered to ask questions about themselves and how mergers, partnerships and collaborations impact them, to ensure that processes are not obstructed in the future. There are support networks available for chief executives wanting to understand the process for themselves and their organisation, but honesty and clarity are central to people management. This is also important when creating a culture during the continuous and ever-evolving process of merger after the completion date. Emotion and culture are hurdles that need to be overcome to achieve partnerships, but they are understandable as a barrier and emotional commitment is vital to the not-for-profit sector’s success.

About Eastside Primetimers

Eastside Primetimers is a management consultancy working exclusively for charities and social enterprises. We have a vision for a strong and vibrant UK social sector that supports communities and enables every individual to live to their full potential. Our mission is to provide the broadest range of integrated, high quality consulting services in order to increase the capacity and effectiveness of social sector organisations in the UK

We advise and implement on strategy, governance, mergers, acquisitions, partnerships, investment, contract readiness, social impact and business planning. We provide senior interim staff and recruitment services for senior staff, chairs, and trustees.

Through our Foundation we support senior professionals who are seeking to work with the voluntary sector. We carefully select individuals for their commercial know-how and their passion to make a difference. We call them our ‘members’ because they are committed to supporting not-for-profits as consultants, interim managers or Board members.

The biggest deal was the merger of Breast Cancer Now and Breast Cancer Care, with a combined income of

£46.7m

54%
of organisations merging were under £1m, 23% between £1-5m, 10% between £5-10m and the (14%) remaining over £10m

Sector trends:
Health and Social Care broadly (53%),
Intermediary (13%),
Justice (12%)

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